



Consolidated

Financial Statements and Supplemental Information June 30, 2025 and 2024

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Knoxville Utilities Board

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Knoxville Utilities Board

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Knoxville Utilities Board (KUB), a component unit of the City of Knoxville, Tennessee, as of and for the years ended June 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of KUB as of June 30, 2025 and 2024, and the changes in financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about KUB's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 29, the schedule of changes in net pension liability and related ratios, the schedule of employer pension contributions, the schedule of changes in net OPEB liability and related ratios, the schedule of employer OPEB contributions and the schedule of changes in total pension liability and related ratios - qualified governmental excess benefit arrangement on pages 77 – 81 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary 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 combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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.

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the statistical information but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Matter

The financial statements of KUB as of June 30, 2024, were audited by other auditors whose report dated October 23, 2024, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2025, 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 KUB's 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.

Mauldin & Jenkins, LLC

Chattanooga, Tennessee
October 17, 2025

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2025 and 2024

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

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

The Management Discussion and Analysis (MD&A) focuses on the fiscal year ended June 30, 2025, activities, resulting changes, and current known facts, and should be read in conjunction with KUB's consolidated financial statements.

Consolidated Highlights

System Highlights

Progress continues on the construction of the fiber network, as well as at the Mark B. Whitaker Water Treatment Plant, where redundancy is being built into KUB's water treatment process.

The Knoxville area continues to grow, and customers are being added across all divisions. As of June 30, 2025, KUB served 519,543 customers. KUB added 18,228 new customers to these systems in fiscal year 2025, representing growth of three percent.

The electric system's record peak demand remains 1,350.5 megawatts, set in January 2024. The natural gas system's record peak demand remains 169,458 dekatherms, set in December 2022.

During fiscal year 2025, KUB sold \$111 million in revenue bonds for the purpose of funding system expenditures.

On August 24, 2024, TVA's board voted to approve a 5.25 percent electric base rate increase effective October 1, 2024. The increase flowed directly to KUB's electric customers.

In September 2023, KUB elected to participate in TVA's Power Supply Expanded Flexibility Program which will allow KUB to produce up to 5 percent of KUB's electric energy supply. The goals of this program include achieving significant power cost savings, advancing the goal to generate 400 megawatts of renewable energy by 2030, and demonstrating KUB's commitment to a cleaner environment. During the fiscal year, KUB contracted three TVA Flexibility projects. These include a TVA Green Invest Flexibility Conversion for 20 megawatts which began January 2025, a joint project with EPB and SR Durhamville for 33 megawatts beginning June 2028, and a short-term Biomass contract that will scale down as future solar resources come online. KUB also received Board approval in June 2025 for a fourth Flexibility contract, securing a 21 megawatts local project to be hosted at Cemex.

In the fall of 2024, KUB completed installation of two public fast-charging stations for electric vehicles in Downtown Knoxville and Seymour. These stations were installed as part of TVA's Fast Charge Tennessee

Knoxville Utilities Board Management's Discussion and Analysis June 30, 2025 and 2024

Network. Since going live, they have provided over 3,000 charging sessions for electric vehicle drivers in the Knoxville region.

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 commitment to system integrity, continuous improvement, safety, and employee development. As a Gold Level designee, the company remains a member of the program through 2027. In recognition of safety performance, KUB was named a 2025 APGA Safety Contest Winner. KUB also received the 2025 APGA Safety Management Excellence Award and the 2025 Community Service Award for excellence in operating its natural gas utility.

KUB's wastewater treatment plants have a strong track record of excellent performance, recognized through numerous awards from the National Association of Clean Water Agencies (NACWA) over the years. In 2025, KUB met the 2024 criteria to earn a NACWA Peak Performance Gold Award for its Fourth Creek Wastewater Treatment Plant, and Silver Awards for its Eastbridge, Kuwahee, and Loves Creek facilities.

KUB was named a NACWA National Environmental Achievement Awards 2024 honoree. These awards recognize individuals and NACWA member agencies that have made outstanding contributions to environmental protection and the clean water community. In 2024, KUB received two awards: one in the Operations & Environmental Performance category for its Biologically Enhanced High-Rate Clarifier, and another in the Workforce Development category for its Utility Apprentice Program.

In 2023, KUB obtained Diamond Certification from the National Biosolids Partnership, a ten-year recognition that represents the highest and newest level of certification within the program. Biosolids are nutrient-rich organic matter produced by wastewater treatment and are registered fertilizers with the Tennessee Department of Agriculture.

Century II Infrastructure Program

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

In September 2021, the Board approved electric rate increases to support both the Century II program and expanded fiber network. The three approved 3 percent electric rate increases went into effect April 2022, April 2023, and April 2024 generating \$16.7 million, \$17.4 million, and \$18 million in additional annual Electric Division revenue, respectively.

In June 2022, the Board approved water and wastewater rate increases to support the Century II program. The water rate increases took effect in July 2022, July 2023, and July 2024, generating additional annual Water Division revenue of \$3.4 million, \$3.4 million, and \$3.6 million, respectively. The wastewater rate increases took effect in July 2022, July 2023, and July 2024, generating additional annual Wastewater Division revenue of \$3.9 million, \$4 million, and \$4.2 million, respectively.

In June 2024, as part of KUB's Inflation Response Plan, the Board approved the next phase of electric, gas, water, and wastewater rate increases to support the Century II program and the expanded fiber network. The first of three approved electric rate increases took effect in April 2025 generating additional annual Electric Division revenue of \$26 million. The remaining rate increases, effective April 2026 and April

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2025 and 2024

2027, are expected to provide \$20.7 million and \$14.2 million in additional annual Electric Division revenue, respectively. The first of three approved 3 percent gas rate increases took effect in October 2024, generating additional annual Gas Division revenue of \$4.1 million. The remaining rate increases, effective October 2025 and October 2026, are expected to provide \$4.5 million in additional annual Gas Division revenue each. The three approved 6 percent water rate increases are effective in July 2025, July 2026, and July 2027 and are expected to provide \$4.5 million, \$4.8 million, and \$5.1 million in additional annual Water Division revenue, respectively. The three approved wastewater rate increases are effective in July 2025, July 2026, and July 2027 and are expected to provide \$2.3 million, \$2.4 million, and \$2.4 million in additional annual Wastewater Division revenue, respectively.

KUB is currently in the process of implementing a Water Plant Redundancy initiative to ensure that high quality, reliable water service will be provided to customers over the long term. KUB maintains a single water treatment plant for its system. In lieu of building a second treatment facility to ensure capacity will be available to meet the needs of current and future water customers, KUB will invest approximately \$161 million in various redundant facilities at the site of its existing Mark B. Whitaker Water Treatment Plant over a 16-year period that began in fiscal year 2017. Construction of a new generator building with three 2,500 kW diesel generators and associated switchgear was completed in fiscal year 2022 at the Mark B. Whitaker Water Treatment Plant. Construction of the new water filter project commenced in October 2022 and is projected to be completed by November 2025.

Knox County committed \$2.6 million through a Tennessee Department of Environment and Conservation (TDEC) non-competitive grant and an additional \$10 million in direct funding from the American Rescue Plan Act (ARPA). The City of Knoxville contributed \$7.5 million through a TDEC non-competitive grant and \$5 million in direct ARPA funding. In total, \$25.1 million in grant funding was awarded. All funds have been received by KUB and were used to support KUB's new water filter project at its Mark B. Whitaker Water Treatment Plant.

In fiscal year 2025, the electric system replaced 8 miles of transmission lines and 5.3 miles of underground cable. In the natural gas system, 8.4 miles of gas steel main were replaced. In the water system, 2.7 miles of galvanized water main and 9.2 miles of cast iron water main were replaced. In the wastewater system, 7.9 miles of main were rehabilitated or replaced.

Fiber Network

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

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

As a component of the Fiber Division's start-up financing plan, approved by KUB's Board and TVA, the Electric Division will provide \$55 million of interdivisional loans. The first \$10 million was provided in October 2021, \$7 million was provided in August 2022, \$13 million was provided in February 2023, and \$5 million

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Management's Discussion and Analysis

June 30, 2025 and 2024

was provided in May 2024, all maturing in June 2030. The Electric Division issued a \$2 million loan in May 2024, and a \$7 million loan in December 2024 to the Fiber Division, both maturing in June 2032.

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

As of June 30, 2025, the Fiber Division had 22,416 customers.

The Tennessee Emergency Broadband Fund selected KUB for a grant of \$15.3 million to assist in the provision of broadband access to Grainger, Jefferson, Sevier, and Union Counties. As of June 30, 2025, KUB has received \$10.6 million in reimbursements.

KUB's internet assistance program, ConnectED, provides free high-speed internet to student households who qualify, with funding from the City of Knoxville and Knox County. ConnectED participants receive \$80 monthly toward fiber-related charges.

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

Financial Highlights

Fiscal Year 2025 Compared to Fiscal Year 2024

KUB's consolidated Change in Net Position increased \$132.4 million in fiscal year 2025. Comparatively, net position increased by \$96.2 million in fiscal year 2024.

Operating revenue increased \$108.4 million, driven by increased volumes, a higher customer base in the Fiber Division, and rate increases in the Electric, Gas, Water, and Wastewater Divisions. Purchased energy expense (power and natural gas) increased \$58.3 million, or 11.9 percent, the combined effect of a \$49.5 million increase in purchased power cost and a \$8.8 million increase in purchased gas cost. Increased levels of purchased power expense were driven by higher customer demand and wholesale power costs from TVA's 5.25 percent rate increase. Increased purchased gas cost was due to higher storage injections, natural gas prices, and customer demand. Margin from sales (operating revenue less purchased energy expense) increased \$50.1 million, or 10.9 percent, compared with the prior fiscal year.

Operating expenses (excluding purchased power and purchased gas expense) increased \$6.7 million. Operating and maintenance (O&M) expenses were \$1.9 million higher than the previous year, due to an increase in labor-related expenses and materials and chemicals. Depreciation and amortization expense increased \$7.8 million, or 8 percent. Taxes and tax equivalents decreased \$3 million, or 7.2 percent.

Interest income was \$2.8 million higher than the prior fiscal year, driven by higher cash balances and the replacement of maturing low-yield investments with new investments at significantly higher rates, despite a modest decline in overall interest rates. Interest expense increased \$4.2 million, or 9.2 percent, reflecting interest expense from new revenue bonds sold during fiscal year 2025 and interest on increased levels of customer deposits.

Capital contributions decreased \$1.3 million, the result of a lower level of assets contributed by developers.

Total capital assets (net) increased \$148.7 million, or 5.9 percent over the last fiscal year.

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Long-term debt represented 41.8 percent of KUB's consolidated capital structure, compared to 42.5 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 2024 Compared to Fiscal Year 2023

KUB's consolidated Change in Net Position increased \$96.2 million in fiscal year 2024. Comparatively, net position increased by \$69.5 million in fiscal year 2023.

Operating revenue decreased \$21.1 million, the net result of the flow through of lower energy costs in KUB's rates, along with rate increases in the Electric, Water, and Wastewater Divisions. Purchased energy expense (power and natural gas) decreased \$62.1 million or 11.2 percent, the combined effect of a \$28.5 million decrease in purchased power cost and a \$33.6 million decrease in purchased gas cost. Margin from sales (operating revenue less purchased energy expense) increased \$41.1 million or 9.8 percent compared with the prior fiscal year.

Operating expenses (excluding purchased power and purchased gas expense) increased \$19.2 million. Operating and maintenance (O&M) expenses were \$12.9 million higher than the previous year, due to an increase in outside contractor and consultant expenses, materials and chemicals, labor-related expenses, and vegetation management expenses. Depreciation and amortization expense increased \$4.1 million or 4.3 percent. Taxes and tax equivalents increased \$2.3 million or 5.9 percent.

Interest income was \$3.5 million higher than the prior fiscal year, due to higher interest rates throughout the fiscal year. Interest expense increased \$2.4 million or 5.7 percent, reflecting interest expense from new revenue bonds sold during fiscal year 2024.

Capital contributions decreased \$1.8 million, the result of a lower level of assets contributed by developers.

Total capital assets (net) increased \$156.1 million or 6.6 percent over the last fiscal year.

Long-term debt represented 42.5 percent of KUB's consolidated capital structure, compared to 43.4 percent last fiscal year. Capital structure equals long-term debt (including the current and long-term portion of revenue bonds), plus net position.

Knoxville Utilities Board Consolidated Financial Statements

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

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

Statement of Net Position

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

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Management's Discussion and Analysis

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

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

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

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

Statement of Revenues, Expenses and Changes in Net Position

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

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

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

Statement of Cash Flows

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

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

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

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Management's Discussion and Analysis
June 30, 2025 and 2024

Condensed Financial Statements

Statement of Net Position

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

Statements of Net Position
As of June 30

<i>(in thousands of dollars)</i>	2025	2024	2023
Current, restricted, intangible, and other assets	\$ 517,109	\$ 450,473	\$ 460,223
Capital assets, net	<u>2,660,614</u>	<u>2,511,915</u>	<u>2,355,801</u>
Total assets	<u>3,177,723</u>	<u>2,962,388</u>	<u>2,816,024</u>
Deferred outflows of resources	<u>29,457</u>	<u>43,938</u>	<u>67,744</u>
Total assets and deferred outflows of resources	<u>3,207,180</u>	<u>3,006,326</u>	<u>2,883,768</u>
Current and other liabilities	276,254	271,665	277,812
Long-term debt outstanding	<u>1,255,871</u>	<u>1,193,277</u>	<u>1,167,157</u>
Total liabilities	<u>1,532,125</u>	<u>1,464,942</u>	<u>1,444,969</u>
Deferred inflows of resources	<u>13,578</u>	<u>12,337</u>	<u>5,939</u>
Total liabilities and deferred inflows of resources	<u>1,545,703</u>	<u>1,477,279</u>	<u>1,450,908</u>
Net position			
Net investment in capital assets	1,364,989	1,280,751	1,154,845
Restricted	25,257	25,949	23,818
Unrestricted	<u>271,231</u>	<u>222,347</u>	<u>254,197</u>
Total net position	<u>\$ 1,661,477</u>	<u>\$ 1,529,047</u>	<u>\$ 1,432,860</u>

Normal Impacts on Statement of Net Position

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

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

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Management's Discussion and Analysis

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Impacts and Analysis

Current, Restricted, Intangible, and Other Assets

Fiscal Year 2025 Compared to Fiscal Year 2024

Current, restricted, intangible, and other assets increased \$66.6 million, or 14.8 percent, due to an increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) of \$56.2 million, an increase in accounts receivable of \$11.1 million. These increases were offset by a decrease in inventories of \$2.6 million.

KUB under recovered \$5.9 million in wholesale power costs from its customers in fiscal year 2025, as compared to a \$5.1 million under recovery in fiscal year 2024. This under recovery of costs will be charged to KUB's electric customers during the next fiscal year through adjustments to rates via the Purchased Power Adjustment. KUB under recovered \$2.7 million in wholesale gas costs from its customers in fiscal year 2025, as compared to a \$1.1 million under recovery in fiscal year 2024. 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 2024 Compared to Fiscal Year 2023

Current, restricted, intangible, and other assets decreased \$9.8 million or 2.1 percent, due to a decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) of \$38.3 million offset by an increase in accounts receivable of \$14.2 million, an increase in under recovered purchased power cost of \$5.1 million, an increase in lease receivable of \$5 million, and an increase in inventories of \$3.8 million.

KUB under recovered \$5.1 million in wholesale power costs from its customers in fiscal year 2024, as compared to a \$3.5 million over recovery in fiscal year 2023. This under recovery of costs will be charged to KUB's electric customers during the next fiscal year through adjustments to rates via the Purchased Power Adjustment. KUB under recovered \$1.1 million in wholesale gas costs from its customers in fiscal year 2024, as compared to a \$4.4 million over recovery in fiscal year 2023. 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 2025 Compared to Fiscal Year 2024

Capital assets (net) increased \$148.7 million, or 5.9 percent. Major capital expenditures (reflected in both plant additions and work in progress) in fiscal year 2025 included \$76.3 million for fiber network buildout, \$27.8 million for various electric distribution system improvements, \$23.4 million for water plant redundancy, \$23.3 million related to wastewater Century II projects, \$22.7 million for electric services and extensions, \$15 million for water main replacements, \$8.9 million for pole replacements for the electric system, and \$8.4 million for gas service extensions. System assets of \$20.9 million were retired during fiscal year 2025.

Fiscal Year 2024 Compared to Fiscal Year 2023

Capital assets (net) increased \$156.1 million or 6.6 percent. Major capital expenditures (reflected in both plant additions and work in progress) in fiscal year 2024 included \$67.7 million for fiber network buildout, \$32.3 million for various electric distribution system improvements, \$21 million related to wastewater Century II projects, \$17.6 million for electric services and extensions, \$11.2 million for water plant redundancy, \$9.1 million for water main replacements, \$7.7 million for gas service extensions, and \$7.3

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million for pole replacements for the electric system. System assets of \$36.7 million were retired during fiscal year 2024.

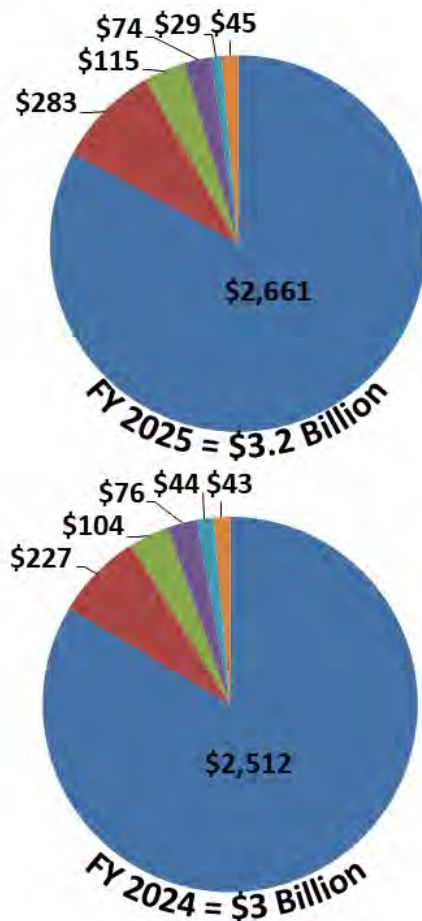
Deferred Outflows of Resources

Fiscal Year 2025 Compared to Fiscal Year 2024

Deferred outflows of resources decreased \$14.5 million compared to the prior year, due to a decrease in pension outflow of \$12.6 million, a decrease in OPEB outflow of \$1 million, and a decrease in unamortized bond refunding costs of \$0.9 million when compared to the prior fiscal year.

Fiscal Year 2024 Compared to Fiscal Year 2023

Deferred outflows of resources decreased \$23.8 million compared to the prior year, due to a decrease in pension outflow of \$20.3 million, a decrease in OPEB outflow of \$2.6 million, and a decrease in unamortized bond refunding costs of \$0.9 million when compared to the prior fiscal year.



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

	FY25	FY24
Plant	83%	84%
General and Contingency Funds	9%	8%
Accounts Receivable	4%	3%
Other Assets	2%	3%
Deferred Outflows of Resources	1%	1%
Restricted Assets	1%	1%

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Current and Other Liabilities

Fiscal Year 2025 Compared to Fiscal Year 2024

Current and other liabilities increased \$4.6 million, or 1.7 percent, compared to the prior fiscal year. This reflects an increase of \$4.7 million in accrued expenses, an increase of \$4.1 million in payables, an increase of \$1.8 million in customer deposits, a \$1.7 million increase in customer advances for construction, and a \$1.4 million increase in accrued interest on revenue bonds. These increases were offset by a decrease of \$4.4 million in the actuarially determined net pension liability, a \$4.1 million decrease in the actuarially determined net OPEB liability, and a \$1 million decrease in subscription liability.

Fiscal Year 2024 Compared to Fiscal Year 2023

Current and other liabilities decreased \$6.1 million, or 2.2 percent, compared to the prior fiscal year. This reflects a decrease of \$14.8 million in the actuarially determined net pension liability, a decrease of \$4.4 million in over recovered purchased gas cost, a \$3.6 million decrease in the actuarially determined net OPEB liability, and a decrease of \$3.5 million over recovered purchased power cost. These decreases were offset by an increase of \$13.5 million in payables, an increase of \$2.8 million in the current portion of revenue bonds, an increase of \$2.6 million in accrued expenses, and an increase of \$1.3 million in customer deposits.

Long-term Debt

Fiscal Year 2025 Compared to Fiscal Year 2024

Long-term debt increased \$62.6 million, or 5.2 percent. The increase is due in part to the net impact of the scheduled repayment of debt and \$111 million in electric and water system revenue bonds sold in July 2024.

Fiscal Year 2024 Compared to Fiscal Year 2023

Long-term debt increased \$26.1 million, or 2.2 percent. The increase is due in part to the net impact of the scheduled repayment of debt and \$75 million in electric and water system revenue bonds sold in November 2023.

Deferred Inflows of Resources

Fiscal Year 2025 Compared to Fiscal Year 2024

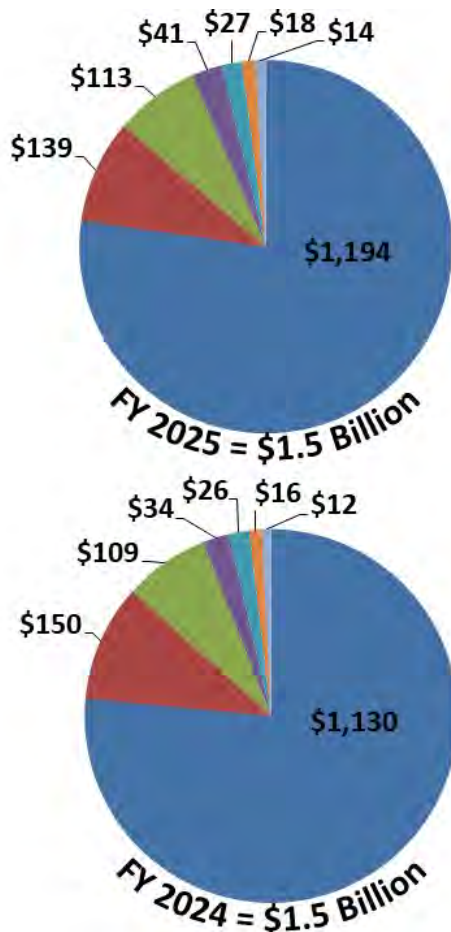
Deferred inflows increased \$1.2 million compared to the prior fiscal year, primarily due to a \$2.4 million increase in OPEB inflow offset by a \$1 million decrease in lease inflow.

Fiscal Year 2024 Compared to Fiscal Year 2023

Deferred inflows increased \$6.4 million compared to the prior fiscal year, primarily due to a \$4.8 million increase in lease inflow and a \$1.8 million increase in OPEB inflow.

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

	<u>FY25</u>	<u>FY24</u>
Bond Debt	77%	76%
Other Liabilities	9%	10%
Payables	7%	7%
Misc Current	3%	3%
Customer Deposits	2%	2%
Interest Accrued	1%	1%
Deferred Inflows of Resources	1%	1%

Net Position

Fiscal Year 2025 Compared to Fiscal Year 2024

Total net position increased \$132.4 million, or 8.7 percent. Net investment in capital assets increased \$84.2 million, or 6.6 percent, the result of an increase of \$148.7 million in net plant additions offset by a \$64.1 million increase in the current and long-term portions of revenue bonds. Restricted net position decreased \$0.7 million compared to the prior year. Unrestricted net position increased \$48.9 million, or 22 percent compared to the previous fiscal year, primarily due to an increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) of \$56.2 million.

Fiscal Year 2024 Compared to Fiscal Year 2023

Total net position increased \$96.2 million, or 6.7 percent. Net investment in capital assets increased \$125.9 million, or 10.9 percent, the result of an increase of \$156.1 million in net plant additions offset by a \$30.6 million increase in the current and long-term portions of revenue bonds. Restricted net position increased \$2.1 million compared to the prior year. Unrestricted net position decreased \$31.8 million, or 12.5 percent, compared to the previous fiscal year, primarily due to a decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) of \$38.3 million.

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Statement of Revenues, Expenses and Changes in Net Position

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

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

<i>(in thousands of dollars)</i>	2025	2024	2023
Operating revenues	\$ 1,059,872	\$ 951,461	\$ 972,519
Less: Purchased energy expense	<u>549,793</u>	<u>491,481</u>	<u>553,595</u>
Margin from sales	<u>510,079</u>	<u>459,980</u>	<u>418,924</u>
Operating expenses			
Treatment	23,789	21,663	20,707
Fiber products and promotions	6,793	5,313	3,142
Distribution and collection	90,808	92,564	86,742
Customer service	11,347	10,708	15,659
Administrative and general	73,963	74,556	65,698
Depreciation and amortization	105,819	97,979	93,928
Taxes and tax equivalents	<u>38,557</u>	<u>41,562</u>	<u>39,260</u>
Total operating expenses	<u>351,076</u>	<u>344,345</u>	<u>325,136</u>
Operating income	159,003	115,635	93,788
Interest income	15,455	12,606	9,122
Interest expense	(49,247)	(45,086)	(42,674)
Other income/(expense)	<u>5,977</u>	<u>10,502</u>	<u>4,971</u>
Change in net position before capital contributions	<u>131,188</u>	<u>93,657</u>	<u>65,207</u>
Capital contributions	<u>1,242</u>	<u>2,530</u>	<u>4,325</u>
Change in net position	\$ <u>132,430</u>	\$ <u>96,187</u>	\$ <u>69,532</u>

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

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

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

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

Impacts and Analysis

Change in Net Position

Fiscal Year 2025 Compared to Fiscal Year 2024

KUB's consolidated Change in Net Position increased \$132.4 million in fiscal year 2025. Comparatively, net position increased \$96.2 million in fiscal year 2024.

Fiscal Year 2024 Compared to Fiscal Year 2023

KUB's consolidated Change in Net Position increased \$96.2 million in fiscal year 2024. Comparatively, net position increased \$69.5 million in fiscal year 2023.

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Margin from Sales

Fiscal Year 2025 Compared to Fiscal Year 2024

Operating revenue was \$108.4 million higher than the previous fiscal year. Both electric and natural gas experienced increases in wholesale energy prices. Electric Division operating revenue increased \$73.2 million, driven by a 3 percent increase in billed sales volumes, additional revenue from the April 2024 and April 2025 rate increases, and increased wholesale energy costs from TVA's 5.25 percent rate increase. Fiber Division operating revenue increased \$10.7 million due to the addition of fiber customers this fiscal year. Gas Division revenue increased \$14.7 million for the fiscal year, driven by a 6 percent increase in billed volumes and additional revenue from the October 2024 rate increase. Water Division revenue increased \$4.6 million, due to an increase in billed water sales volumes of 0.4 percent and additional revenue from the July 2024 rate increase. Wastewater Division revenue was \$5.3 million higher than the previous year, reflecting additional revenue from the July 2024 rate increase.

Wholesale energy expense increased \$58.3 million, or 11.9 percent. Purchased power expense increased \$49.5 million compared to last year, due to higher customer demand and increased wholesale power costs resulting from TVA's 5.25 percent rate increase. KUB received \$10.4 million as a result of TVA's Long-Term Partnership Credit and \$0.6 million in a Flexibility Energy Credit, which decreased power expenses by \$11 million in the current fiscal year. Purchased gas expense was \$8.8 million higher than the prior year, reflecting increased storage injection, higher natural gas prices, and higher customer demand.

Margin from sales (operating revenue less purchased energy expense) increased \$50.1 million compared to the previous year.

Fiscal Year 2024 Compared to Fiscal Year 2023

Operating revenue was \$21.1 million lower than the previous fiscal year. Both electric and natural gas experienced decreases in wholesale energy prices. Electric Division operating revenue decreased \$4.9 million, the net result of a 0.6 percent increase in billed sales volumes, additional revenue from the April 2024 rate increase, and lower wholesale energy costs. Fiber Division operating revenue increased \$5.5 million due to the addition of fiber customers this fiscal year. Gas Division revenue decreased \$31.9 million for the fiscal year, the net result of a 1.7 percent increase in billed sales volumes and lower natural gas prices. Water Division revenue increased \$4 million, reflecting a 1.8 percent increase in billed sales volumes and additional revenue from the July 2023 rate increase. Wastewater Division revenue was \$6.2 million higher than the previous year, reflecting a 2.2 percent increase in billable wastewater flows and additional revenue from the July 2023 rate increase.

Wholesale energy expense decreased \$62.1 million, or 11.2 percent. Purchased power expense decreased \$28.5 million compared to last year, due to the flow through of lower wholesale power costs. KUB received \$9.7 million in wholesale power rate credits during the fiscal year as part of KUB's Long-Term Partnership Agreement with TVA, which decreased power expenses in the current fiscal year. Purchased gas expense was \$33.6 million lower than the prior year, reflecting lower natural gas prices for the fiscal year.

Margin from sales (operating revenue less purchased energy expense) increased \$41.1 million compared to the previous year.

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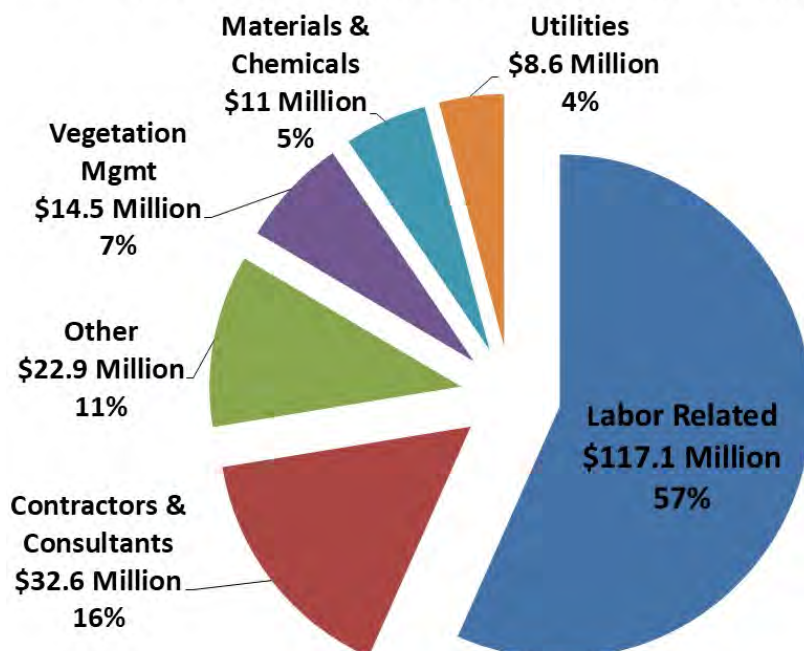
Operating Expenses

Fiscal Year 2025 Compared to Fiscal Year 2024

Operating expenses (excluding wholesale purchased energy expense) increased \$6.7 million compared to fiscal year 2024. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as treatment, fiber products and promotions, distribution and collection, customer service, and administrative and general.

- Treatment expenses increased \$2.1 million, primarily due to higher materials and chemicals expenses and labor-related expenses
- Fiber products and promotions increased \$1.5 million, primarily due to television expenses, and materials costs.
- Distribution and collection expenses decreased \$1.8 million, or 1.9 percent, primarily due to lower outside contractor and consultant expenses, partially offset by higher labor-related expenses and vegetation management circuit work.
- Customer service expenses increased \$0.6 million, primarily due to labor-related expenses.
- Administrative and general expenses decreased \$0.6 million, primarily due to lower outside contractor and consultant costs, partially offset by higher labor-related expenses and technology subscriptions.

FY 2025 Consolidated O&M Expense = \$206.7 Million



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- Depreciation and amortization expense increased \$7.8 million, or 8 percent. KUB added \$212.1 million in assets during fiscal year 2025. A partial year of depreciation expense was recorded on these capital investments and a full year of depreciation expense was incurred on \$290.3 million in assets placed in service during fiscal year 2024. In addition, \$20.9 million of assets were retired during fiscal year 2025.
- Taxes and tax equivalents decreased \$3 million, or 7.2 percent, primarily due to the City of Knoxville's reduction in equalization rates offset by higher plant in service levels and increased employer Federal Insurance Contributions Act (FICA) taxes.

Fiscal Year 2024 Compared to Fiscal Year 2023

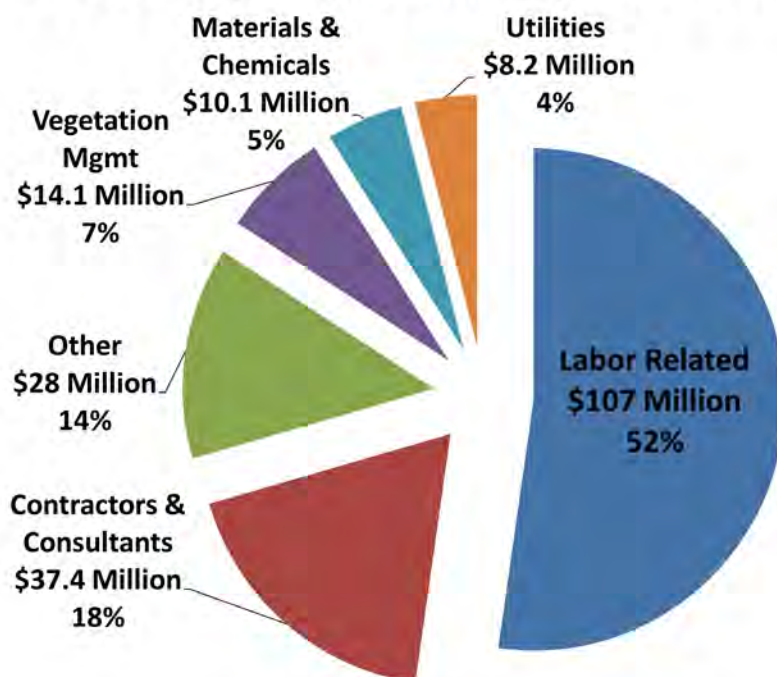
Operating expenses (excluding wholesale purchased energy expense) increased \$19.2 million compared to fiscal year 2023. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as treatment, fiber products and promotions, distribution and collection, customer service, and administrative and general.

- Treatment expenses increased \$1 million, primarily due to higher labor-related expenses and chemical expenses.
- Fiber products and promotions increased \$2.2 million, primarily due to materials, corporate advertising, and labor-related expenses.
- Distribution and collection expenses increased \$5.8 million, or 6.7 percent, primarily due to outside contractor and consultant expenses, labor-related expenses, and vegetation management circuit work.
- Customer service expenses decreased \$5 million, primarily due to a change in methodology for technology-related costs that resulted in an offsetting increase in administration and general expenses.
- Administrative and general expenses increased \$8.9 million, primarily due to a change in methodology for technology-related costs that resulted in an offsetting decrease in customer service expenses and increased insurance costs.

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FY 2024 Consolidated O&M Expense = \$204.8 Million



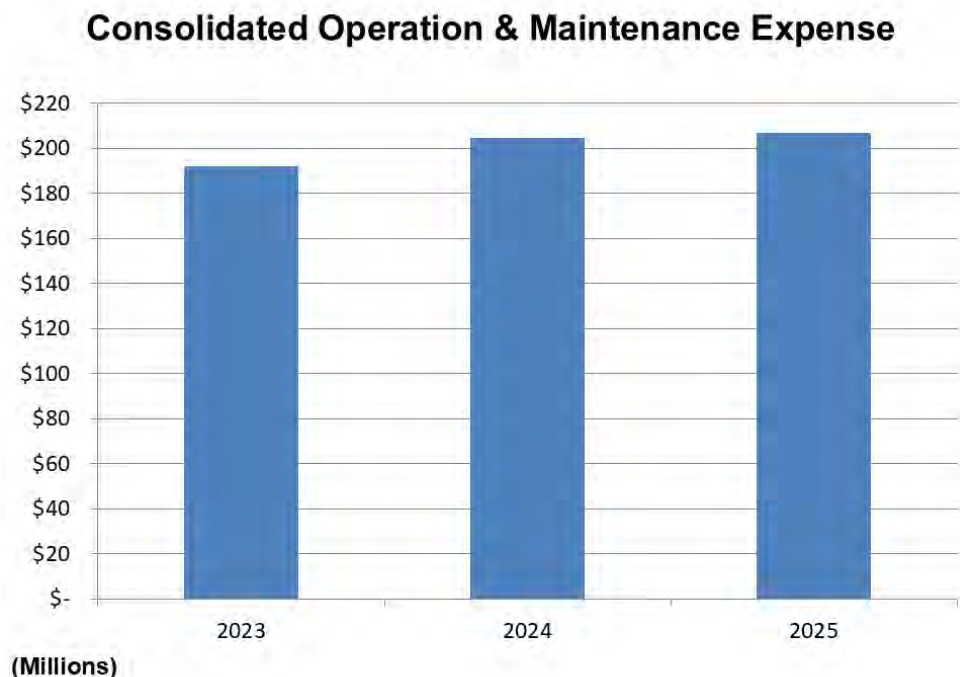
- Depreciation and amortization expense increased \$4.1 million, or 4.3 percent. KUB added \$290.3 million in assets during fiscal year 2024. A partial year of depreciation expense was recorded on these capital investments and a full year of depreciation expense was incurred on \$137.4 million in assets placed in service during fiscal year 2023. In addition, \$36.7 million of assets were retired during fiscal year 2024.
- Taxes and tax equivalents increased \$2.3 million, or 5.9 percent, primarily due to increased plant in service levels and employer Federal Insurance Contributions Act (FICA) taxes.

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Other Income and Expense

Fiscal Year 2025 Compared to Fiscal Year 2024

Interest income increased \$2.8 million compared to the prior fiscal year, driven by higher cash balances and the replacement of maturing low-yield investments with new investments at significantly higher rates, despite a modest decline in overall interest rates.

Interest expense increased \$4.2 million, or 9.2 percent, reflecting the interest expense from new revenue bonds sold during the fiscal year and interest on increased levels of customer deposits.

Other income (net) decreased \$4.5 million, primarily due a reduction in grant reimbursements and to mark-to-market adjustments on investments.

Capital contributions by developers were \$1.3 million lower, due to a decrease in donated utility assets compared to the prior fiscal year.

Fiscal Year 2024 Compared to Fiscal Year 2023

Interest income increased \$3.5 million compared to the prior fiscal year, reflecting higher interest rates throughout the year.

Interest expense increased \$2.4 million, or 5.7 percent, reflecting the interest expense from new revenue bonds sold during the fiscal year.

Other income (net) increased \$5.5 million, primarily due to grant reimbursements and mark-to-market adjustments on investments.

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Capital contributions by developers were \$1.8 million lower, due to a decrease in donated utility assets compared to the prior fiscal year.

Capital Assets

Capital Assets				
As of June 30				
(Net of Depreciation)				
<i>(in thousands of dollars)</i>				
	2025	2024	2023	
Production Plant (Intakes)	\$ 6	\$ 6	\$ 6	
Pumping and Treatment Plant	281,538	284,752	268,410	
Distribution and Collection Plant				
Mains and metering	\$ 1,011,549	\$ 979,996	\$ 940,034	
Services and meters	186,804	174,027	164,010	
Electric station equipment	186,334	144,074	85,676	
Poles, towers and fixtures	179,304	175,823	163,802	
Overhead conductors	188,191	174,932	150,166	
Line transformers	67,146	65,160	62,002	
Other accounts	197,436	197,904	188,126	
Total Distribution & Collection Plant	\$ 2,016,764	\$ 1,911,916	\$ 1,753,816	
General Plant	135,387	130,872	112,247	
Total Plant Assets	\$ 2,433,695	\$ 2,327,546	\$ 2,134,479	
Work In Progress	226,919	184,369	221,322	
Total Net Plant	\$ 2,660,614	\$ 2,511,915	\$ 2,355,801	

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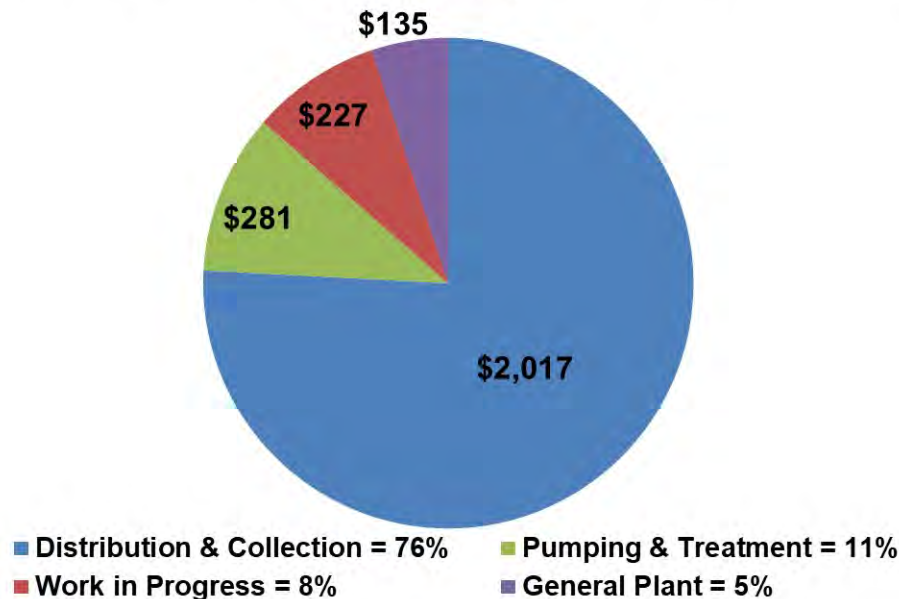
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Fiscal Year 2025 Compared to Fiscal Year 2024

As of June 30, 2025, KUB had \$2.7 billion invested in capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$148.7 million, or 5.9 percent, over the end of the last fiscal year.

FY 2025 Consolidated Capital Assets = \$2.7 Billion (in Millions)



Major capital asset additions during the year were as follows:

- \$76.3 million for fiber network buildout
- \$27.8 million for various electric distribution system improvements
- \$23.4 million for water plant redundancy
- \$23.3 million related to wastewater Century II projects
 - \$10.3 million for collection system improvements
 - \$8.3 million for pump station construction and improvements
 - \$3.5 million for wastewater treatment plant upgrades
 - \$0.6 million for sewer mini-basin rehabilitation and replacement
 - \$0.6 million for short line projects
- \$22.7 million for installation of new electric services and the upgrade or replacement of existing services.
- \$15 million for water main replacements
- \$8.9 million for pole replacements for the electric system
- \$8.4 million for the gas service extensions
- \$7.3 million for auto and truck purchases

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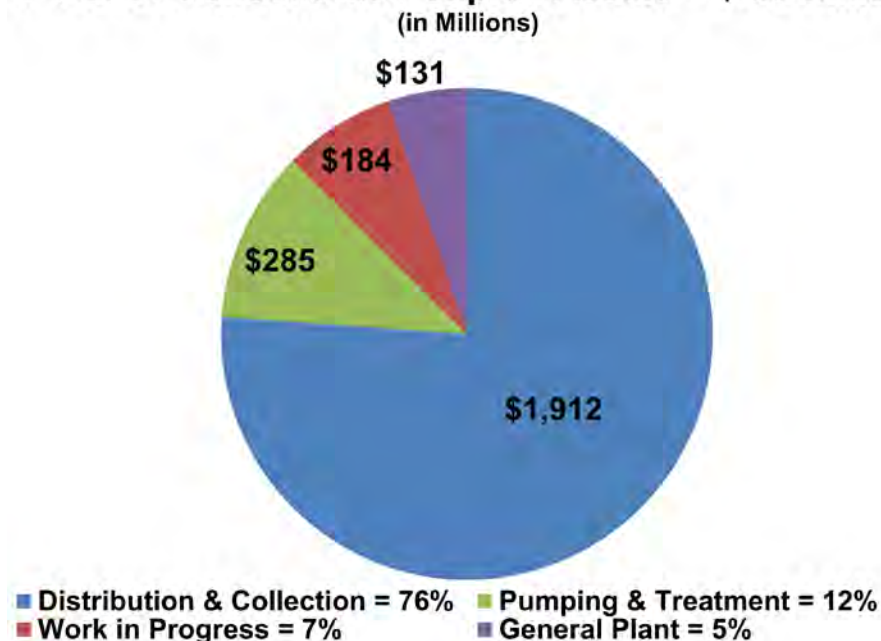
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Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, KUB had \$2.5 billion invested in capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$156.1 million, or 6.6 percent, over the end of the last fiscal year.

FY 2024 Consolidated Capital Assets = \$2.5 Billion



Major capital asset additions during the year were as follows:

- \$67.7 million for fiber network buildout
- \$32.3 million for various electric distribution system improvements
- \$21 million related to wastewater Century II projects
 - \$4.4 million for pump station construction and improvements
 - \$7.2 million for sewer mini-basin rehabilitation and replacement
 - \$4.2 million for wastewater treatment plant upgrades
 - \$4.4 million for short line projects
 - \$0.8 million for trunkline improvements
- \$17.6 million for installation of new electric services and the upgrade or replacement of existing services.
- \$11.2 million for water plant redundancy
- \$9.1 million for water main replacements
- \$7.7 million for the gas service extensions
- \$7.3 million for pole replacements for the electric system
- \$3.9 million for auto and truck purchases

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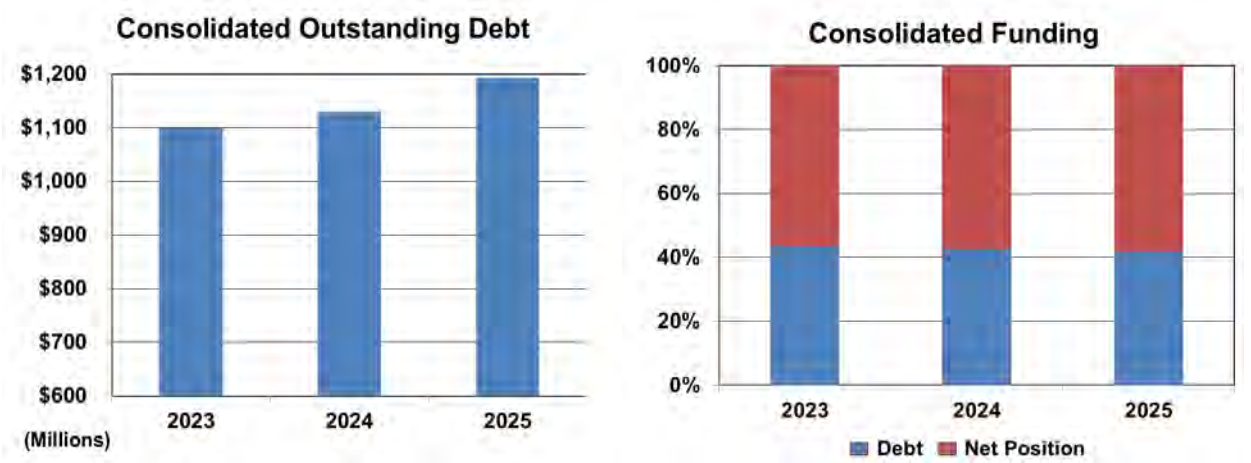
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Debt Administration

KUB’s outstanding debt was \$1.19 billion as of June 30, 2025. Debt as a percentage of capital structure was 41.8 percent in 2025, 42.5 percent in 2024, and 43.4 percent in 2023.

	Outstanding Debt As of June 30		
(in thousands of dollars)	2025	2024	2023
Revenue bonds	\$ 1,194,195	\$ 1,130,115	\$ 1,099,510
Total outstanding debt	\$ 1,194,195	\$ 1,130,115	\$ 1,099,510



KUB will pay \$485.9 million in principal payments over the next ten years, representing 40.7 percent of outstanding bonds.

Fiscal Year 2025 Compared to Fiscal Year 2024

As of June 30, 2025, KUB had \$1.19 billion in outstanding debt (including the current portion of revenue bonds), representing an increase of \$64.1 million. As of June 30, 2025, KUB’s weighted average cost of debt was 3.99 percent (3.96 percent including the impact of Build America Bonds rebates).

KUB sold \$91 million in electric system revenue bonds in July 2024 for the purpose of funding electric system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 4.05 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2055.

KUB sold \$20 million in water system revenue bonds in July 2024 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 4.04 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2054.

KUB’s outstanding debt is rated by S&P Global Ratings and Moody’s Investors Service. In July 2024, S&P Global Ratings upgraded KUB’s wastewater system’s rating from AA+ to AAA, the highest rating available. As of June 30, 2025, S&P Global Ratings rated the revenue bonds of the both the Water Division and the Wastewater Division AAA, the revenue bonds of the Electric Division AA- and the Gas Division AA. Moody’s

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Investors Service rated the bonds of the Water Division Aa1 and the Electric, Gas, and Wastewater Divisions Aa2

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, KUB had \$1.13 billion in outstanding debt (including the current portion of revenue bonds), representing an increase of \$30.6 million. As of June 30, 2024, KUB's weighted average cost of debt was 3.95 percent (3.91 percent including the impact of Build America Bonds rebates).

KUB sold \$55 million in electric system revenue bonds in November 2023 for the purpose of funding electric system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 4.40 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2054.

KUB sold \$20 million in water system revenue bonds in November 2023 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 4.33 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2054.

KUB's outstanding debt is rated by S&P Global Ratings and Moody's Investors Service. As of June 30, 2024, S&P Global Ratings rated the revenue bonds of the Water Division AAA, the Wastewater Division AA+, the revenue bonds of the Electric Division AA- and the Gas Division AA. Moody's Investors Service rated the bonds of the Water Division Aa1 and the Electric, Gas, and Wastewater Divisions Aa2.

Impacts on Future Financial Position

KUB anticipates an increase of 15,750 customers, including 11,100 fiber system customers, during fiscal year 2026.

As a component of the Fiber Division's start-up financing plan, the Electric Division will provide \$55 million of interdivisional loans. To date, \$44 million has been issued to the Fiber Division. A \$6 million loan is anticipated during fiscal year 2026.

KUB long-term debt includes \$20.3 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 5.7 percent. Any future actions by Congress may also affect the anticipated rebates for future fiscal years.

The Pension Plan actuarial valuation resulted in an actuarially determined contribution of \$2,793,313 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. Subsequent to June 30, 2025, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$2,939,593 for the fiscal year ending June 30, 2027, based on the Plan's current funding policy. For the Plan year beginning January 1, 2025, the Plan's actuarial funded ratio is 103.9 percent, and the market value funded ratio is 100.3 percent.

The OPEB Plan actuarial valuation resulted in an actuarially determined contribution of \$1,217,234 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. Subsequent to June 30, 2025, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$968,538 for the fiscal year ending June 30, 2027, based on the Plan's current funding policy. For the Plan year beginning January 1, 2025, the Plan's actuarial funded ratio is 96.3 percent, and the market value funded ratio is 93.8 percent.

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2025 and 2024

GASB Statement No. 103, *Financial Reporting Model Improvements*, is effective for fiscal years beginning after June 15, 2025. GASB Statement No. 104, *Disclosure of Certain Capital Assets*, is effective for fiscal years beginning after June 15, 2025. 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 2025.

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, 2025, and 2024. 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, 2025 and 2024

	2025	2024
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 156,248,936	\$ 109,288,248
Short-term contingency fund investments	90,077,072	60,673,701
Other current assets	892,229	892,885
Accrued interest receivable	154,373	155,663
Accounts receivable, less allowance of uncollectible accounts of \$989,403 in 2025 and \$800,861 in 2024	114,849,607	103,745,734
Current portion of lease receivable	795,306	838,178
Inventories	29,049,209	31,651,543
Prepaid expenses	1,332,827	1,284,871
Gas storage	7,703,575	7,442,708
Total current assets	<u>401,103,134</u>	<u>315,973,531</u>
Restricted assets:		
Bond funds	43,055,545	42,309,193
Student internet special fund	1,848,211	1,119,548
Other funds	1,526	1,524
Total restricted assets	<u>44,905,282</u>	<u>43,430,265</u>
Plant in service	3,713,198,561	3,522,024,743
Less accumulated depreciation	<u>(1,279,503,318)</u>	<u>(1,194,478,688)</u>
	2,433,695,243	2,327,546,055
Retirement in progress	2,156,691	1,834,945
Construction in progress	224,761,781	182,534,146
Net plant in service	<u>2,660,613,715</u>	<u>2,511,915,146</u>
Intangible assets:		
Intangible right of use asset	4,672,493	4,672,493
Intangible subscription asset	9,114,411	9,323,779
Less accumulated amortization	<u>(7,215,435)</u>	<u>(5,429,107)</u>
Net intangible assets	<u>6,571,469</u>	<u>8,567,165</u>
Other assets:		
Long-term contingency fund investments	37,209,220	57,402,740
Long-term lease receivable	7,758,811	8,554,118
TVA conservation program receivable	10,729	78,051
Under recovered purchased power cost	5,929,336	5,057,514
Under recovered purchased gas cost	2,744,926	1,050,732
Other	10,875,962	10,358,699
Total other assets	<u>64,528,984</u>	<u>82,501,854</u>
Total assets	<u>3,177,722,584</u>	<u>2,962,387,961</u>
Deferred outflows of resources:		
Pension outflow	15,698,178	28,276,023
OPEB outflow	1,931,174	2,889,145
Unamortized bond refunding costs	11,828,240	12,773,238
Total deferred outflows of resources	<u>29,457,592</u>	<u>43,938,406</u>
Total assets and deferred outflows of resources	<u>\$ 3,207,180,176</u>	<u>\$ 3,006,326,367</u>

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

Knoxville Utilities Board
Consolidated Statements of Net Position
June 30, 2025 and 2024

	2025	2024
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	\$ 46,585,000	\$ 46,915,000
Current portion of accrued compensated absences	7,923,816	7,122,995
Current portion of lease liability	937,961	889,422
Current portion of subscription liability	1,206,487	1,037,806
Sales tax collections payable	1,862,503	1,551,137
Accounts payable	110,876,150	107,113,618
Unearned revenue	901,316	428,327
Accrued expenses	29,646,425	24,899,002
Customer deposits plus accrued interest	27,405,189	25,650,667
Accrued interest on revenue bonds	17,800,120	16,361,685
Total current liabilities	<u>245,144,967</u>	<u>231,969,659</u>
Other liabilities:		
TVA conservation program	13,195	89,790
Accrued compensated absences	3,902,775	3,669,422
Customer advances for construction	13,193,204	11,479,966
Lease liability	899,442	1,837,403
Subscription liability	4,477,938	5,684,425
Net pension liability	3,075,398	7,452,380
Net OPEB liability	5,315,804	9,373,073
Other	231,356	108,402
Total other liabilities	<u>31,109,112</u>	<u>39,694,861</u>
Long-term debt:		
Revenue bonds	1,147,610,000	1,083,200,000
Unamortized premiums/discounts	108,261,114	110,077,252
Total long-term debt	<u>1,255,871,114</u>	<u>1,193,277,252</u>
Total liabilities	<u>1,532,125,193</u>	<u>1,464,941,772</u>
Deferred inflows of resources:		
Pension inflow	-	1,717
Unamortized bond refunding costs	1,429,427	1,530,785
OPEB inflow	4,153,751	1,801,872
Lease inflow	7,994,976	9,003,011
Total deferred inflows of resources	<u>13,578,154</u>	<u>12,337,385</u>
Total liabilities and deferred inflows of resources	<u>1,545,703,347</u>	<u>1,477,279,157</u>
Net position		
Net investment in capital assets	1,364,989,474	1,280,750,537
Restricted for:		
Debt service	25,255,424	25,947,508
Other	1,526	1,523
Unrestricted	271,230,405	222,347,642
Total net position	<u>1,661,476,829</u>	<u>1,529,047,210</u>
Total liabilities, deferred inflows, and net position	<u>\$ 3,207,180,176</u>	<u>\$ 3,006,326,367</u>

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

Knoxville Utilities Board
Consolidated Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2025 and 2024

	2025	2024
Operating revenues		
Electric	\$ 718,106,979	\$ 644,955,767
Fiber	17,004,668	6,330,281
Gas	128,874,496	114,178,993
Water	76,638,327	72,075,990
Wastewater	119,247,012	113,919,625
Total operating revenues	<u>1,059,871,482</u>	<u>951,460,656</u>
Operating expenses		
Purchased power	491,545,513	442,008,407
Purchased gas	58,247,192	49,472,739
Treatment	23,789,187	21,662,439
Fiber products and promotions	6,792,493	5,313,148
Distribution and collection	90,807,474	92,563,865
Customer service	11,347,365	10,708,141
Administrative and general	73,963,437	74,556,205
Depreciation and amortization	105,819,200	97,978,982
Taxes and tax equivalents	38,556,673	41,562,257
Total operating expenses	<u>900,868,534</u>	<u>835,826,183</u>
Operating income	<u>159,002,948</u>	<u>115,634,473</u>
Non-operating revenues (expenses)		
Contributions in aid of construction	20,483,247	27,291,771
Interest income	15,454,964	12,606,202
Interest expense	(49,247,108)	(45,085,501)
Amortization of debt costs	4,887,843	4,632,245
Write-down of plant for costs recovered through contributions	(20,483,247)	(27,291,771)
Other	1,088,675	5,869,543
Total non-operating revenues (expenses)	<u>(27,815,626)</u>	<u>(21,977,511)</u>
Change in net position before capital contributions	131,187,322	93,656,962
Capital contributions	1,242,297	2,530,416
Change in net position	132,429,619	96,187,378
Net position, beginning of year	1,529,047,210	1,432,859,832
Net position, end of year	<u>\$ 1,661,476,829</u>	<u>\$ 1,529,047,210</u>

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

Knoxville Utilities Board

Consolidated Statements of Cash Flows

Years Ended June 30, 2025 and 2024

	2025	2024
Cash flows from operating activities:		
Cash receipts from customers	\$ 1,049,590,366	\$ 939,005,214
Cash receipts from other operations	16,090,644	8,780,566
Cash payments to suppliers of goods or services	(680,108,393)	(625,052,483)
Cash payments to employees for services	(80,410,082)	(76,719,497)
Payment in lieu of taxes	(31,927,154)	(35,344,750)
Cash receipts from collections of TVA conservation loan program participants	69,308	184,825
Cash payments for TVA Conservation loan program	(78,582)	(193,934)
Net cash provided by operating activities	<u>273,226,107</u>	<u>210,659,941</u>
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	114,480,770	78,729,215
Principal paid on revenue bonds	(46,915,000)	(44,390,000)
Increase (decrease) in unused bond proceeds	-	13
Interest paid on revenue bonds	(46,254,306)	(42,885,965)
Acquisition and construction of plant	(276,751,433)	(281,297,034)
Changes in bond funds, restricted	(746,352)	(3,122,038)
Customer advances for construction	2,418,740	763,495
Proceeds received on disposal of plant	314,969	307,483
Principal paid on lease liabilities	(889,422)	(839,756)
Principal paid on subscription liabilities	(1,037,806)	(1,358,003)
Interest paid on lease and subscription liabilities	(333,168)	(400,444)
Cash received from developers and individuals for capital purposes	23,310,202	27,291,771
Net cash used in capital and related financing activities	<u>(232,402,806)</u>	<u>(267,201,263)</u>
Cash flows from investing activities:		
Purchase of investment securities	(32,971,642)	(92,326,733)
Maturities of investment securities	26,900,000	90,200,000
Interest received	12,711,678	12,344,500
Other property and investments	(502,649)	2,845,480
Net cash provided by investing activities	<u>6,137,387</u>	<u>13,063,247</u>
Net increase (decrease) in cash and cash equivalents	46,960,688	(43,478,075)
Cash and cash equivalents, beginning of year	<u>109,288,248</u>	<u>152,766,323</u>
Cash and cash equivalents, end of year	<u>\$ 156,248,936</u>	<u>\$ 109,288,248</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 159,002,948	\$ 115,634,473
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	109,782,169	101,439,885
Changes in operating assets and liabilities:		
Accounts receivable	(13,930,828)	(14,231,545)
Lease receivable	838,179	(5,020,718)
Inventories	2,602,334	(3,821,523)
Prepaid expenses and gas storage	(308,823)	2,076,314
TVA conservation program receivable	67,322	172,240
Other assets	(103,832)	(502,376)
Sales tax collections payable	311,366	45,057
Accounts payable and other accrued expenses	15,275,958	27,753,318
TVA conservation program payable	(76,595)	(181,348)
Unrecovered purchased power cost	(871,822)	(8,606,036)
Underrecovered gas costs	(1,694,194)	(5,422,440)
Customer deposits plus accrued interest	1,735,981	991,646
Unearned revenue	472,989	344,215
Other liabilities	122,955	(11,221)
Net cash provided by operating activities	<u>\$ 273,226,107</u>	<u>\$ 210,659,941</u>
Noncash capital activities:		
Acquisition of plant assets through developer contributions	\$ 1,242,297	\$ 2,530,416
Record intangible right of use asset and lease liability	\$ -	\$ 39,002
Record intangible subscription asset and subscription liability	\$ -	\$ 447,577

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

Knoxville Utilities Board
Statement of Fiduciary Net Position
June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
	Pension (and Other Employee Benefit Trust Funds)	Pension (and Other Employee Benefit Trust Funds)
Assets		
Cash and cash equivalents	\$ 1,548,484	\$ 1,610,656
Interest and dividends receivable	262,693	546,051
Due from broker for investment sales	53,000	209,328
Prepaid assets	10,000	10,000
Investments at fair value	325,738,008	306,682,853
Total assets	<u>327,612,185</u>	<u>309,058,888</u>
Liabilities		
Accounts payable	287,382	366,518
Due to broker for investment purchases	53,000	269,866
Benefit obligations	937,785	853,994
Total liabilities	<u>1,278,167</u>	<u>1,490,378</u>
Total net position	<u><u>\$ 326,334,018</u></u>	<u><u>\$ 307,568,510</u></u>

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

Knoxville Utilities Board
Statement of Changes in Fiduciary Net Position
June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
	Pension (and Other Employee Benefit Trust Funds)	Pension (and Other Employee Benefit Trust Funds)
Additions		
Contributions:		
Employer	\$ 2,939,172	\$ 3,054,029
Participants	4,971,148	5,752,609
Total contributions	<u>7,910,320</u>	<u>8,806,638</u>
Investment income:		
Net change in fair value of investments	29,101,568	35,316,569
Less investment expenses	(264,182)	(406,711)
Interest income	1,552,208	2,443,138
Dividend income	4,235,963	4,230,832
Net investment income	<u>34,625,557</u>	<u>41,583,828</u>
Other	738	4,568
Total net additions	<u>42,536,615</u>	<u>50,395,034</u>
Deductions		
Benefit payments	22,646,995	22,663,779
Claims processing fees	348,019	316,426
General and administrative expenses	744,093	696,457
Death benefits	32,000	44,000
Total deductions	<u>23,771,107</u>	<u>23,720,662</u>
Change in net position	18,765,508	26,674,372
Total net position		
Beginning of the year	307,568,510	280,894,138
End of the year	<u>\$ 326,334,018</u>	<u>\$ 307,568,510</u>

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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

1. Description of Business

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

2. Significant Accounting Policies

Basis of Accounting

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

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

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

Recently Adopted New Accounting Pronouncements

In June 2022, the GASB issued GASB Statement No. 101 (Statement No. 101), *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. Statement No. 101 is effective for fiscal years beginning after December 15, 2023. Adoption of this Statement did not result in a restatement of prior periods due to immateriality.

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

In December 2023, the GASB issued GASB Statement No. 102 (Statement No. 102), *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. Statement No. 102 is effective for fiscal years beginning after June 15, 2024. Adoption of this Statement did not have a significant impact on KUB's financial statements.

Principles of Consolidation

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

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

Plant

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

The provision for depreciation of plants in service is based on the estimated useful lives of the assets, which range from three to sixty-seven years, and is computed using the straight-line method. Pursuant to FERC/NARUC, the caption "Depreciation and amortization" in the consolidated Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment. Depreciation for transportation equipment of \$3,962,970 in fiscal year 2025 and \$3,460,902 in fiscal year 2024 is included in operation and maintenance expense.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of KUB. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unbilled revenue. Revenues are reported net of bad debt expense of \$2,905,912 in fiscal year 2025 and of \$2,110,501 in fiscal year 2024.

Non-operating Revenue

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

Expense

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

Net Position

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

These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets and intangible assets, including restricted capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, mortgages, notes,

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

lease and subscription liabilities, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

OPEB Trust

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

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, 2025, and 2024, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, are based on a June 30, 2025, and 2024, measurement date, respectively. The net OPEB liability is \$5,315,804 as of June 30, 2025, and \$9,373,073 as of June 30, 2024.

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 12). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2025, and 2024, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, are based on a December 31, 2024, and 2023, measurement date, respectively. The net pension liability is \$3,054,172 as of June 30, 2025, and the net pension liability is \$7,452,380 as of June 30, 2024.

KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single employer defined benefit pension plan, administered by KUB (Note 13). As required by GASB Statement No. 73, KUB measures the total pension liability of the QEBA. The amounts reported as of June 30, 2025, and 2024, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, are based on a December 31, 2024, and 2023, measurement date, respectively. The total pension liability of the QEBA is \$21,226 as of June 30, 2025, and \$0 as of June 30, 2024.

For presentation purposes, the Pension Plan net pension liability and the QEBA total pension liability are disclosed in the Statement of Net Position as Net pension liability of \$3,075,398 as of June 30, 2025 and \$7,452,380 as of June 30, 2024. The Pension Plan deferred outflows and QEBA deferred outflows are disclosed as Pension outflow of \$15,698,178 as of June 30, 2025 and \$28,276,023 as of June 30, 2024. The Pension Plan deferred inflows and QEBA deferred inflows are disclosed as Pension inflow of \$0 as of June 30, 2025 and \$1,717 as of June 30, 2024.

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, over/under purchased power and gas costs, lease liabilities, subscription liabilities, developer contributions, compensated absences, 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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

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economic development. Assets are reported as restricted when limitations on their use are either imposed by creditors, contributors, grantors or imposed by enabling legislation.

KUB has established a program called ConnectED that provides financial assistance to student households in need, with donations from the City of Knoxville and Knox County. ConnectED provides up to \$80 monthly to qualified families for internet and router services. The restricted asset is shown in the student internet special fund, while the associated liability is shown in accrued expenses.

Cash Equivalents

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

Leases

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

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

Subscription-Based Information Technology Arrangements

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

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

Deferred Outflows and Inflows of Resources

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

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Debt Premium/Discount

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

Debt Issuance Costs

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

Deferred Gain/Loss on Refunding of Debt

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

Compensated Absences

KUB accrues a liability for earned but unpaid paid time off (PTO) days. During fiscal year 2025, KUB adopted GASB Statement No. 101, *Compensated Absences* (GASB 101). GASB 101 requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash items. The accompanying financial statements, as of and for the year ended June 30, 2024, have not been restated due to immaterial impact on the net position.

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.

Reclassification

Certain 2024 amounts have been reclassified to conform to the 2025 presentation.

Subsequent Events

KUB has evaluated events and transactions through October 23, 2025, the date these financial statements were available to be issued, for items that should potentially be recognized or disclosed.

Purchased Power Adjustment

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

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appropriate matching of revenue and expense and cost recovery. KUB will adjust its retail rates on an annual basis to flow any over or under recovery of wholesale power costs through to its customers via the PPA.

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

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

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

Under the PPA mechanism, KUB tracks the actual over/(under) recovered amount in the Over/(Under) Recovered Purchased Power Cost accounts. These accounts are rolled into the PPA rate adjustments thereby assuring that any over/(under) recovered amounts are promptly passed on to KUB's electric customers. The amount of over/(under) recovered cost was (\$5,929,336) as of June 30, 2025, and (\$5,057,514) as of June 30, 2024.

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 (\$2,744,926) as of June 30, 2025, and (\$1,050,732) as of June 30, 2024.

Recently Issued Accounting Pronouncements

In April 2024, the GASB issued GASB Statement No. 103 (Statement No. 103), *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. Statement No. 103 is effective for fiscal years beginning after June 15, 2025.

In September 2024, the GASB issued GASB Statement No. 104 (Statement No. 104), *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. Statement No. 104 is effective for fiscal years beginning after June 15, 2025.

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

3. Deposits and Investments

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

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

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

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

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

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Notes to Consolidated Financial Statements

June 30, 2025 and 2024

Classification of deposits and investments per Statement of Net Position:

	2025	2024
Current assets		
Cash and cash equivalents	\$ 156,248,936	\$ 109,288,248
Short-term contingency fund investments	89,034,211	60,002,890
Other assets		
Long-term contingency fund investments	37,209,220	57,402,740
Restricted assets		
Bond fund	43,055,545	42,309,193
Student internet special fund	1,848,211	1,119,548
Other funds	1,526	1,524
	<u>\$ 327,397,649</u>	<u>\$ 270,124,143</u>

The above amounts do not include accrued interest of \$1,042,861 in fiscal year 2025 and \$670,811 in fiscal year 2024. Interest income is recorded on an accrual basis.

Investments and maturities of KUB's cash equivalents and investments as held by financial institutions as of June 30, 2025:

	Cash Equivalents and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	\$ 191,112,171	\$ 191,112,171	\$ -
State Treasurer's Investment Pool	48,235,608	48,235,608	-
Agency Bonds	94,511,337	57,302,117	37,209,220
	<u>\$ 333,859,116</u>	<u>\$ 296,649,896</u>	<u>\$ 37,209,220</u>

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

KUB has the following recurring fair value measurements as of June 30, 2025:

- U.S. Agency bonds of \$37,209,220, 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.

Knoxville Utilities Board
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4. Accounts Receivable

Accounts receivable consists of the following:

	2025	2024
Wholesale and retail customers		
Billed services	\$ 63,611,849	\$ 55,815,880
Unbilled services	39,294,597	33,514,225
Other	12,932,564	15,216,490
Allowance for uncollectible accounts	(989,403)	(800,861)
	<u>\$ 114,849,607</u>	<u>\$ 103,745,734</u>

5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	2025	2024
Trade accounts	\$ 110,876,150	\$ 107,113,618
Current portion of accrued compensated absences	7,923,816	7,122,995
Salaries and wages	2,494,326	2,272,345
Advances on pole rental	1,610,930	1,527,262
Self-insurance liabilities	2,934,693	2,720,264
Other current liabilities	22,606,476	18,379,131
	<u>\$ 148,446,391</u>	<u>\$ 139,135,615</u>

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Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

6. Long-Term Obligations

	Balance June 30, 2024	Additions	Payments	Defeased	Balance June 30, 2025	Amounts Due Within One Year
Electric						
EE-2015 - 2.0 - 5.0%	\$ 16,815,000	\$ -	\$ 2,555,000	\$ -	\$ 14,260,000	\$ 2,670,000
GG-2016 - 2.0 - 5.0%	33,650,000	-	1,100,000	-	32,550,000	1,125,000
HH-2017 - 2.5 - 5.0%	10,520,000	-	2,460,000	-	8,060,000	2,560,000
II-2017 - 3.0 - 5.0%	35,060,000	-	985,000	-	34,075,000	1,035,000
JJ-2018 - 3.0 - 5.0%	35,725,000	-	965,000	-	34,760,000	1,005,000
KK-2020 - 5.0%	10,740,000	-	1,335,000	-	9,405,000	1,400,000
LL-2021 - 4.0 - 5.0%	60,715,000	-	5,015,000	-	55,700,000	2,745,000
MM-2022 - 4.0 - 5.0%	44,885,000	-	805,000	-	44,080,000	850,000
NN-2022 - 4.0 - 5.0%	27,215,000	-	825,000	-	26,390,000	845,000
OO-2022 - 4.0 - 5.0%	79,000,000	-	1,275,000	-	77,725,000	1,340,000
PP-2023 - 5.0%	55,000,000	-	-	-	55,000,000	865,000
QQ-2024 - 4.0 - 5.0%	-	91,000,000	-	-	91,000,000	-
Total bonds	\$ 409,325,000	\$ 91,000,000	\$ 17,320,000	\$ -	\$ 483,005,000	\$ 16,440,000
Unamortized Premium	32,495,461	3,778,026	2,095,574	-	34,177,913	-
Total long term debt	\$ 441,820,461	\$ 94,778,026	\$ 19,415,574	\$ -	\$ 517,182,913	\$ 16,440,000
Gas						
U-2015 - 2.0 - 5.0%	\$ 6,575,000	\$ -	\$ 845,000	\$ -	\$ 5,730,000	\$ 880,000
V-2016 - 2.125 - 5.0%	9,900,000	-	325,000	-	9,575,000	350,000
W-2017 - 5.0%	2,835,000	-	900,000	-	1,935,000	940,000
X-2017 - 2.0 - 5.0%	10,205,000	-	315,000	-	9,890,000	330,000
Y-2018 - 3.0 - 5.0%	6,940,000	-	195,000	-	6,745,000	200,000
Z-2020 - 4.0 - 5.0%	4,385,000	-	645,000	-	3,740,000	675,000
AA-2021 - 4.0 - 5.0%	30,595,000	-	3,395,000	-	27,200,000	3,220,000
Total bonds	\$ 71,435,000	\$ -	\$ 6,620,000	\$ -	\$ 64,815,000	\$ 6,595,000
Unamortized Premium	7,056,536	-	922,377	-	6,134,159	-
Total long term debt	\$ 78,491,536	\$ -	\$ 7,542,377	\$ -	\$ 70,949,159	\$ 6,595,000
Water						
BB-2015 - 2.0 - 5.0%	\$ 15,915,000	\$ -	\$ 1,170,000	\$ -	\$ 14,745,000	\$ 1,210,000
CC-2015 - 2.0 - 4.0%	1,075,000	-	525,000	-	550,000	550,000
DD-2016 - 3.0 - 5.0%	20,825,000	-	675,000	-	20,150,000	700,000
EE-2016 - 2.0 - 5.0%	14,490,000	-	1,435,000	-	13,055,000	1,460,000
FF-2017 - 3.0 - 5.0%	1,815,000	-	575,000	-	1,240,000	605,000
GG-2017 - 2.125 - 5.0%	17,225,000	-	505,000	-	16,720,000	530,000
HH-2018 - 3.0 - 5.0%	17,415,000	-	465,000	-	16,950,000	485,000
II-2019 - 3.0 - 5.0%	18,030,000	-	440,000	-	17,590,000	465,000
JJ-2020 - 3.0 - 5.0%	17,505,000	-	450,000	-	17,055,000	460,000
KK-2020 - 3.0 - 5.0%	8,295,000	-	195,000	-	8,100,000	205,000
LL-2021 - 4.0 - 5.0%	29,385,000	-	1,350,000	-	28,035,000	1,400,000
MM-2022 - 3.0 - 5.0%	14,815,000	-	-	-	14,815,000	-
NN-2023 - 4.0 - 5.0%	19,745,000	-	335,000	-	19,410,000	350,000
OO-2024 - 4.0 - 5.0%	-	19,995,000	-	-	19,995,000	330,000
Total bonds	\$ 196,535,000	\$ 19,995,000	\$ 8,120,000	\$ -	\$ 208,410,000	\$ 8,750,000
Unamortized Premium	13,996,203	754,810	835,481	-	13,915,532	-
Total long term debt	\$ 210,531,203	\$ 20,749,810	\$ 8,955,481	\$ -	\$ 222,325,532	\$ 8,750,000
Wastewater						
2010C - 1.18 - 6.1%	\$ 20,250,000	\$ -	\$ -	\$ -	\$ 20,250,000	\$ -
2015A - 3.0 - 5.0%	95,225,000	-	3,785,000	-	91,440,000	1,425,000
2015B - 3.0 - 5.0%	625,000	-	625,000	-	-	-
2016 - 2.0 - 5.0%	16,225,000	-	575,000	-	15,650,000	575,000
2017A - 3.0 - 5.0%	1,915,000	-	615,000	-	1,300,000	640,000
2017B - 2.0 - 5.0%	21,405,000	-	660,000	-	20,745,000	690,000
2018 - 3.0 - 5.0%	10,435,000	-	290,000	-	10,145,000	305,000
2019 - 3.0 - 5.0%	14,460,000	-	360,000	-	14,100,000	380,000
2020A - 3.0 - 5.0%	25,300,000	-	785,000	-	24,515,000	825,000
2020B - 3.0 - 4.0%	25,175,000	-	625,000	-	24,550,000	650,000
2021A - 4.0 - 5.0%	178,180,000	-	6,150,000	-	172,030,000	8,360,000
2022A - 4.0 - 5.0%	10,700,000	-	210,000	-	10,490,000	220,000
2022B - 4.0 - 5.0%	23,100,000	-	-	-	23,100,000	545,000
2022C - 4.0 - 5.0%	9,825,000	-	175,000	-	9,650,000	185,000
Total bonds	\$ 452,820,000	\$ -	\$ 14,855,000	\$ -	\$ 437,965,000	\$ 14,800,000
Unamortized Premium	56,529,052	-	2,495,542	-	54,033,510	-
Total long term debt	\$ 509,349,052	\$ -	\$ 17,350,542	\$ -	\$ 491,998,510	\$ 14,800,000
Consolidated						
Total Bonds	\$ 1,130,115,000	\$ 110,995,000	\$ 46,915,000	\$ -	\$ 1,194,195,000	\$ 46,585,000
Total unamortized premium	110,077,252	4,532,836	6,348,974	-	108,261,114	-
Total long term debt	\$ 1,240,192,252	\$ 115,527,836	\$ 53,263,974	\$ -	\$ 1,302,456,114	\$ 46,585,000

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	Balance June 30, 2023	Additions	Payments	Defeased	Balance June 30, 2024	Amounts Due Within One Year
Electric						
EE-2015 - 2.0 - 5.0%	\$ 19,230,000	\$ -	\$ 2,415,000	\$ -	\$ 16,815,000	\$ 2,555,000
FF-2015 - 2.0 - 5.0%	850,000	-	850,000	-	-	-
GG-2016 - 2.0 - 5.0%	34,700,000	-	1,050,000	-	33,650,000	1,100,000
HH-2017 - 2.5 - 5.0%	12,920,000	-	2,400,000	-	10,520,000	2,460,000
II-2017 - 3.0 - 5.0%	35,995,000	-	935,000	-	35,060,000	985,000
JJ-2018 - 3.0 - 5.0%	36,655,000	-	930,000	-	35,725,000	965,000
KK-2020 - 5.0%	12,010,000	-	1,270,000	-	10,740,000	1,335,000
LL-2021 - 4.0 - 5.0%	65,570,000	-	4,855,000	-	60,715,000	5,015,000
MM-2022 - 4.0 - 5.0%	45,650,000	-	765,000	-	44,885,000	805,000
NN-2022 - 4.0 - 5.0%	27,215,000	-	-	-	27,215,000	825,000
OO-2022 - 4.0 - 5.0%	79,000,000	-	-	-	79,000,000	1,275,000
PP-2023 - 5.0%	-	55,000,000	-	-	55,000,000	-
Total bonds	\$ 369,795,000	\$ 55,000,000	\$ 15,470,000	\$ -	\$ 409,325,000	\$ 17,320,000
Unamortized Premium	30,341,874	4,074,569	1,920,982	-	32,495,461	-
Total long term debt	\$ 400,136,874	\$ 59,074,569	\$ 17,390,982	\$ -	\$ 441,820,461	\$ 17,320,000
Gas						
U-2015 - 2.0 - 5.0%	\$ 7,380,000	\$ -	\$ 805,000	\$ -	\$ 6,575,000	\$ 845,000
V-2016 - 2.125 - 5.0%	10,225,000	-	325,000	-	9,900,000	325,000
W-2017 - 5.0%	3,685,000	-	850,000	-	2,835,000	900,000
X-2017 - 2.0 - 5.0%	10,505,000	-	300,000	-	10,205,000	315,000
Y-2018 - 3.0 - 5.0%	7,125,000	-	185,000	-	6,940,000	195,000
Z-2020 - 4.0 - 5.0%	5,000,000	-	615,000	-	4,385,000	645,000
AA-2021 - 4.0 - 5.0%	34,185,000	-	3,590,000	-	30,595,000	3,395,000
Total bonds	\$ 78,105,000	\$ -	\$ 6,670,000	\$ -	\$ 71,435,000	\$ 6,620,000
Unamortized Premium	7,978,913	-	922,377	-	7,056,536	-
Total long term debt	\$ 86,083,913	\$ -	\$ 7,592,377	\$ -	\$ 78,491,536	\$ 6,620,000
Water						
BB-2015 - 2.0 - 5.0%	\$ 17,025,000	\$ -	\$ 1,110,000	\$ -	\$ 15,915,000	\$ 1,170,000
CC-2015 - 2.0 - 4.0%	1,575,000	-	500,000	-	1,075,000	525,000
DD-2016 - 3.0 - 5.0%	21,475,000	-	650,000	-	20,825,000	675,000
EE-2016 - 2.0 - 5.0%	15,870,000	-	1,380,000	-	14,490,000	1,435,000
FF-2017 - 3.0 - 5.0%	2,365,000	-	550,000	-	1,815,000	575,000
GG-2017 - 2.125 - 5.0%	17,710,000	-	485,000	-	17,225,000	505,000
HH-2018 - 3.0 - 5.0%	17,855,000	-	440,000	-	17,415,000	465,000
II-2019 - 3.0 - 5.0%	18,450,000	-	420,000	-	18,030,000	440,000
JJ-2020 - 3.0 - 5.0%	17,950,000	-	445,000	-	17,505,000	450,000
KK-2020 - 3.0 - 5.0%	8,485,000	-	190,000	-	8,295,000	195,000
LL-2021 - 4.0 - 5.0%	30,690,000	-	1,305,000	-	29,385,000	1,350,000
MM-2022 - 3.0 - 5.0%	14,815,000	-	-	-	14,815,000	-
NN-2023 - 4.0 - 5.0%	-	19,995,000	250,000	-	19,745,000	335,000
Total bonds	\$ 184,265,000	\$ 19,995,000	\$ 7,725,000	\$ -	\$ 196,535,000	\$ 8,120,000
Unamortized Premium	14,439,030	365,073	807,900	-	13,996,203	-
Total long term debt	\$ 198,704,030	\$ 20,360,073	\$ 8,532,900	\$ -	\$ 210,531,203	\$ 8,120,000
Wastewater						
2010C - 1.18 - 6.1%	\$ 20,250,000	\$ -	\$ -	\$ -	\$ 20,250,000	\$ -
2015A - 3.0 - 5.0%	98,945,000	-	3,720,000	-	95,225,000	3,785,000
2015B - 3.0 - 5.0%	1,225,000	-	600,000	-	625,000	625,000
2016 - 2.0 - 5.0%	16,775,000	-	550,000	-	16,225,000	575,000
2017A - 3.0 - 5.0%	2,510,000	-	595,000	-	1,915,000	615,000
2017B - 2.0 - 5.0%	22,035,000	-	630,000	-	21,405,000	660,000
2018 - 3.0 - 5.0%	10,715,000	-	280,000	-	10,435,000	290,000
2019 - 3.0 - 5.0%	14,805,000	-	345,000	-	14,460,000	360,000
2020A - 3.0 - 5.0%	26,050,000	-	750,000	-	25,300,000	785,000
2020B - 3.0 - 4.0%	25,775,000	-	600,000	-	25,175,000	625,000
2021A - 4.0 - 5.0%	184,265,000	-	6,085,000	-	178,180,000	6,150,000
2022A - 4.0 - 5.0%	10,900,000	-	200,000	-	10,700,000	210,000
2022B - 4.0 - 5.0%	23,100,000	-	-	-	23,100,000	-
2022C - 4.0 - 5.0%	9,995,000	-	170,000	-	9,825,000	175,000
Total bonds	\$ 467,345,000	\$ -	\$ 14,525,000	\$ -	\$ 452,820,000	\$ 14,855,000
Unamortized Premium	59,027,339	-	2,498,287	-	56,529,052	-
Total long term debt	\$ 526,372,339	\$ -	\$ 17,023,287	\$ -	\$ 509,349,052	\$ 14,855,000
Consolidated						
Total Bonds	\$ 1,099,510,000	\$ 74,995,000	\$ 44,390,000	\$ -	\$ 1,130,115,000	\$ 46,915,000
Total unamortized premium	111,787,156	4,439,642	6,149,546	-	110,077,252	-
Total long term debt	\$ 1,211,297,156	\$ 79,434,642	\$ 50,539,546	\$ -	\$ 1,240,192,252	\$ 46,915,000

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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

Fiscal Year	Principal	Interest	Total
2026	\$ 46,585,000	\$ 47,293,132	\$ 93,878,132
2027	49,525,000	45,294,854	94,819,854
2028	50,960,000	43,156,751	94,116,751
2029	50,005,000	41,039,645	91,044,645
2030	51,620,000	38,930,167	90,550,167
2031-2035	237,205,000	164,395,024	401,600,024
2036-2040	262,245,000	116,845,944	379,090,944
2041-2045	233,705,000	65,220,885	298,925,885
2046-2050	146,060,000	27,574,074	173,634,074
2051-2055	66,285,000	5,802,907	72,087,907
Total	<u>\$ 1,194,195,000</u>	<u>\$ 595,553,383</u>	<u>\$ 1,789,748,383</u>

The Divisions have pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments of revenue bonds when due. Such bond requirements are being met through monthly deposits to the bond funds as required by the bond covenants. As of June 30, 2025, these requirements have been satisfied.

The Divisions outstanding bonds payable contain provisions that in an event of default, outstanding amounts are to become immediately due if the Division is unable to make payment.

During fiscal year 2025, KUB's Electric Division issued Series QQ 2024 bonds to fund electric system capital improvements.

During fiscal year 2024, KUB's Electric Division issued Series PP 2023 bonds to fund electric system capital improvements.

During fiscal year 2025, KUB's Water Division issued Series OO 2024 bonds to fund water system capital improvements.

During fiscal year 2024, KUB's Water Division issued Series NN 2023 bonds to fund water system capital improvements.

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

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Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

Other liabilities consist of the following:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
TVA conservation program	\$ 89,790	\$ 1,987	(78,582)	\$ 13,195
Accrued compensated absences	3,669,422	11,884,349	(11,650,996)	3,902,775
Customer advances for construction	11,479,966	6,030,792	(4,317,554)	13,193,204
Other	108,402	296,381	(173,427)	231,356
	<u>\$ 15,347,580</u>	<u>\$ 18,213,509</u>	<u>\$ (16,220,559)</u>	<u>\$ 17,340,530</u>

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
TVA conservation program	\$ 271,138	\$ 13,659	\$ (195,007)	\$ 89,790
Accrued compensated absences	3,585,936	7,019,505	(6,936,019)	3,669,422
Customer advances for construction	11,299,795	4,687,643	(4,507,472)	11,479,966
Other	119,620	137,652	(148,870)	108,402
	<u>\$ 15,276,489</u>	<u>\$ 11,858,459</u>	<u>\$ (11,787,368)</u>	<u>\$ 15,347,580</u>

7. Lease Receivables

KUB, as lessor, leases office space, land, and fiber optic cables under non-cancelable lease arrangements. Terms of the leases range from one to fourteen years and contain fixed payment terms. Certain leases contain an option to renew that has been considered in the lease receivable when the lessee is reasonably certain to exercise the renewal option. KUB recognized lease revenue, which is included in other operating revenues, of \$991,065 in 2025 and \$981,984 in 2024. KUB also recognized interest income from leases, which is included in non-operating revenues, totaling \$310,164 in 2025 and \$315,652 in 2024. Total lease receivables were \$8,554,117 (\$795,306 current) and \$9,392,296 (\$838,178 current) as of June 30, 2025, and 2024, respectively, and are included in other assets on the Statement of Net Position.

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Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2025 and 2024

8. Lease Liability

Changes in lease liabilities are summarized as follows:

	Balance June 30, 2024		Increase		Decrease		Balance June 30, 2025
Total lease liabilities	\$ 2,726,825	\$	-	\$	(889,422)	\$	1,837,403
Less current portion	(889,422)						(937,961)
Long-term portion	<u>\$ 1,837,403</u>					\$	<u>899,442</u>

	Balance June 30, 2023		Increase		Decrease		Balance June 30, 2024
Total lease liabilities	\$ 3,527,578	\$	39,002	\$	(839,755)	\$	2,726,825
Less current portion	(830,979)						(889,422)
Long-term portion	<u>\$ 2,696,599</u>					\$	<u>1,837,403</u>

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

Maturities and future interest requirements related to the balances of lease liabilities outstanding as of June 30, 2025, are summarized as follows:

	Lease Maturities		Interest Requirements
2026	\$ 937,961	\$	56,798
2027	741,907		21,048
2028	19,470		6,992
2029	5,657		6,145
2030	6,058		6,098
2031-2035	37,377		29,101
2036-2040	52,643		24,423
2041-2043	36,330		9,614
	<u>\$ 1,837,403</u>	\$	<u>160,219</u>

Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2025 and 2024

9. Subscription-Based Information Technology Agreement Liabilities

Changes in SBITA liabilities are summarized as follows:

		Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
Total SBITA liabilities	\$	6,722,231	\$ -	\$ (1,037,806)	\$ 5,684,425
Less current portion		<u>(1,037,806)</u>			<u>(1,206,487)</u>
Long-term portion	\$	<u>5,684,425</u>			<u>\$ 4,477,938</u>

		Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Total SBITA liabilities	\$	7,632,658	\$ 447,577	\$ (1,358,004)	\$ 6,722,231
Less current portion		<u>(910,426)</u>			<u>(1,037,806)</u>
Long-term portion	\$	<u>6,722,232</u>			<u>\$ 5,684,425</u>

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

Maturities and future interest requirements related to the balances of SBITA liabilities outstanding as of June 30, 2025, are summarized as follows:

	Subscription Maturities	Interest Requirements
2026	\$ 1,206,487	\$ 199,923
2027	1,237,452	151,138
2028	1,296,951	101,934
2029	588,127	65,191
2030	611,418	41,901
2031-2032	<u>743,990</u>	<u>18,215</u>
	<u>\$ 5,684,425</u>	<u>\$ 578,302</u>

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Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

10. Capital and Intangible Assets

Capital and intangible asset activity was as follows:

	Balance				Balance	
	June 30, 2024		Increase		June 30, 2025	
Production Plant (Intakes)	\$ 742,503	\$	-	\$	742,503	
Pumping and Treatment Plant	446,788,009		9,329,749		(692,102)	455,425,656
Distribution and Collection Plant						
Mains and metering	1,289,523,337		60,094,780		(834,794)	1,348,783,323
Services and meters	272,753,507		24,640,938		(1,541,086)	295,853,359
Electric station equipment	286,073,633		54,258,301		(270,554)	340,061,380
Poles, towers and fixtures	255,203,197		10,573,687		-	265,776,884
Overhead conductors	222,392,698		19,623,756		-	242,016,454
Line transformers	116,531,268		4,816,592		-	121,347,860
Other accounts	326,699,808		8,123,699		(460,920)	334,362,587
Total Distribution & Collection Plant	\$ 2,769,177,448	\$	182,131,753	\$	(3,107,354)	\$ 2,948,201,847
General Plant	305,316,783		20,630,222		(17,118,450)	308,828,555
Total Plant Assets	\$ 3,522,024,743	\$	212,091,724	\$	(20,917,906)	\$ 3,713,198,561
Less Accumulated Depreciation	(1,194,478,688)		(107,880,557)		22,855,927	(1,279,503,318)
Net Plant Assets	\$ 2,327,546,055	\$	104,211,167	\$	1,938,021	\$ 2,433,695,243
Work In Progress	184,369,091		255,073,250		(212,523,869)	226,918,472
Total Net Plant	\$ 2,511,915,146	\$	359,284,417	\$	(210,585,848)	\$ 2,660,613,715
Intangible Right of Use Assets						
Office space	\$ 4,253,775	\$	3,022	\$	(3,022)	\$ 4,253,775
Equipment	88,040		880		(880)	88,040
Other	330,678		-		-	330,678
Total Intangible Right of Use Assets	\$ 4,672,493	\$	3,902	\$	(3,902)	\$ 4,672,493
Less Accumulated Amortization	(2,198,060)		(856,842)		-	(3,054,902)
Net Intangible Right of Use Assets	\$ 2,474,433	\$	(852,940)	\$	(3,902)	\$ 1,617,591
Intangible Subscription Assets						
Intangible Subscription Assets	\$ 9,323,779	\$	-	\$	(209,368)	\$ 9,114,411
Less Accumulated Amortization	(3,231,047)		(1,138,854)		209,368	(4,160,533)
Net Intangible Subscription Assets	\$ 6,092,732	\$	(1,138,854)	\$	-	\$ 4,953,878

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Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Production Plant (Intakes)	\$ 742,503	\$ -	\$ -	742,503
Pumping and Treatment Plant	419,411,768	28,191,915	(815,674)	446,788,009
Distribution and Collection Plant				
Mains and metering	1,226,555,606	66,825,542	(3,857,811)	1,289,523,337
Services and meters	252,205,063	21,157,339	(608,895)	272,753,507
Electric station equipment	218,924,364	67,605,046	(455,777)	286,073,633
Poles, towers and fixtures	237,092,817	19,242,803	(1,132,423)	255,203,197
Overhead conductors	199,084,887	29,551,211	(6,243,400)	222,392,698
Line transformers	111,182,883	5,863,192	(514,807)	116,531,268
Other accounts	309,980,838	18,208,208	(1,489,238)	326,699,808
Total Distribution & Collection Plant	\$ 2,555,026,458	\$ 228,453,341	\$ (14,302,351)	\$ 2,769,177,448
General Plant	293,287,525	33,628,897	(21,599,639)	305,316,783
Total Plant Assets	\$ 3,268,468,254	\$ 290,274,153	\$ (36,717,664)	\$ 3,522,024,743
Less Accumulated Depreciation	(1,133,989,255)	(99,475,084)	38,985,651	(1,194,478,688)
Net Plant Assets	\$ 2,134,478,999	\$ 190,799,069	\$ 2,267,987	\$ 2,327,546,055
Work In Progress	221,322,238	252,999,302	(289,952,449)	184,369,091
Total Net Plant	\$ 2,355,801,237	\$ 443,798,371	\$ (287,684,462)	\$ 2,511,915,146
Intangible Right of Use Assets				
Office space	\$ 4,206,577	\$ 47,198	\$ -	4,253,775
Equipment	133,003	-	(44,963)	88,040
Other	330,678	-	-	330,678
Total Intangible Right of Use Assets	\$ 4,670,258	\$ 47,198	\$ (44,963)	\$ 4,672,493
Less Accumulated Amortization	(1,365,235)	(877,788)	44,963	(2,198,060)
Net Intangible Right of Use Assets	\$ 3,305,023	\$ (830,590)	\$ -	\$ 2,474,433
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 9,323,779	\$ -	\$ -	9,323,779
Less Accumulated Amortization	(2,029,713)	(1,201,334)	-	(3,231,047)
Net Intangible Subscription Assets	\$ 7,294,066	\$ (1,201,334)	\$ -	\$ 6,092,732

11. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. On June 30, 2025, and June 30, 2024, the amount of these liabilities was \$2,934,693 and \$2,720,264, respectively, resulting from the following changes:

	2025	2024
Balance, beginning of year	\$ 2,720,264	\$ 2,566,095
Current year claims and changes in estimates	19,813,908	20,269,079
Claims payments	(19,599,479)	(20,114,910)
Balance, end of year	\$ 2,934,693	\$ 2,720,264

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

12. Pension Plan

Description of Plan

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

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

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

	2024	2023
Inactive plan members:		
Terminated vested participants	10	9
Retirees and beneficiaries	589	602
Active plan members	<u>359</u>	<u>389</u>
Total	<u>958</u>	<u>1,000</u>

Retirement Benefits

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

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

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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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 to the amount necessary to provide the benefits under the Plan determined by the application of accepted actuarial methods and assumptions. The method of funding shall be consistent with Plan objectives.

Plan Funding

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

Investments

The Plan’s investments are held by State Street Bank and Trust Company (the “Trustee”). The Plan’s policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan’s adopted asset allocation policy as of December 31, 2024:

Asset Class	Target Allocation
Domestic equity – large cap	20% - 50%
Domestic equity – small/mid cap	0% - 30%
Multi-asset credit	0% - 20%
Non-U.S. equity	0% - 20%
U.S. core real estate	0% - 10%
Fixed income	20% - 40%
Cash and deposits	0% - 5%

Contributions of \$2,210,234 and \$1,108,147 for 2023 and 2022, respectively, were made during the Plan sponsor’s fiscal years ended June 30, 2025, and 2024, respectively. The fiscal year 2025 contribution was determined as part of the January 1, 2023, 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.

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

Net Pension Liability (Asset)

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (“GASB 68”), which requires measurement of the net pension liability as total pension liability less the amount of the Plan’s fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB’s measurements as of June 30, 2025 and 2024, will be based on the December 31, 2024, and 2023, measurement date, respectively.

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

	2024	2023
Total pension liability	\$ 274,028,893	\$ 263,351,035
Plan fiduciary net position	(270,974,721)	(255,898,655)
Plan's net pension liability	<u>\$ 3,054,172</u>	<u>\$ 7,452,380</u>

Plan fiduciary net position as a percentage of the total pension liability	98.89%	97.17%
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Changes in Net Pension Liability (Asset) are as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2023	\$ 263,351,035	\$ 255,898,655	\$ 7,452,380
Changes for the year:			
Service cost	7,764,986	-	7,764,986
Interest	18,573,527	-	18,573,527
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	2,346,811	-	2,346,811
Changes of Assumptions	1,425,345	-	1,425,345
Contributions - employer	-	1,659,187	(1,659,187)
Contributions - rollovers	-	75	(75)
Contributions - member	-	4,971,073	(4,971,073)
Net investment income	-	28,541,389	(28,541,389)
Benefit payments	(19,432,811)	(19,432,811)	-
Administrative expense	-	(662,847)	662,847
Net changes	<u>10,677,858</u>	<u>15,076,066</u>	<u>(4,398,208)</u>
Balances at December 31, 2024	<u>\$ 274,028,893</u>	<u>\$ 270,974,721</u>	<u>\$ 3,054,172</u>

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Actuarial Assumptions

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

Valuation dates	January 1, 2024, rolled forward to December 31, 2024; January 1, 2023, rolled forward to December 31, 2023
Discount rate	7.00% as of December 31, 2024 and 2023
Salary increases	From 2.50% to 8.50%, based on years of service as of December 31, 2024 and from 2.50% to 5.65% as of December 31, 2023
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 MP-2021, fully generational as of December 31, 2024; Scale MP-2018 was used as of December 31, 2023
Inflation	2.5% as of December 31, 2024 and 2023

The actuarial assumptions used in the January 1, 2024, valuation was based on an actuarial experience study covering January 1, 2019 through December 31, 2023, and the assumptions used in the January 1, 2023 valuation were based on an actuarial experience study covering the period January 1, 2014 through December 31, 2018.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2024, and 2023, are summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. Prior to February 22, 2024, the Plan had both aggregate and long duration fixed income. As of December 31, 2024, the Plan has only aggregate fixed income. Effective September 30, 2024 the REIT fund was transferred to a U.S. core real estate fund.

Asset Class	Long Term Expected Real Rate of Return	
	2024	2023
Domestic equity	6.0%	5.6%
Non-U.S. equity	6.5%	6.5%
Real estate equity	n/a	5.8%
Real estate U.S. core	5.1%	n/a
Debt securities	2.5%	1.9%
Cash and deposits	1.2%	0.7%

Discount rate

The discount rate used to measure the total pension liability was 7.00 percent as of December 31, 2024, and December 31, 2023. 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

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make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability of the Plan as of December 31, 2024, calculated using the discount rate of 7.00 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 (6.00 percent) or one percent higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Plan's net pension liability	\$ 29,141,576	\$ 3,054,172	\$ (19,335,531)

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

For the year ended June 30, 2025, KUB recognized pension expense of \$10,401,958.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2023, this average was three years. During the measurement year, there was a liability experience loss of \$2,346,811, with \$782,270 of that recognized in the current year and each of the next two years, resulting in a deferred outflow of \$1,564,541. Unrecognized liability experience losses from prior periods were \$2,580,215, of which \$1,463,476 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,116,739. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,681,280.

During the measurement year, there was an assumption change loss of \$1,425,345 with \$475,115 of that recognized in the current year and each of the next two years, resulting in a deferred outflow of \$950,230. Net unrecognized assumption change losses from prior periods were \$2,634,336, of which \$1,317,168 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$1,317,168. The combination of unrecognized assumption change losses this year, along with unrecognized assumption change losses from prior periods, results in a deferred outflow of \$2,267,398.

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 \$11,091,799, of which \$2,218,360 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$22,505,337, of which \$4,001,667 was recognized as an increase in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with net unrecognized investment losses from prior periods, results in a deferred outflow of \$9,630,231.

In addition, KUB recorded a deferred outflow of resources of \$1,105,118 for employer contributions made between December 31, 2024 and June 30, 2025.

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The following table summarizes the balances of deferred outflows and deferred inflows of resources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,681,280	\$ -
Changes in assumptions	2,267,398	-
Net difference between projected and actual earnings on pension plan investments	9,630,231	-
Contributions subsequent to measurement date	1,105,118	-
Total	<u>\$ 15,684,027</u>	<u>\$ -</u>

\$1,105,118 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, 2026. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:		
2026	\$	10,430,378
2027		12,605,124
2028		(6,238,234)
2029		(2,218,359)
2030		-
Thereafter		-

For the year ended June 30, 2024, KUB recognized pension expense of \$6,394,757.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2022, this average was four years. During the measurement year, there was a liability experience loss of \$2,092,475, with \$523,119 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$1,569,356. Unrecognized liability experience losses from prior periods were \$1,951,216, of which \$940,357 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,010,859. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,580,215. Unrecognized liability gains from prior periods were \$210,825, of which \$210,825 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$0.

During the measurement year, there were no benefit changes or assumption changes. Net unrecognized assumption change losses from prior periods were \$5,646,136, of which \$3,011,800 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$2,634,336.

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 \$20,099,370, of which \$4,019,874 was recognized in the current year and will be recognized in each of the next four years. Net

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unrecognized investment losses from prior periods were \$39,628,509, of which \$1,043,676 was recognized as an increase in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with unrecognized investment losses from prior periods, results in a deferred outflow of \$22,505,337.

In addition, KUB recorded a deferred outflow of resources of \$554,084 for employer contributions made between December 31, 2023, and June 30, 2024.

The following table summarizes the balances of deferred outflows and deferred inflows of resources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,580,215	\$ -
Changes in assumptions	2,634,336	-
Net difference between projected and actual earnings on pension plan investments	22,505,337	-
Contributions subsequent to measurement date	554,084	-
Total	<u>\$ 28,273,972</u>	<u>\$ -</u>

13. Qualified Excess Benefit Arrangement

Description

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

As of June 30, 2025, there are 341 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis. There are no assets accumulated in a trust that meets the GASB's criteria.

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

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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, 2025, and 2024, are based on a December 31, 2024 and 2023, measurement date, respectively. The total pension liability of the QEBA is \$21,226 as of June 30, 2025, and \$0 as of June 30, 2024.

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

	2024	2023
Total pension liability	\$21,226	\$0
Deferred outflows	(14,151)	(2,051)
Deferred inflows	-	1,704
Net impact on Statement of Net Position	<u>\$7,075</u>	<u>(\$347)</u>
Covered payroll	\$34,776,504	\$35,604,464
Total pension liability as a % of covered payroll	0.06%	0.00%

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

	Increase (Decrease)
	Total Pension Liability
Balances at December 31, 2023	\$ -
Changes for the year:	
Service cost	-
Interest	-
Changes of Benefits	-
Differences between Expected and Actual Experience	21,226
Changes of Assumptions	-
Benefit payments	-
Net changes	<u>21,226</u>
Balances at December 31, 2024	<u>\$ 21,226</u>

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, 2024, rolled forward to December 31, 2024
Actuarial cost method	Individual entry age
Discount rate	4.08% at January 1, 2024
Salary increases	From 2.50% to 8.50%, based on years of service
Mortality	115% and 110% of the PubG-2010 table for males and females, respectively, using the benefits-weighted Public Sector General Healthy Annuitant Mortality Table for ages 50 and older and the benefits-weighted Public Sector General Employee Table for ages under 50, both projected from the 2010 base rates using scale MP-2021, fully generational as of December 31, 2024
Inflation	2.50%

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Discount rate

The QEBA is not funded. In accordance with paragraph 31 of GASB 73, the discount rate is based on the Bond Buyer 20-Bond GO index. This rate was 4.08% at December 31, 2024.

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, 2024, calculated using the discount rate of 4.08 percent, as well as what the QEBA's liability would be if it were calculated using a discount rate that is one percent lower (3.08 percent) or one percent higher (5.08 percent) than the current rate.

	1% Decrease (3.08%)	Current Discount Rate (4.08%)	1% Increase (5.08%)
QEBA's total pension liability	\$ 24,131	\$ 21,226	\$ 18,639

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

For the year ended June 30, 2025, KUB recognized pension expense of \$7,422 for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [\$7,075 - (\$347) + \$-].

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, 2023, this average was three years.

During the measurement year, there was an experience loss of \$21,226 with \$7,075 recognized in the current year and the remaining deferred outflow of \$14,151 to be recognized over the next two years. Unrecognized experience losses from prior periods were \$2,033, with the full amount recognized as an increase in pension expense in the current year. Unrecognized experience gains from prior periods were \$1,704, with the full amount recognized as a decrease in pension expense in the current year.

Unrecognized assumption change losses from prior periods were \$19, with the full amount recognized as an increase in pension expense in the current year.

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	\$ 14,151	\$ -
Changes in assumptions	-	-
Total	<u>\$ 14,151</u>	<u>\$ -</u>

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

Year ended June 30:

2026	\$	7,075
2027		7,076
2028		-
2029		-
2030		-
Thereafter		-

For the year ended June 30, 2024, KUB recognized pension expense of \$3,024 for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [(\$347) – (\$3,371) + \$-].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2020, this average was four years. There was a deferred inflow at the end of the measurement year of \$1,717 from experience gains in prior years and a deferred outflow of \$2,033 from experience losses in prior years.

There was a deferred outflow of \$18 from assumption changes in prior years.

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	\$ 2,033	\$ 1,717
Changes in assumptions	18	-
Total	<u>\$ 2,051</u>	<u>\$ 1,717</u>

14. Defined Contribution Plan

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

KUB funded 401(k) matching contributions and non-elective contributions of \$4,799,996 and \$3,909,598, respectively, for the years ended June 30, 2025, and 2024.

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Vesting

Participants are immediately vested in their own contributions to the Plan, plus actual earnings on these contributions. Participants become 100% vested and entitled to the full value of their account, less any loans outstanding, upon death or disability or upon retirement after attaining their normal retirement age (first of the month coinciding with or following attainment of age 62).

Otherwise, vesting in the KUB matching contribution and non-elective contribution (as applicable) portion of their account plus related earnings are based on years of service and date of hire, as follows:

Participants hired prior to January 1, 2011 are 100% vested in the KUB matching contribution portion of their account.

Participants hired by KUB after December 31, 2010 are vested in the KUB matching and non-elective contribution portion of their account as follows:

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 2 years	0%
2	20%
3	40%
4	60%
5	80%
6 or more	100%

Forfeitures

Forfeitures are created when participants terminate employment before becoming entitled to their full benefits under the Plan. Upon forfeiture, the match and non-elective funds become available to offset Plan expenses. The Plan experienced forfeitures of \$243,630 during calendar year 2024 and \$306,016 during calendar year 2023. Forfeitures of \$271,595 and \$295,955 were used to reduce employer contributions in 2024 and 2023, respectively. The ending balance of forfeited assets in the Plan, including contributions and dividends, totaled \$10,862 and \$37,985 as of December 31, 2024 and 2023, respectively.

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15. Other Post-Employment Benefits (OPEB)

Description of Trust

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

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

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

	HRA		Retiree Medical Benefit	
	2025	2024	2025	2024
Retirees	16	9	707	722
Dependents of retirees	16	7	385	401
Eligible active employees	1,109	1,127	128	144
Total	1,141	1,143	1,220	1,267

Benefits

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

Contributions and Funding

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

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

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

Based on the date of retirement, certain retired members are required to contribute specified amounts monthly to maintain health insurance. Those who retired prior to July 1983 have no required monthly premiums for themselves or dependents. The retirees, or their surviving dependents, who retired between August 1983 and January 1998 are required to pay \$275 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 \$275 for single coverage and \$550 for family coverage. There is currently no premium for Medicare eligible retirees or dependents. KUB is responsible for determining the level of retired plan member contributions on an annual basis as part of its review of healthcare cost sharing.

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

Investments

The Trust holds investments in a balanced fund, which invests in passively managed common trust index funds, managed and sponsored by State Street Global Advisors (SSgA), with an asset allocation mirroring the asset allocation of the Trust and rebalanced monthly. The Trust's Investment Policy was established and may only be amended by the KUB Board of Commissioners. The Trust's Investment Policy is to invest in a manner that will provide sufficient investment return to meet current and future retiree health benefits, while conforming to all governing State and Federal statutes. It allows investment of Trust assets in any type of security instrument allowed for in T.C.A 8-50-1203. The following was the Trust's adopted investment target allocations as set forth in the Trust's Investment Policy as of June 30, 2025:

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%

Actuarially determined contributions of \$1,279,985 and \$1,187,768 were made to the OPEB Trust in fiscal years ended June 30, 2025 and 2024, respectively. These were based on the OPEB actuarial valuations as of January 1, 2023, and 2022.

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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, 2025, and 2024, and the Total OPEB Liability as of the valuation date January 1, 2024, updated to June 30, 2025, and January 1, 2023, updated to June 30, 2024, respectively. KUB's total net OPEB liability was \$5,315,804 as of June 30, 2025, and \$9,373,073 as of June 30, 2024.

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

	2025	2024
Total OPEB liability	\$ 60,675,101	\$ 61,042,928
Plan fiduciary net position	55,359,297	51,669,855
Net OPEB liability	<u>\$ 5,315,804</u>	<u>\$ 9,373,073</u>
Plan fiduciary net position as a percentage of the total OPEB liability	91.24%	84.65%

Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2024	\$ 61,042,928	\$ 51,669,855	\$ 9,373,073
Changes for the year:			
Service cost	506,802	-	506,802
Interest	4,176,096	-	4,176,096
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	(154,501)	-	(154,501)
Changes of Assumptions	(1,302,021)	-	(1,302,021)
Contributions - employer	-	1,279,985	(1,279,985)
Contributions - member	-	-	-
Net investment income	-	6,084,906	(6,084,906)
Benefit payments	(3,594,203)	(3,594,203)	-
Administrative expense	-	(81,246)	81,246
Net changes	<u>(367,827)</u>	<u>3,689,442</u>	<u>(4,057,269)</u>
Balances at June 30, 2025	<u>\$ 60,675,101</u>	<u>\$ 55,359,297</u>	<u>\$ 5,315,804</u>

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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, 2024, rolled forward to June 30, 2025; January 1, 2023, rolled forward to June 30, 2024
Discount rate:	7.00% as of June 30, 2025 and June 30, 2024
Healthcare cost trend rates:	<i>Pre-Medicare</i> : 8.00% grading down to 3.935% over 20 years as of June 30, 2025; 5.75% grading down to 3.935% over 20 years as of June 30, 2024 <i>Medicare</i> : 6.00% grading down to 3.935% over 20 years as of June 30, 2025; 11.30% grading down to 3.935% over 20 years as of June 30, 2024 <i>Administrative expenses</i> : 3.0% per year
Salary increases:	From 2.50% to 8.50%
Mortality:	115% and 110% of the benefits-weighted Public Sector General Healthy Annuitant Mortality Table (PubG-2010) respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Healthy Annuitant Mortality Table, both projected using scale MP-2021 fully generational
Inflation:	2.50%

The actuarial assumptions used in the January 1, 2024 valuation were based on the results of an actuarial experience study for the period January 1, 2019 through December 31, 2023. The January 1, 2023 valuation assumptions were based on the results of actuarial experience study for the periods January 1, 2014, through December 31, 2018.

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

Asset Class	Long Term Expected Real Rate of Return	
	2025	2024
Domestic equity	6.0%	5.4%
International equity	6.4%	6.1%
Emerging Market equity	7.3%	7.8%
Real estate equity	6.3%	5.5%
Debt securities	2.4%	2.3%
Cash and deposits	0.9%	0.9%

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

Discount rate

The discount rate used to measure the total OPEB liability was 7.00 percent as of June 30, 2025 and June 30, 2024. 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, 2025, calculated using the discount rate of 7.00 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is one percent lower (6.00 percent) or one percent higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB liability	\$10,974,569	\$5,315,804	\$512,532

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, 2025, as well as what the Trust's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percent lower or one percent higher than the current rate:

	1% Decrease	Baseline Trends	1% Increase
Net OPEB liability	\$435,302	\$5,315,804	\$10,948,243

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

For the year ended June 30, 2025, KUB recognized OPEB expense of \$532,566.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience gain of \$154,501, with \$22,072 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$132,429. Unrecognized experience losses from prior periods were \$587,407, of which \$100,703 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of resources of \$486,704.

During the measurement year, there were no benefit changes.

During the measurement year, there was an assumption change gain of \$1,302,021, with \$186,003 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$1,116,018. Unrecognized assumption change gains from prior period were \$1,801,872, of which \$300,312 was recognized as a decrease in OPEB expense in the current year and resulted in a deferred inflow of resources of \$1,501,560.

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

The combination of unrecognized assumption change gains this year, along with unrecognized assumption change gains from prior periods, results in a deferred inflow of resources of \$2,617,578. Unrecognized assumption losses from prior periods were \$1,805,588, of which \$361,118 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of \$1,444,470.

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 \$2,550,439, of which \$510,088 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$2,040,351. Net unrecognized investment losses from prior periods were \$496,150, of which \$140,457 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$636,607. The combination of unrecognized gains and losses from the current year and prior periods results in a deferred inflow of resources of \$1,403,744.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 486,704	\$ 132,429
Changes in assumptions	1,444,470	2,617,578
Net difference between projected and actual earnings on OPEB plan investments	-	1,403,744
Total	<u>\$ 1,931,174</u>	<u>\$ 4,153,751</u>

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

Year ended June 30:		
2026	\$	1,217,249
2027		(1,226,031)
2028		(1,024,573)
2029		(556,657)
2030		(424,493)
Thereafter		(208,072)

For the year ended June 30, 2024, KUB recognized OPEB expense of \$2,021,591.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience loss of \$587,252, with \$83,893 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$503,359. Unrecognized experience losses from prior periods were \$100,858, of which \$16,810 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of resources of \$84,048. The combination of unrecognized experience gains or losses results in a deferred outflow of resources of \$587,407.

During the measurement year, there was a benefit change gain of \$164,746. The entire amount was recognized as a decrease in OPEB expense in the current year.

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

During the measurement year, there was an assumption change gain of \$2,102,184, with \$300,312 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$1,801,872. Unrecognized assumption losses from prior periods were \$2,166,706, of which \$361,118 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of \$1,805,588.

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 \$2,339,599, of which \$467,920 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$1,871,679. Net unrecognized investment losses from prior periods were \$3,211,114, of which \$843,284 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$2,367,829. The combination of unrecognized gains and losses from the current year and prior periods results in a deferred outflow of resources of \$496,150. 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	\$ 587,407	\$ -
Changes in assumptions	1,805,588	1,801,872
Net difference between projected and actual earnings on OPEB plan investments	496,150	-
Total	<u>\$ 2,889,145</u>	<u>\$ 1,801,872</u>

16. Related Party Transactions

KUB, in the normal course of operations, is involved in transactions with the City of Knoxville. Such transactions for the years ended June 30, 2025, and 2024, are summarized as follows:

	2025	2024
City of Knoxville		
Amounts billed by KUB for utilities and related services	\$ 16,215,411	\$ 14,962,620
Payments by KUB in lieu of property tax	22,496,330	24,101,630
Payments by KUB for services provided	1,148,597	846,753
Grant expenditures incurred	-	7,581,000

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

	2025	2024
Accounts receivable	\$ 1,009,029	\$ 1,050,610
Amounts eligible for reimbursement from grants	-	5,518,000

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

17. Natural Gas Supply Contract Commitments

For fiscal year 2025, the Gas Division hedged 19 percent of its total gas purchases via gas supply contracts. As of June 30, 2025, the Gas Division had hedged the price on six percent of its anticipated gas purchases for fiscal year 2026.

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

Firm obligations related to purchased gas - demand

	2026	2027	2028	2029	2030	2031
Transportation						
Tennessee Gas Pipeline	\$ 4,739,008	\$ 5,408,484	\$ 5,408,484	\$ 5,408,484	\$ 5,408,484	\$ 1,802,828
East Tennessee Natural Gas*	23,896,270	28,145,374	28,145,374	28,145,374	28,145,374	7,684,728
Texas Eastern	469,500	540,000	540,000	540,000	540,000	109,500
Storage						
Tennessee Gas Pipeline	1,452,708	1,452,708	1,452,708	1,452,708	1,452,708	484,236
East Tennessee Natural Gas*	3,010,280	3,010,280	3,010,280	3,010,280	3,010,280	-
Saltville Natural Gas	2,695,752	2,695,752	2,230,830	836,064	627,048	-
Bobcat	318,000	378,000	378,000	378,000	378,000	126,000
Demand Total	<u>\$ 36,581,518</u>	<u>\$ 41,630,598</u>	<u>\$ 41,165,676</u>	<u>\$ 39,770,910</u>	<u>\$ 39,561,894</u>	<u>\$ 10,207,292</u>

*The amounts reflect firm transportation and LNG storage rates filed by ETNG, but have not been approved by FERC. Shippers have intervened on the rate case at FERC and negotiations and/or a FERC trial may occur before resolution is reached and final rates are determined. Such process could take from one to two years to complete. To the extent that rates paid during this time are higher than the final approved rates, pipeline must provide rebates to shippers.

Firm obligations related to purchased gas - commodity

	2026	2027	2028	2029	2030	2031-2054
Baseload						
ConocoPhillips	\$ 1,123,320	\$ -	\$ -	\$ -	\$ -	\$ -
NextEra Energy	2,089,800	-	-	-	-	-
Enervest Operating LLC	3,675,642	3,796,772	2,830,572	-	-	-
CNX	4,098,390	-	-	-	-	-
Tennergy Corporation (2021A)	3,492,687	3,579,022	3,240,000	3,083,720	2,993,830	59,335,817
Tennergy Corporation (2022)	3,696,605	3,811,993	3,464,989	3,311,851	3,286,244	71,199,380
Commodity Total	<u>\$ 18,176,444</u>	<u>\$ 11,187,787</u>	<u>\$ 9,535,561</u>	<u>\$ 6,395,571</u>	<u>\$ 6,280,074</u>	<u>\$ 130,535,197</u>

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 NextEra Energy are based upon firm supply obligations and locked prices with those suppliers. The firm obligations value for Enervest Operating LLC and CNX are based upon firm supply obligations and the applicable NYMEX strip prices on June 30, 2025. The firm obligations values for Tennergy Corporation are based upon 30-year prepay gas contracts valued at the applicable Tennessee Zone 0 and Tennessee 800L strip prices on June 30, 2025.

18. Other Commitments and Contingencies

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

Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2025 and 2024

19. Segment Information

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

Condensed Statement of Net Position

	2025				
	Electric	Fiber	Gas	Water	Wastewater
Assets and Deferred Outflows of Resources					
Current assets	\$ 219,245,914	\$ 13,026,445	\$ 62,494,367	\$ 51,600,245	\$ 57,069,497
Restricted assets	26,552,434	1,848,257	3,011,822	5,420,550	8,072,218
Net capital assets	984,469,605	5,147,546	353,072,105	447,966,892	869,957,568
Net intangible assets	1,854,037	3,406,550	701,440	364,720	244,723
Other assets	75,994,989	234,080	4,770,626	3,518,177	17,373,615
Total assets	<u>\$ 1,308,116,979</u>	<u>\$ 23,662,878</u>	<u>\$ 424,050,360</u>	<u>\$ 508,870,584</u>	<u>\$ 952,717,621</u>
Deferred outflows of resources	8,718,317	586,263	3,098,527	4,903,336	13,137,658
Total assets and deferred outflows of resources	<u>\$ 1,316,835,296</u>	<u>\$ 24,249,141</u>	<u>\$ 427,148,887</u>	<u>\$ 513,773,920</u>	<u>\$ 965,855,279</u>
Liabilities and Deferred Inflows of Resources					
Current liabilities	\$ 173,046,100	\$ 6,457,516	\$ 21,999,544	\$ 21,649,019	\$ 24,326,126
Other liabilities	18,328,941	3,717,574	3,742,783	2,560,133	2,759,682
Long-term debt	500,742,913	37,362,500	64,354,159	213,575,532	477,198,511
Total liabilities	<u>\$ 692,117,954</u>	<u>\$ 47,537,590</u>	<u>\$ 90,096,486</u>	<u>\$ 237,784,684</u>	<u>\$ 504,284,319</u>
Deferred inflows of resources	7,443,823	643,805	2,160,393	1,958,351	2,358,290
Total liabilities and deferred inflows of resources	<u>\$ 699,561,777</u>	<u>\$ 48,181,395</u>	<u>\$ 92,256,879</u>	<u>\$ 239,743,035</u>	<u>\$ 506,642,609</u>
Net position					
Net investment in capital assets	\$ 458,504,837	\$ 4,342,405	\$ 281,381,356	\$ 229,558,746	\$ 391,202,131
Restricted	16,440,827	46	2,198,692	2,916,964	3,700,421
Unrestricted	142,327,855	(28,274,705)	51,311,960	41,555,175	64,310,118
Total net position	<u>\$ 617,273,519</u>	<u>\$ (23,932,254)</u>	<u>\$ 334,892,008</u>	<u>\$ 274,030,885</u>	<u>\$ 459,212,670</u>

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Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2025 and 2024

Condensed Statement of Net Position

	2024				
	Electric	Fiber	Gas	Water	Wastewater
Assets and Deferred Outflows of Resources					
Current assets	\$ 170,316,208	\$ 11,341,762	\$ 46,263,447	\$ 42,036,015	\$ 47,981,656
Restricted assets	25,944,381	1,119,594	3,123,122	5,018,613	8,224,554
Net capital assets	883,281,774	4,998,613	347,605,164	407,905,814	868,123,781
Net intangible assets	2,587,845	4,205,421	937,117	505,224	331,556
Other assets	69,986,304	253,072	10,480,123	17,072,904	17,446,950
Total assets	<u>\$ 1,152,116,512</u>	<u>\$ 21,918,462</u>	<u>\$ 408,408,973</u>	<u>\$ 472,538,570</u>	<u>\$ 942,108,497</u>
Deferred outflows of resources	14,930,378	907,934	5,506,471	7,509,369	16,361,045
Total assets and deferred outflows of resources	<u>\$ 1,167,046,890</u>	<u>\$ 22,826,396</u>	<u>\$ 413,915,444</u>	<u>\$ 480,047,939</u>	<u>\$ 958,469,542</u>
Liabilities and Deferred Inflows of Resources					
Current liabilities	\$ 163,775,211	\$ 4,615,208	\$ 20,506,655	\$ 16,972,156	\$ 28,065,983
Other liabilities	21,083,790	4,759,855	5,455,533	4,129,460	4,266,221
Long-term debt	424,500,461	32,737,500	71,871,536	202,411,203	494,494,052
Total liabilities	<u>\$ 609,359,462</u>	<u>\$ 42,112,563</u>	<u>\$ 97,833,724</u>	<u>\$ 223,512,819</u>	<u>\$ 526,826,256</u>
Deferred inflows of resources	6,778,289	721,663	2,086,126	1,784,325	2,243,775
Total liabilities and deferred inflows of resources	<u>\$ 616,137,751</u>	<u>\$ 42,834,226</u>	<u>\$ 99,919,850</u>	<u>\$ 225,297,144</u>	<u>\$ 529,070,031</u>
Net position					
Net investment in capital assets	\$ 433,775,494	\$ 4,305,980	\$ 268,290,027	\$ 201,447,697	\$ 372,931,337
Restricted	17,320,826	46	2,207,025	2,706,964	3,714,170
Unrestricted	99,812,819	(24,313,856)	43,498,542	50,596,134	52,754,004
Total net position	<u>\$ 550,909,139</u>	<u>\$ (20,007,830)</u>	<u>\$ 313,995,594</u>	<u>\$ 254,750,795</u>	<u>\$ 429,399,511</u>

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Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2025 and 2024

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

	2025				
	Electric	Fiber	Gas	Water	Wastewater
Operating revenues	\$ 734,797,909	\$ 17,134,243	\$ 129,653,139	\$ 77,461,933	\$ 119,864,643
Operating expenses	609,935,942	19,073,489	91,962,840	41,146,061	51,971,386
Depreciation and amortization	48,781,855	854,633	17,013,045	13,027,773	26,141,893
Total operating expenses	<u>658,717,797</u>	<u>19,928,122</u>	<u>108,975,885</u>	<u>54,173,834</u>	<u>78,113,279</u>
Operating income (loss)	76,080,112	(2,793,879)	20,677,254	23,288,099	41,751,364
Non-operating expense	<u>(9,715,732)</u>	<u>(1,130,545)</u>	<u>162,818</u>	<u>(4,170,785)</u>	<u>(12,961,384)</u>
Change in net position before capital contributions	66,364,380	(3,924,424)	20,840,072	19,117,314	28,789,980
Capital contributions	-	-	56,342	162,776	1,023,179
Change in net position	<u>66,364,380</u>	<u>(3,924,424)</u>	<u>20,896,414</u>	<u>19,280,090</u>	<u>29,813,159</u>
Net position					
Beginning of year	550,909,139	(20,007,830)	313,995,594	254,750,795	429,399,511
End of year	<u>\$ 617,273,519</u>	<u>\$ (23,932,254)</u>	<u>\$ 334,892,008</u>	<u>\$ 274,030,885</u>	<u>\$ 459,212,670</u>

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

	2024				
	Electric	Fiber	Gas	Water	Wastewater
Operating revenues	\$ 657,034,681	\$ 6,419,654	\$ 114,858,667	\$ 72,896,489	\$ 114,620,879
Operating expenses	561,825,049	12,845,444	82,740,991	41,558,064	53,247,369
Depreciation and amortization	44,066,858	876,983	16,316,365	12,268,290	24,450,486
Total operating expenses	<u>605,891,907</u>	<u>13,722,427</u>	<u>99,057,356</u>	<u>53,826,354</u>	<u>77,697,855</u>
Operating income (loss)	51,142,774	(7,302,773)	15,801,311	19,070,135	36,923,024
Non-operating expense	<u>(4,179,494)</u>	<u>(897,193)</u>	<u>180,973</u>	<u>(3,760,806)</u>	<u>(13,320,989)</u>
Change in net position before capital contributions	46,963,280	(8,199,966)	15,982,284	15,309,329	23,602,035
Capital contributions	-	-	25,106	746,997	1,758,313
Change in net position	<u>46,963,280</u>	<u>(8,199,966)</u>	<u>16,007,390</u>	<u>16,056,326</u>	<u>25,360,348</u>
Net position					
Beginning of year	503,945,859	(11,807,864)	297,988,204	238,694,469	404,039,163
End of year	<u>\$ 550,909,139</u>	<u>\$ (20,007,830)</u>	<u>\$ 313,995,594</u>	<u>\$ 254,750,795</u>	<u>\$ 429,399,511</u>

Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2025 and 2024

Condensed Statement of Cash Flows

	2025				
	Electric	Fiber	Gas	Water	Wastewater
Net cash provided by (used in) operating activities	\$ 129,135,056	\$ (1,305,676)	\$ 37,729,056	\$ 41,517,865	\$ 66,149,808
Net cash used in capital and related financing activities	(95,020,529)	(1,171,648)	(32,432,996)	(43,600,629)	(60,177,004)
Net cash provided by noncapital and related financing activities	-	3,476,539	-	-	-
Net cash provided by (used in) investing activities	(5,409,705)	563,577	1,627,817	2,835,781	3,043,374
Net increase (decrease) in cash and cash equivalents	28,704,822	1,562,792	6,923,877	753,017	9,016,178
Cash and cash equivalents, beginning of year	47,070,494	9,294,082	19,731,406	19,803,587	13,388,680
Cash and cash equivalents, end of year	<u>\$ 75,775,316</u>	<u>\$ 10,856,874</u>	<u>\$ 26,655,283</u>	<u>\$ 20,556,604</u>	<u>\$ 22,404,858</u>

Condensed Statement of Cash Flows

	2024				
	Electric	Fiber	Gas	Water	Wastewater
Net cash provided by (used in) operating activities	\$ 92,117,345	\$ (6,474,842)	\$ 30,963,137	\$ 31,753,906	\$ 62,300,396
Net cash used in capital and related financing activities	(119,138,357)	(1,287,949)	(39,296,368)	(27,460,389)	(80,018,201)
Net cash provided by noncapital and related financing activities	-	4,317,052	-	-	-
Net cash provided by (used in) investing activities	1,603,037	475,018	1,970,823	2,067,529	2,629,789
Net increase (decrease) in cash and cash equivalents	(25,417,975)	(2,970,721)	(6,362,408)	6,361,046	(15,088,016)
Cash and cash equivalents, beginning of year	72,488,469	12,264,803	26,093,814	13,442,541	28,476,696
Cash and cash equivalents, end of year	<u>\$ 47,070,494</u>	<u>\$ 9,294,082</u>	<u>\$ 19,731,406</u>	<u>\$ 19,803,587</u>	<u>\$ 13,388,680</u>

Knoxville Utilities Board

Required Supplementary Information - Schedule of Changes in Net Pension Liability and Related Ratios June 30, 2025

	Year ended December 31									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability										
Service cost	\$ 7,764,986	\$ 8,221,181	\$ 6,349,402	\$ 6,647,220	\$ 5,227,657	\$ 6,142,213	\$ 5,095,488	\$ 4,607,486	\$ 4,226,985	\$ 4,157,062
Interest	18,573,527	17,868,490	17,430,465	16,982,226	16,393,202	16,030,626	15,344,193	15,015,282	14,966,559	14,812,784
Changes of benefit terms	-	-	-	-	-	163,199	-	-	-	-
Differences between expected and actual experience	2,346,811	2,092,475	282,014	1,935,276	1,930,170	(1,054,117)	(605,649)	(1,087,161)	(2,233,762)	(1,890,334)
Changes of assumptions	1,425,345	-	5,268,672	-	-	8,473,160	-	(357,633)	(2,932,883)	-
Benefit payments, including refunds of member contributions	(19,432,811)	(19,237,834)	(17,125,610)	(17,725,963)	(16,006,565)	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)
Net change in total pension liability	10,677,858	8,944,312	12,204,943	7,838,759	7,544,464	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586
Total pension liability - beginning	263,351,035	254,406,723	242,201,780	234,363,021	226,818,557	212,157,951	207,598,733	204,390,738	204,502,350	202,773,764
Total pension liability - ending (a)	\$ 274,028,893	\$ 263,351,035	\$ 254,406,723	\$ 242,201,780	\$ 234,363,021	\$ 226,818,557	\$ 212,157,951	\$ 207,598,733	\$ 204,390,738	\$ 204,502,350
Plan fiduciary net position										
Contributions - employer	\$ 1,659,187	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887
Contributions - participants	4,971,148	5,752,609	3,812,595	3,939,687	2,284,727	3,170,825	2,081,125	1,488,632	555,075	487,546
Net investment income	28,540,651	35,927,438	(63,493,985)	37,575,566	44,814,914	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)
Other additions	738	4,568	9,415	112,484	7,740	13,579	62,616	82,239	45,848	30,879
Benefit payments, including refunds of member contributions	(19,400,811)	(19,193,834)	(17,065,610)	(17,653,963)	(15,962,565)	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)
Administrative expense	(662,847)	(602,078)	(498,988)	(441,017)	(455,191)	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)
Death benefits	(32,000)	(44,000)	(60,000)	(72,000)	(44,000)	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)
Net change in plan fiduciary net position**	15,076,066	23,710,964	(74,151,803)	26,877,185	33,522,377	40,431,737	(21,868,910)	22,862,426	5,052,489	(9,333,204)
Plan fiduciary net position - beginning**	255,898,655	232,187,691	306,339,494	279,462,309	245,939,932	205,508,195	227,377,105	204,514,679	199,462,190	208,795,394
Plan fiduciary net position - ending (b)**	\$ 270,974,721	\$ 255,898,655	\$ 232,187,691	\$ 306,339,494	\$ 279,462,309	\$ 245,939,932	\$ 205,508,195	\$ 227,377,105	\$ 204,514,679	\$ 199,462,190
Plan's net pension liability - ending (a) - (b)	\$ 3,054,172	\$ 7,452,380	\$ 22,219,032	\$ (64,137,714)	\$ (45,099,288)	\$ (19,121,375)	\$ 6,649,756	\$ (19,778,372)	\$ (123,941)	\$ 5,040,160
Plan fiduciary net position as a percentage of the total pension liability	98.89%	97.17%	91.27%	126.48%	119.24%	108.43%	96.87%	109.53%	100.06%	97.54%
Covered payroll	\$ 34,776,504	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743
Plan's net pension liability as a percentage of covered payroll	8.78%	20.93%	59.39%	(168.45%)	(108.61%)	(47.48%)	15.78%	(45.67%)	(0.28%)	11.34%

Notes to Schedule:

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board

Required Supplementary Information - Schedule of Employer Pension Contributions

June 30, 2025

	Year ended December 31									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 1,659,187	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887
Contribution in relation to the actuarially determined contribution	1,659,187	1,866,261	3,144,770	3,416,428	2,876,752	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 34,776,504	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743
Contributions as a percentage of covered payroll	4.77%	5.24%	8.41%	8.97%	6.93%	7.13%	8.20%	9.90%	11.80%	13.48%

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, 2023 and January 1, 2022

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age

Asset valuation method: 5-year smoothed market, adjusted to remain within 20% of the market value

Amortization method: As of January 1, 2023: Level dollar, 30-year closed period with 18 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
As of January 1, 2022: Level dollar, 30-year closed period with 19 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
As of January 1, 2023 and 2022, the unfunded liability was negative.

Discount rate: 7.00% as of January 1, 2023; 7.25% as of January 1, 2022

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

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

Inflation: 2.5%

Please refer to prior year's audited financial statements for prior methods and assumptions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board

Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios June 30, 2025

	2025	2024	2023	*Year ended June 30 2022	2021	2020	2019	2018
Total OPEB liability								
Service cost	\$ 506,802	\$ 615,753	\$ 595,392	\$ 416,277	\$ 283,786	\$ 256,270	\$ 270,515	\$ 202,603
Interest	4,176,096	4,256,122	4,133,008	3,858,276	3,861,304	3,672,291	3,624,737	3,295,240
Change of benefit terms	-	(164,746)	-	6,594,293	-	(202,408)	-	-
Differences between expected and actual experience	(154,501)	587,252	117,668	60,951	42,802	43,902	999,098	1,324,769
Changes of assumptions	(1,302,021)	(2,102,184)	2,527,824	-	(4,105,835)	3,604,843	3,231,601	(397,180)
Benefit payments	(3,594,203)	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	(367,827)	(594,174)	3,100,822	7,021,162	(3,029,122)	4,346,302	4,593,507	1,126,693
Total OPEB liability - beginning	61,042,928	61,637,102	58,536,280	51,515,118	54,544,240	50,197,938	45,604,431	44,477,738
Total OPEB liability - ending (a)	\$ 60,675,101	\$ 61,042,928	\$ 61,637,102	\$ 58,536,280	\$ 51,515,118	\$ 54,544,240	\$ 50,197,938	\$ 45,604,431
Plan fiduciary net position								
Contributions - employer	\$ 1,279,985	\$ 1,187,768	\$ 1,413,392	\$ 1,989,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Net investment income	6,084,906	5,656,390	4,333,538	(8,122,417)	12,890,602	975,155	2,981,928	3,705,473
Benefit payments	(3,594,203)	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(81,246)	(94,379)	(101,186)	(71,187)	(44,496)	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	3,689,442	2,963,408	1,372,674	(10,113,173)	10,492,153	(1,795,403)	(605,303)	355,066
Plan fiduciary net position - beginning	51,669,855	48,706,447	47,333,773	57,446,946	46,954,793	48,750,196	49,355,499	49,000,433
Plan fiduciary net position - ending (b)	\$ 55,359,297	\$ 51,669,855	\$ 48,706,447	\$ 47,333,773	\$ 57,446,946	\$ 46,954,793	\$ 48,750,196	\$ 49,355,499
Net OPEB liability (asset) - ending (a) - (b)	\$ 5,315,804	\$ 9,373,073	\$ 12,930,655	\$ 11,202,507	\$ (5,931,828)	\$ 7,589,447	\$ 1,447,742	\$ (3,751,068)
Plan fiduciary net position as a percentage of the total OPEB liability	91.24%	84.65%	79.02%	80.86%	111.51%	86.09%	97.12%	108.23%
Covered employee payroll**	\$ 89,939,256	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	5.91%	11.21%	18.44%	15.15%	(27.49%)	32.48%	5.95%	(15.84%)

Notes to Schedule:

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

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board

Required Supplementary Information – Schedule of Employer OPEB Contributions

June 30, 2025

	2025	2024	2023	*Year ended June 30 2022	2021	2020	2019	2018
Actuarially determined contribution	\$ 1,279,985	\$ 1,187,768	\$ 1,413,392	\$ 489,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Contribution in relation to the annual required contribution	1,279,985	1,187,768	1,413,392	1,989,066	757,226	311,324	-	-
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,500,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll*	\$ 89,939,256	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Contributions as a percentage of covered employee payroll	1.42%	1.42%	2.02%	2.69%	3.51%	1.33%	0.00%	0.00%

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

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

Notes to Schedule:

Valuation Date: January 1, 2023 and January 1, 2022
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: 15-year layered amortization bases for annual changes in the unfunded liabilities as of January 1, 2022 and 2023; 30-year rolling amortization for a funding surplus; As of January 1, 2022 and 2023, there was an unfunded liability
Discount rate: 7.25% and 7.00% as of January 1, 2022 and 2023, respectively
Healthcare cost trend rate: Pre-Medicare: 5.75% in 2022 and 5.70% in 2023 grading down to 3.935% in 2042 and beyond using the Getzen trend model
Medicare: 11.30% in 2022 and 7.40% in 2023 grading down to 3.935% in 2042 and beyond using the Getzen trend model
Administrative expenses: 3.0% per year
Salary increases: From 2.50% to 5.65%, based on years of service
Mortality: 115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational
Inflation: 2.5%
Investment rate of return: 7.25% and 7.00% as of January 1, 2022 and 2023, respectively
Retirement age: 2% at ages 50-57, grading up to 100% at age 70

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board

Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement

Schedule of Changes in Total Pension Liability and Related Ratios

June 30, 2025

	*Year ended December 31								
	2024	2023	2022	2021	2020	2019	2018	2017	2016
Total pension liability									
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 941	\$ 584	\$ -
Interest (includes interest on service cost)	-	-	-	268	388	9,181	9,676	7,535	-
Changes of benefit terms	-	-	-	-	-	(218,272)	-	-	185,077
Differences between expected and actual experience	21,226	-	-	(6,816)	10,165	34	(36,125)	13,684	-
Changes of assumptions	-	-	-	-	91	13,342	(22,950)	73,461	-
Benefit payments, including refunds of member contributions	-	-	-	(12,166)	(12,166)	(15,932)	-	-	-
Net change in total pension liability	<u>21,226</u>	<u>-</u>	<u>-</u>	<u>(18,714)</u>	<u>(1,522)</u>	<u>(211,647)</u>	<u>(48,458)</u>	<u>95,264</u>	<u>185,077</u>
Total pension liability - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,714</u>	<u>20,236</u>	<u>231,883</u>	<u>280,341</u>	<u>185,077</u>	<u>-</u>
Total pension liability - ending	<u>\$ 21,226</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,714</u>	<u>\$ 20,236</u>	<u>\$ 231,883</u>	<u>\$ 280,341</u>	<u>\$ 185,077</u>
Covered payroll	\$ 34,776,504	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747
Total pension liability as a percentage of covered payroll	0.06%	0.00%	0.00%	0.00%	0.05%	0.05%	0.55%	0.65%	0.42%

Notes to Schedule:

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board
Supplemental Information
Schedule of Expenditures of Federal Awards
June 30, 2025

<u>Federal Grantor/ Pass-Through Grantor</u>	<u>Program Name</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. Department of Treasury through Knox County	COVID-19: Coronavirus State and Local Fiscal Recovery Fund	21.027	DW-COSTR-1	\$ 1,240,000
U.S. Department of Treasury through Tennessee Department of Economic and Community Development	COVID-19: Tennessee Emergency Broadband Fund - American Rescue Plan - Union County	21.027	33007-44923	\$ 1,564,243
U.S. Department of Treasury through Tennessee Department of Economic and Community Development	COVID-19: Tennessee Emergency Broadband Fund - American Rescue Plan - Sevier County	21.027	33007-44823	\$ 2,966,528
U.S. Department of Treasury through Tennessee Department of Economic and Community Development	COVID-19: Tennessee Emergency Broadband Fund - American Rescue Plan - Jefferson County	21.027	33007-44723	\$ 395,860
		Total Program 21.027		\$ 6,166,631
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	FEMA-4832-DR-TN	\$ 253,685
		Total Program 97.036		\$ 253,685
		Total Federal Awards		\$ 6,420,316

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards and State Financial Assistance includes the award activity of Knoxville Utilities Board (KUB) under programs of the federal government for the year ended June 30, 2025, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State of Tennessee Audit Manual. KUB did not elect to use 10% de minimis indirect cost rate.

See accompanying Independent Auditor's Report

Knoxville Utilities Board
Supplemental Information
Combining Statement of Fiduciary Net Position – Pension Plan and OPEB Trust
June 30, 2025

	2025			2024		
	Pension Plan	Other Post Employment Benefits Trust	Total Fiduciary Funds	Pension Plan	Other Post Employment Benefits Trust	Total Fiduciary Funds
Assets						
Cash and cash equivalents	\$ 1,342,162	\$ 206,322	\$ 1,548,484	\$ 1,405,069	\$ 205,587	\$ 1,610,656
Interest and dividends receivable	262,693	-	262,693	546,051	-	546,051
Due from broker for investment sales	53,000	-	53,000	209,328	-	209,328
Prepaid assets	-	10,000	10,000	-	10,000	10,000
Investments at fair value	269,625,598	56,112,410	325,738,008	254,345,234	52,337,619	306,682,853
Total assets	271,283,453	56,328,732	327,612,185	256,505,682	52,553,206	309,058,888
Liabilities						
Accounts payable	255,732	31,650	287,382	337,161	29,357	366,518
Due to broker for investment purchases	53,000	-	53,000	269,866	-	269,866
Benefit obligations	-	937,785	937,785	-	853,994	853,994
Total liabilities	308,732	969,435	1,278,167	607,027	883,351	1,490,378
Net position restricted for Pensions and Other Post Employment Benefits	\$270,974,721	\$ 55,359,297	\$ 326,334,018	\$255,898,655	\$ 51,669,855	\$ 307,568,510

See accompanying Independent Auditor's Report

Knoxville Utilities Board
Supplemental Information
Combining Statement of Changes in Fiduciary Net Position – Pension Plan and OPEB Trust
June 30, 2025

	2025			2024		
	Pension Plan	Other Post Employment Benefits Trust	Total Fiduciary Funds	Pension Plan	Other Post Employment Benefits Trust	Total Fiduciary Funds
Additions						
Contributions:						
Employer	\$ 1,659,187	\$ 1,279,985	\$ 2,939,172	\$ 1,866,261	\$ 1,187,768	\$ 3,054,029
Participants	4,971,148	-	4,971,148	5,752,609	-	5,752,609
Total contributions	6,630,335	1,279,985	7,910,320	7,618,870	1,187,768	8,806,638
Investment income:						
Net change in fair value of investments	22,943,115	6,158,453	29,101,568	29,608,677	5,707,892	35,316,569
Less investment expenses	(190,635)	(73,547)	(264,182)	(355,209)	(51,502)	(406,711)
Interest income	1,552,208	-	1,552,208	2,443,138	-	2,443,138
Dividend income	4,235,963	-	4,235,963	4,230,832	-	4,230,832
Net investment income	28,540,651	6,084,906	34,625,557	35,927,438	5,656,390	41,583,828
Other	738	-	738	4,568	-	4,568
Total net additions	35,171,724	7,364,891	42,536,615	43,550,876	6,844,158	50,395,034
Deductions						
Benefit payments	19,400,811	3,246,184	22,646,995	19,193,834	3,469,945	22,663,779
Claims processing fees	-	348,019	348,019	-	316,426	316,426
General and administrative expenses	662,847	81,246	744,093	602,078	94,379	696,457
Death benefits	32,000	-	32,000	44,000	-	44,000
Total deductions	20,095,658	3,675,449	23,771,107	19,839,912	3,880,750	23,720,662
Change in net position	15,076,066	3,689,442	18,765,508	23,710,964	2,963,408	26,674,372
Net position restricted for Pensions and Other Post Employment Benefits						
Beginning of the year	255,898,655	51,669,855	307,568,510	232,187,691	48,706,447	280,894,138
End of the year	<u>\$270,974,721</u>	<u>\$ 55,359,297</u>	<u>\$ 326,334,018</u>	<u>\$255,898,655</u>	<u>\$ 51,669,855</u>	<u>\$307,568,510</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board
Statistical Information – Schedule of Insurance in Force
June 30, 2025
(Unaudited)

Crime

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

Directors' and Officers' Liability Insurance

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

Employment Practices Liability

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

Fiduciary

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

Environmental and Pollution Legal Liability

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

Property Insurance

This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - \$250,000,000 per occurrence (subject to certain sub limits); \$3,500,000 deductible per occurrence.

Travel Accident

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

Excess Insurance for General Liability

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

Excess Insurance for Workers' Compensation

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

Employee Health Plan Stop Loss Coverage

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses for more than \$700,000 per individual participant.

Cyber Security Liability

Liability coverage resulting from losses related to a covered event such as data breaches, ransomware, regulatory fines, cyber extortion, business interruption and other cyber-related events. Limits of coverage - \$5,000,000; \$500,000 deductible.

Drone

Liability coverage resulting from losses related to bodily injury or damaged property arising out of the ownership, maintenance, or use of a drone aircraft. Limits of coverage - \$2,000,000.

See accompanying Independent Auditor's Report

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Commissioners
Knoxville Utilities Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the Knoxville Utilities Board (KUB), a component unit of the City of Knoxville, Tennessee, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements, and have issued our report thereon dated October 17, 2025.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

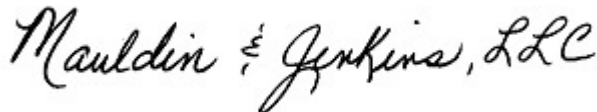
As part of obtaining reasonable assurance about whether KUB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2025-001.

Knoxville Utilities Board Response to Finding

Government Auditing Standards require the auditor to perform limited procedures on KUB's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. KUB's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.



Chattanooga, Tennessee
October 17, 2025

SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2025

Financial Statements

Noncompliance material to financial statements noted? yes X no

KNOXVILLE UTILITIES BOARD

SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2025

SECTION II FINANCIAL STATEMENT FINDINGS

2025-001 Timekeeping Discrepancy

Criteria: Knoxville Utilities Board internally identified an allegation that an employee in the Water Systems Engineering Department was falsifying time entered into the time-keeping software and was being paid for hours worked for which the employee was not actually working. This allegation was investigated by KUB's internal management team and they initiated a review due to potential timekeeping discrepancies and unearned compensation related to the employee.

Condition: A preliminary review of time records over a four-week period indicated that an employee logged 25 hours with no physical presence or documented work activity. The employee was interviewed and confirmed that he received training and understood the expectations of accurate timekeeping. After the employee's resignation, a comprehensive review of timekeeping records was conducted.

Context/Cause: The comprehensive review found the employee falsified 256.25 hours and was overpaid in the amount of \$9,240.

Effects: False time reporting resulted in a financial loss to the organization in the form of unearned compensation paid to the employee.

Recommendation: We recommend KUB continue to monitor all employee time that is logged in remotely compared to on-site and continue to enhance the review and approval of all remotely accessed time stamps. This could also include regular, unannounced checks to verify employee presence and work activities, as well as a reconciliation process between time logs and project deliverables or documented tasks.

Auditee's Response: Management is working to implement new controls to prevent similar issues in the future.



Electric Division

Financial Statements and Supplemental Information June 30, 2025 and 2024

KUB Board of Commissioners

Cynthia Gibson, Chair

Ron Feinbaum

Celeste Herbert

Dr. Craig Pickett, Jr.

Claudia Caballero, Vice Chair

Kathy Hamilton

Phyllis Nichols

Management

Gabriel Bolas II

President and Chief Executive Officer

Mark Walker

Senior Vice President and Chief Financial Officer

Jamie Davis

Senior Vice President Fiber and Chief Technology Officer

John Gresham

Senior Vice President and Chief Engineering and
Operations Officer

John Williams

Senior Vice President and Chief Infrastructure and
Compliance Officer

Tiffany Martin

Senior Vice President and Chief Customer and Talent Officer

Erin Gill

Vice President Communications and External Relations

Knoxville Utilities Board Electric Division

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June 30, 2025 and 2024

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Electric Division of the Knoxville Utilities Board

Report on the Audit of the Financial Statements

Opinion

We have audited 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 years ended June 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Division as of June 30, 2025 and 2024, and the changes in financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

-
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Division's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-28, the schedule of changes in net pension liability and related ratios, the schedule of employer pension contributions, the schedule of changes in net OPEB liability and related ratios, the schedule of employer OPEB contributions and the schedule of changes in total pension liability and related ratios - qualified governmental excess benefit arrangement on pages 70-74 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's basic financial statements. The schedule of debt maturities by fiscal year, the schedule of changes in long-term debt by individual issue, and the schedule of changes in lease liability are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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.

The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of debt maturities by fiscal year, the schedule of changes in long-term debt by individual issue, and schedule of changes in lease liabilities are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the statistical information but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Emphasis of Matter

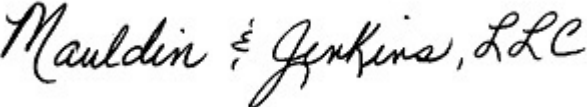
As discussed in Note 1, the financial statements present only the Electric Division and do not purport to, and do not, present fairly the financial position of the Knoxville Utilities Board, as of June 30, 2025 and 2024, and the changes in its financial position and its cash flows for the years then 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 Matter

The financial statements of the Division as of June 30, 2024, were audited by other auditors whose report dated October 23, 2024, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2025, 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 the Division's 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.



Chattanooga, Tennessee
October 17, 2025

Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Knoxville Utilities Board (KUB), comprised of the Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. 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 as of June 30, 2025, and 2024, 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, 2025, 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 continued to make progress on the construction of its fiber network during fiscal year 2025, marking the fourth year of the planned seven-year deployment.

KUB serves 226,224 electric customers over a 689 square mile service area and maintains 5,570 miles of service lines and 64 electric substations to provide 6.1 million megawatt hours to its customers annually.

The electric system's record peak demand remains 1,350.5 megawatts, set in January 2024.

KUB has added 10,960 electric system customers over the past three years, representing annual growth of 1.7 percent. In fiscal year 2025, 4,279 customers were added.

The typical residential customer's average monthly electric bill was \$134.68 as of June 30, 2025, representing an increase of \$10.44 compared to June 30, 2024. Bill levels are based on 1,000 kwh of monthly power use. The increase in the monthly bill during fiscal year 2025 was the result of the flow through of TVA wholesale rate adjustments, increased residential volume, and both the April 2024 and the April 2025 rate increases.

On August 24, 2024, TVA's board voted to approve a 5.25 percent electric base rate increase effective October 1, 2024. The increase flowed directly to KUB's electric customers.

In September 2023, KUB elected to participate in TVA's Power Supply Expanded Flexibility Program which will allow KUB to produce up to 5 percent of KUB's electric energy supply. The goals of this program include achieving significant power cost savings, advancing the goal to generate 400 megawatts of renewable energy by 2030, and demonstrating KUB's commitment to a cleaner environment. During the fiscal year, KUB contracted three TVA Flexibility projects. These include a TVA Green Invest Flexibility Conversion for 20 megawatts which began January 2025, a joint project with EPB and SR Durhamville for 33 megawatts

Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

June 30, 2025 and 2024

beginning June 2028, and a short-term Biomass contract that will scale down as future solar resources come online. KUB also received Board approval in June 2025 for a fourth Flexibility contract, securing a 21 megawatts local project to be hosted at Cemex.

In the fall of 2024, KUB completed installation of two public fast-charging stations for electric vehicles in Downtown Knoxville and Seymour. These stations were installed as part of TVA's Fast Charge Tennessee Network. Since going live, they have provided over 3,000 charging sessions for electric vehicle drivers in the Knoxville region.

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 investment.

In September 2021, the Board approved three electric rate increases to support the Century II program and the expanded fiber network. The three approved 3 percent electric rate increases went into effect April 2022, April 2023, April 2024, generating \$16.7 million, \$17.4 million, and \$18 million in additional annual Electric Division revenue, respectively.

In June 2024, as part of KUB's Inflation Response Plan, the Board approved the next phase of electric rate increases to support the Century II program and the expanded fiber network. The first of three approved electric rate increases took effect in April 2025 generating additional annual Electric Division revenue of \$26 million. The remaining rate increases, effective April 2026 and April 2027, are expected to provide \$20.7 million and \$14.2 million in additional annual Electric Division revenue, respectively.

During the fiscal year, KUB replaced 8 miles of transmission lines, and 5.3 miles of underground cable.

Fiber Network

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

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

As a component of the Fiber Division's start-up financing plan, approved by KUB's Board and TVA, the Electric Division will provide \$55 million of interdivisional loans. The first \$10 million was provided in October 2021, \$7 million was provided in August 2022, \$13 million was provided in February 2023, and \$5 million

Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

June 30, 2025 and 2024

was provided in May 2024, all maturing in June 2030. The Electric Division issued a \$2 million loan in May 2024, and a \$7 million loan in December 2024 to the Fiber Division, both maturing in June 2032.

In fiscal year 2022, KUB began the seven-year buildout on extending fiber infrastructure to make broadband service available to electric customers. The first broadband customers began receiving service in September 2022.

The Tennessee Emergency Broadband Fund selected KUB for a grant of \$15.3 million to assist in the provision of broadband access to Grainger, Jefferson, Sevier, and Union Counties. As of June 30, 2025, KUB has received \$10.6 million in reimbursements.

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

Financial Highlights

Fiscal Year 2025 Compared to Fiscal Year 2024

The Division's Change in Net Position increased \$66.4 million in fiscal year 2025. Comparatively, net position increased \$47 million in fiscal year 2024.

Operating revenue increased \$77.8 million, or 11.8 percent over the prior fiscal year. The increase in operating revenue was the net result of a 3 percent increase in billed sales, additional revenue from the April 2024 and April 2025 rate increases, and the impact of TVA's 5.25 percent rate increase, which increased wholesale power costs. KUB flows changes to wholesale power rates directly through to its retail electric rates via its Purchased Power Adjustment.

Seventy percent of Electric Division sales revenue was used to purchase electric power from TVA for the fiscal year ended June 30, 2025. Purchased power expense increased \$50.3 million compared to last fiscal year due to higher customer demand and increased wholesale power costs resulting from TVA's rate increase.

Margin on electric sales (operating revenue less purchased power expense) increased \$27.4 million or 13.1 percent, reflecting additional revenue from the KUB rate increases and increased purchased power expense.

Operating expenses (excluding purchased power expense) increased \$2.5 million. Operating and maintenance (O&M) expenditures decreased \$0.9 million. Depreciation and amortization expense increased \$4.7 million, or 10.7 percent. Taxes and tax equivalents were \$1.4 million lower than the prior fiscal year.

Interest income increased \$1.8 million compared to the prior fiscal year, driven by higher cash balances and the replacement of maturing low-yield investments with new investments at significantly higher rates, despite a modest decline in overall interest rates. Interest expense increased \$4.3 million, or 26 percent, due to new revenue bonds sold during fiscal year 2025 and interest on increased levels of customer deposits.

Total capital assets (net) increased \$101.2 million, or 11.5 percent over the end of the last fiscal year, reflecting the fiber network buildout and other distribution system improvements as part of KUB's Century II electric program.

KUB sold \$91 million in electric system revenue bonds in July 2024 for the purpose of funding electric system capital improvements.

Knoxville Utilities Board Electric Division Management's Discussion and Analysis June 30, 2025 and 2024

Long-term debt represented 43.9 percent of the Division's capital structure as of June 30, 2025, compared to 42.6 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. Debt coverage for the current fiscal year was 4.24. Maximum debt service coverage for future fiscal years is 3.99.

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's Change in Net Position increased \$47 million in fiscal year 2024. Comparatively, net position increased \$31.4 million in fiscal year 2023.

Operating revenue decreased \$3.2 million or 0.5 percent over the prior fiscal year. The decrease in operating revenue was the net result of a 0.6 percent increase in billed sales, additional revenue from the April 2024 rate increase, and a decrease to wholesale power costs. KUB flows changes to wholesale power rates directly through to its retail electric rates via its Purchased Power Adjustment.

Seventy percent of Electric Division sales revenue was used to purchase electric power from TVA for the fiscal year ended June 30, 2024. Purchased power expense decreased \$28.9 million compared to last fiscal year due to lower wholesale power costs.

Margin on electric sales (operating revenue less purchased power expense) increased \$25.7 million or 13.9 percent, reflecting lower purchased power expense.

Operating expenses (excluding purchased power expense) increased \$12.5 million. Operating and maintenance (O&M) expenditures increased \$7.4 million. Depreciation and amortization expense increased \$3.4 million or 8.4 percent. Taxes and tax equivalents were \$1.7 million higher than the prior fiscal year.

Interest income was \$1.8 million higher than the prior fiscal year, due to higher interest rates throughout the year. Interest expense increased \$3 million or 21.9 percent, reflecting interest expense from new revenue bonds sold during fiscal year 2024.

Total capital assets (net) increased \$98.8 million or 12.6 percent over the end of the last fiscal year, reflecting the fiber network buildout and other distribution system improvements as part of KUB's Century II electric program.

KUB sold \$55 million in electric system revenue bonds in November 2023 for the purpose of funding electric system capital improvements.

Long-term debt represented 42.6 percent of the Division's capital structure as of June 30, 2024, compared to 42.3 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. Debt coverage for the current fiscal year was 4.01.

Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

June 30, 2025 and 2024

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, intangible, or other assets.

Liabilities are classified as current, other, or long-term debt. Net position is classified as net investment in capital assets, restricted, or unrestricted. Net position tells the user what 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 and intangible assets, less lease and subscription liabilities and the outstanding balances of debt used to acquire, construct, or improve those assets.

Restricted net position includes assets that have been limited to specific uses by 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, non-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.

Knoxville Utilities Board Electric Division
Management's Discussion and Analysis
June 30, 2025 and 2024

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

<i>(in thousands of dollars)</i>	2025	2024	2023
Current, restricted, intangible, and other assets	\$ 323,647	\$ 268,835	\$ 261,254
Capital assets, net	984,470	883,282	784,490
Total assets	<u>1,308,117</u>	<u>1,152,117</u>	<u>1,045,744</u>
Deferred outflows of resources	8,718	14,930	25,734
Total assets and deferred outflows of resources	<u>1,316,835</u>	<u>1,167,047</u>	<u>1,071,478</u>
Current and other liabilities	191,375	184,859	179,110
Long-term debt outstanding	500,743	424,501	384,667
Total liabilities	<u>692,118</u>	<u>609,360</u>	<u>563,777</u>
Deferred inflows of resources	7,444	6,778	3,755
Total liabilities and deferred inflows of resources	<u>699,562</u>	<u>616,138</u>	<u>567,532</u>
Net position			
Net investment in capital assets	458,505	433,775	376,865
Restricted	16,441	17,321	15,471
Unrestricted	142,327	99,813	111,610
Total net position	<u>\$ 617,273</u>	<u>\$ 550,909</u>	<u>\$ 503,946</u>

Normal Impacts on Statement of Net Position

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

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

Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Impacts and Analysis

Current, Restricted, Intangible, and Other Assets

Fiscal Year 2025 Compared to Fiscal Year 2024

Current, restricted, intangible, and other assets increased \$54.8 million, or 20.4 percent. The change reflects a \$37.1 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments), \$14.4 million increase in accounts receivable, and a \$5 million increase in notes receivable (including current portion). These increases were offset by a \$2.7 million decrease in inventories,

KUB under recovered \$5.9 million in wholesale power costs from its customers in fiscal year 2025, as compared to a \$5.1 million under recovered in fiscal year 2024. This under recovery of costs will be charged to KUB's electric customers during the next fiscal year through adjustments to rates via the Purchased Power Adjustment.

Fiscal Year 2024 Compared to Fiscal Year 2023

Current, restricted, intangible, and other assets increased \$7.6 million, or 2.9 percent. The change reflects an \$11.6 million increase in accounts receivable, a \$5.2 million increase in notes receivable, a \$3.6 million increase in inventories, a \$2.9 million increase in electric bond fund, and a \$2.4 million increase in lease receivables. These increases were offset by a \$22.3 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments).

KUB under recovered \$5.1 million in wholesale power costs from its customers in fiscal year 2024, as compared to a \$3.5 million over recovery in fiscal year 2023. This under recovery of costs will be charged to KUB's electric customers during the next fiscal year through adjustments to rates via the Purchased Power Adjustment.

Capital Assets

Fiscal Year 2025 Compared to Fiscal Year 2024

Capital assets, net of depreciation, increased \$101.2 million, or 11.5 percent. Major capital expenditures included \$76.3 million for the fiber network buildout, \$27.8 million for distribution system improvements, \$22.7 million for installation or replacement of electric services, \$8.9 million for pole replacements, \$4.3 million for auto and truck purchases, and \$3.2 million for building improvements. Electric system assets of \$9.6 million were retired in fiscal year 2025.

Fiscal Year 2024 Compared to Fiscal Year 2023

Capital assets, net of depreciation, increased \$98.8 million, or 12.6 percent. Major capital expenditures included \$67.7 million for the fiber network buildout, \$32.3 million for distribution system improvements, \$17.6 million for installation or replacement of electric services, \$7.3 million for pole replacements, \$3.9 million for auto and truck purchases, and \$2.5 million for building improvements. Electric system assets of \$20.1 million were retired in fiscal year 2024.

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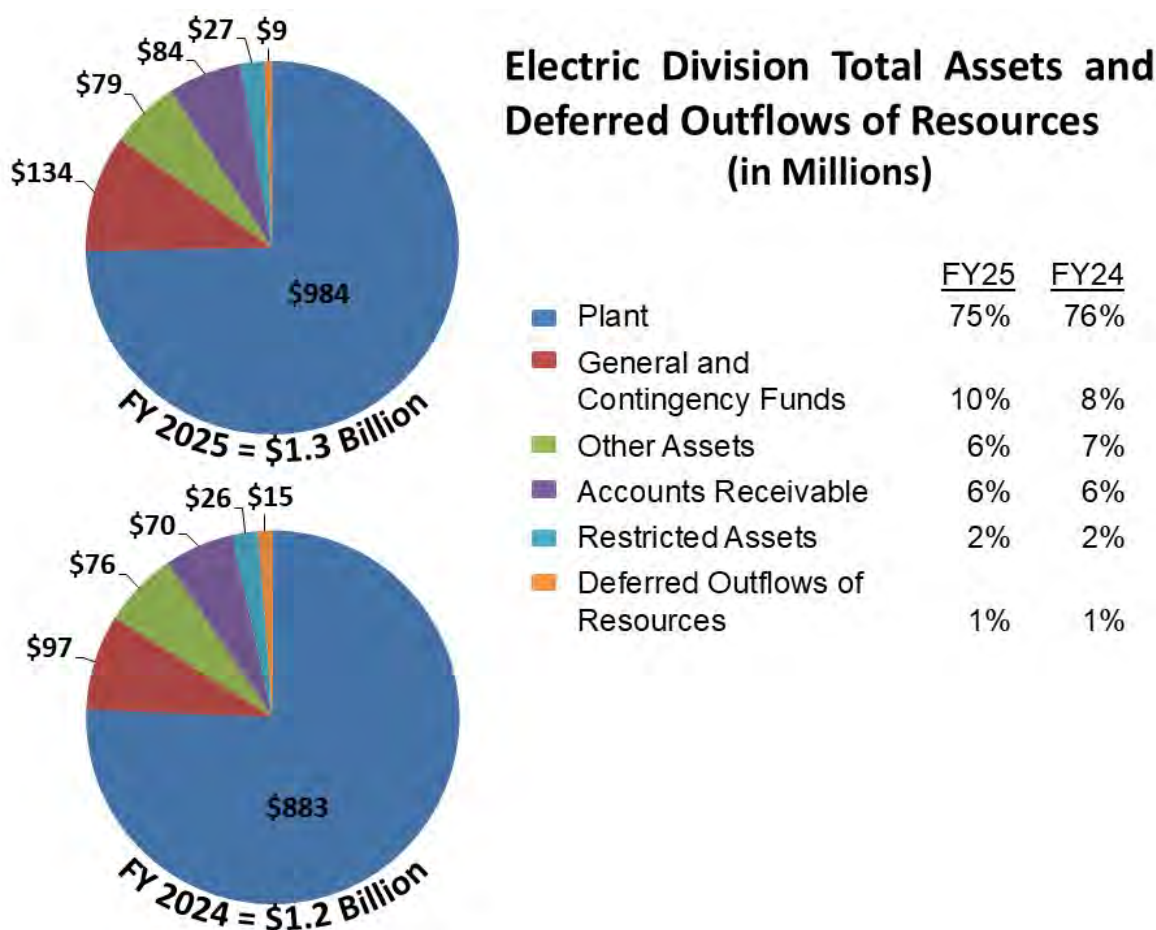
Deferred Outflows of Resources

Fiscal Year 2025 Compared to Fiscal Year 2024

Deferred outflows of resources decreased \$6.2 million compared to the prior fiscal year, due to a decrease in pension outflow of \$5.9 million and a decrease in OPEB outflow of \$0.3 million.

Fiscal Year 2024 Compared to Fiscal Year 2023

Deferred outflows of resources decreased \$10.8 million compared to the prior fiscal year, due to a decrease in pension outflow of \$9.6 million and a decrease in OPEB outflow of \$1.2 million.



Current and Other Liabilities

Fiscal Year 2025 Compared to Fiscal Year 2024

Current and other liabilities increased \$6.5 million. This increase was primarily due to a \$3.7 million rise in accrued expenses, a \$3.4 million increase in payables, a \$1.8 million increase in customer advances related to construction projects, a \$1.5 million increase in accrued interest on revenue bonds, and a \$1.2 million increase in customer deposits. Offsetting these increases were a \$2.1 million reduction in the actuarially determined net pension liability, a \$1.8 million decrease in the net OPEB liability, and a \$0.9 million decrease in the current portion of revenue bonds.

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Fiscal Year 2024 Compared to Fiscal Year 2023

Current and other liabilities increased \$5.7 million. Payables increased \$13.2 million, the current portion of revenue bonds increased \$1.9 million, accrued expenses increased \$1.5 million, and accrued interest on revenue bonds increased \$1 million. These increases were offset by a decrease of \$7 million in the actuarially determined net pension liability, a \$3.5 million decrease in over recovered purchased power cost, and a \$1.6 million decrease in the actuarially determined net OPEB liability. The outstanding balance on TVA conservation loans declined by \$0.2 million, as KUB ceased issuance of any new loans in fiscal year 2016.

Long-Term Debt

Fiscal Year 2025 Compared to Fiscal Year 2024

Long-term debt increased \$76.2 million, or 18 percent. The increase is due in part to the net impact of the issuance of \$91 million of electric system revenue bonds in July 2024 offset by the scheduled repayment of debt.

Fiscal Year 2024 Compared to Fiscal Year 2023

Long-term debt increased \$39.8 million, or 10.4 percent. The increase is due in part to the net impact of the issuance of \$55 million of electric system revenue bonds in November 2023 offset by the scheduled repayment of debt.

Deferred Inflows of Resources

Fiscal Year 2025 Compared to Fiscal Year 2024

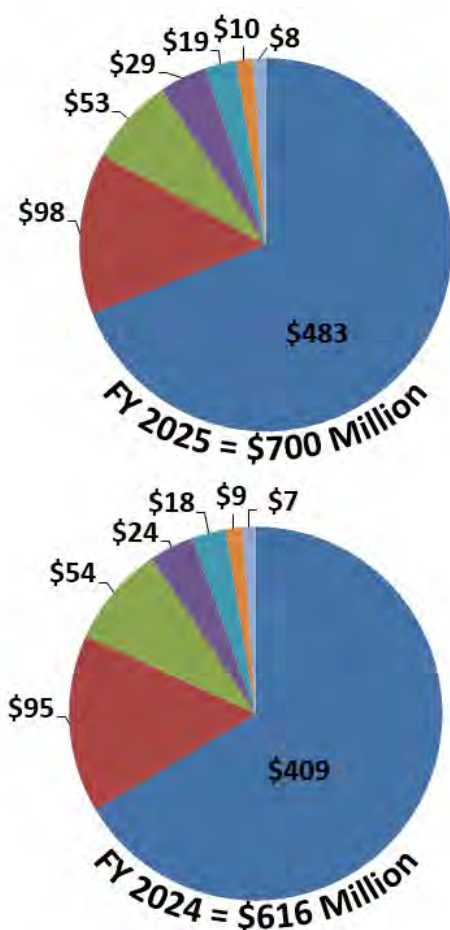
Deferred inflows increased \$0.7 million compared to the prior fiscal year, due to an increase to OPEB inflow of \$1.2 million offset by a decrease to lease inflow of \$0.5 million.

Fiscal Year 2024 Compared to Fiscal Year 2023

Deferred inflows increased \$3 million compared to the prior fiscal year, due to an increase to lease inflow of \$2.3 million, and an increase to OPEB inflow of \$0.8 million.

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Knoxville Utilities Board Electric Division
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June 30, 2025 and 2024



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

	<u>FY25</u>	<u>FY24</u>
Bond Debt	69%	67%
Payables	14%	15%
Other Liabilities	8%	9%
Misc Current	4%	4%
Customer Deposits	3%	3%
Interest Accrued	1%	1%
Deferred Inflows of Resources	1%	1%

Net Position

Fiscal Year 2025 Compared to Fiscal Year 2024

Total net position increased \$66.4 million, or 12 percent. Net investment in capital assets increased by \$24.7 million or 5.7 percent. The change was primarily the result of an increase of \$101.2 million in net electric plant additions offset by an increase in the electric revenue bonds outstanding of \$73.7 million. Restricted net position decreased \$0.9 million, due to the net decrease of the electric bond fund and the associated interest payable. Unrestricted net position increased \$42.5 million, primarily due to an increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) of \$37.1 million and an increase in accounts receivable of \$14.4 million.

Fiscal Year 2024 Compared to Fiscal Year 2023

Total net position increased \$47 million, or 9.3 percent. Net investment in capital assets increased by \$56.9 million or 15.1 percent. The change was primarily the result of an increase of \$98.8 million in net electric plant additions offset by an increase in the electric revenue bonds outstanding of \$39.5 million. Restricted net position increased \$1.9 million, due to the net increase of the electric bond fund and the associated interest payable. Unrestricted net position decreased \$11.8 million, primarily due to a decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) of \$22.3 million offset by an increase in accounts receivable of \$11.6 million.

Knoxville Utilities Board Electric Division
Management's Discussion and Analysis
June 30, 2025 and 2024

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

<i>(in thousands of dollars)</i>	2025	2024	2023
Operating revenues	\$ 734,798	\$ 657,035	\$ 660,232
Less: Purchased power expense	497,351	447,013	475,900
Margin from sales	<u>237,447</u>	<u>210,022</u>	<u>184,332</u>
Operating expenses			
Distribution	55,429	57,375	51,183
Customer service	3,887	3,761	6,102
Administrative and general	32,968	32,025	28,546
Depreciation and amortization	48,782	44,067	40,651
Taxes and tax equivalents	20,301	21,651	19,919
Total operating expenses	<u>161,367</u>	<u>158,879</u>	<u>146,401</u>
Operating income	<u>76,080</u>	<u>51,143</u>	<u>37,931</u>
Interest income	8,527	6,687	4,879
Interest expense	(20,787)	(16,498)	(13,538)
Other income/(expense)	2,544	5,631	2,149
Change in net position	<u>\$ 66,364</u>	<u>\$ 46,963</u>	<u>\$ 31,421</u>

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

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

- Operating revenue is largely determined by 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 and amortization expense is impacted by intangible assets, 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.

Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

June 30, 2025 and 2024

- 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 2025 Compared to Fiscal Year 2024

The Division's Change in Net Position increased \$66.4 million in fiscal year 2025. Comparatively, net position increased \$47 million in fiscal year 2024.

The higher earnings were attributable to the net effect of a \$27.4 million increase in margin on sales offset by a \$2.5 million increase in operating expenses and a \$5.5 million increase in non-operating expenses.

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's Change in Net Position increased \$47 million in fiscal year 2024. Comparatively, net position increased \$31.4 million in fiscal year 2023.

The higher earnings were attributable to the net effect of a \$25.7 million increase in margin on sales offset by a \$12.5 million increase in operating expenses and a \$2.3 million decrease in non-operating expenses.

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Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

June 30, 2025 and 2024

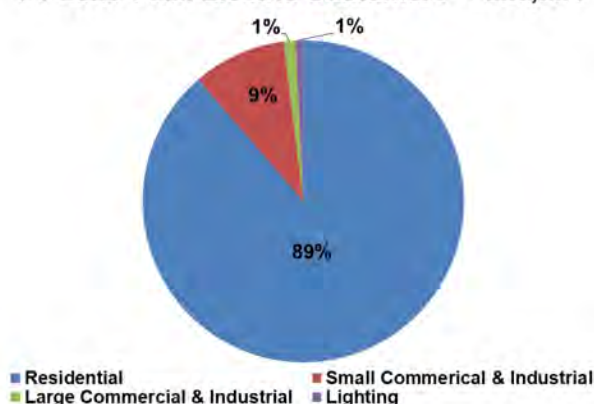
Margin from Sales

Fiscal Year 2025 Compared to Fiscal Year 2024

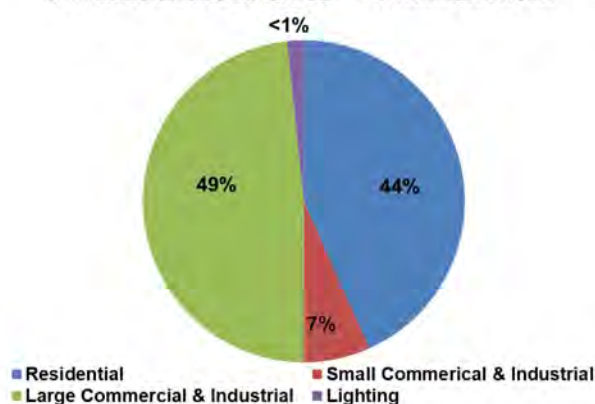
Margin on electric sales grew \$27.4 million, reflecting additional revenue from KUB's rate increases and higher purchased power expense.

Operating revenue increased \$77.8 million, or 11.8 percent. This increase was driven by a 3 percent increase in billed power sales and additional revenue from KUB's April 2024 and April 2025 rate increases. Purchased power expense increased \$50.3 million from the prior year due to higher customer demand and increased wholesale power costs resulting from TVA's 5.25 percent rate increase. KUB received \$10.4 million as a result of TVA's Long-Term Partnership Credit and \$0.6 million in a Flexibility Energy Credit, which decreased power expenses by \$11 million in the current fiscal year.

FY 2025 Total Electric Customers = 226,224



FY 2025 Electric Sales = 6 million MWh



Residential customers represented 89 percent of total electric system customers and accounted for 44 percent of electric sales volumes for the year. Large commercial and industrial customers accounted for 49 percent of electric sales volumes.

KUB's ten largest electric customers accounted for 24 percent of KUB's billed volumes. Those ten customers represent four industrial and six commercial customers, including four governmental customers. KUB's largest industrial customer accounted for 9.2 percent of total electric system sales.

KUB has added 10,960 electric system customers over the past three years, representing annual growth of 1.7 percent. Electric billed sales volumes have increased less than one percent over the past three years. Fiscal year 2025 customer growth was 4,279.

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Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

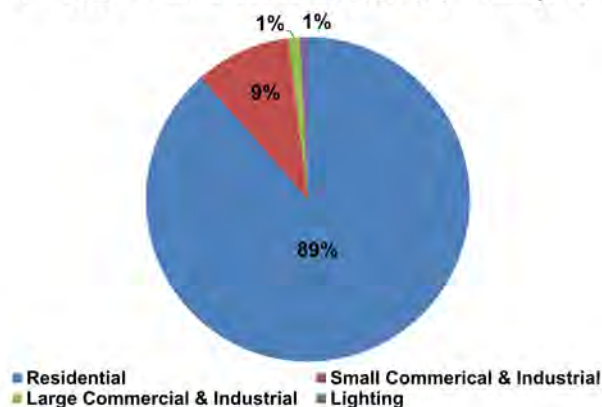
June 30, 2025 and 2024

Fiscal Year 2024 Compared to Fiscal Year 2023

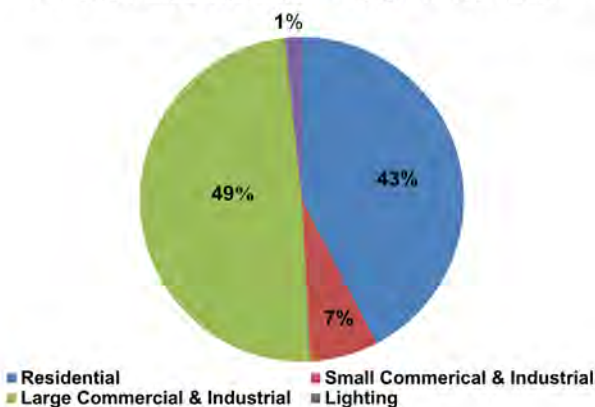
Margin on electric sales grew \$25.7 million, reflecting lower purchased power expense.

Operating revenue decreased \$3.2 million, or 0.5 percent. Billed power sales increased 0.6 percent compared to fiscal year 2023. Purchased power expense decreased \$28.9 million from the prior year due to changes in wholesale power costs and the flow through of the prior fiscal year's over recovered purchased power costs. KUB received \$9.7 million as a result of TVA's Long-Term Partnership Credit, which decreased power expenses in the current fiscal year.

FY 2024 Total Electric Customers = 221,945



FY 2024 Electric Sales = 5.8 million MWh



Residential customers represented 89 percent of total electric system customers and accounted for 43 percent of electric sales volumes for the year. Large commercial and industrial customers accounted for 49 percent of electric sales volumes.

KUB's ten largest electric customers accounted for 25 percent of KUB's billed volumes. Those ten customers represent three industrial and seven commercial customers, including four governmental customers. KUB's largest industrial customer accounted for 9.1 percent of total electric system sales.

KUB has added 8,937 electric system customers over the past three years, representing annual growth of 1.4 percent. Electric billed sales volumes have increased less than one percent over the past three years. Fiscal year 2024 customer growth was 3,601.

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Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

June 30, 2025 and 2024

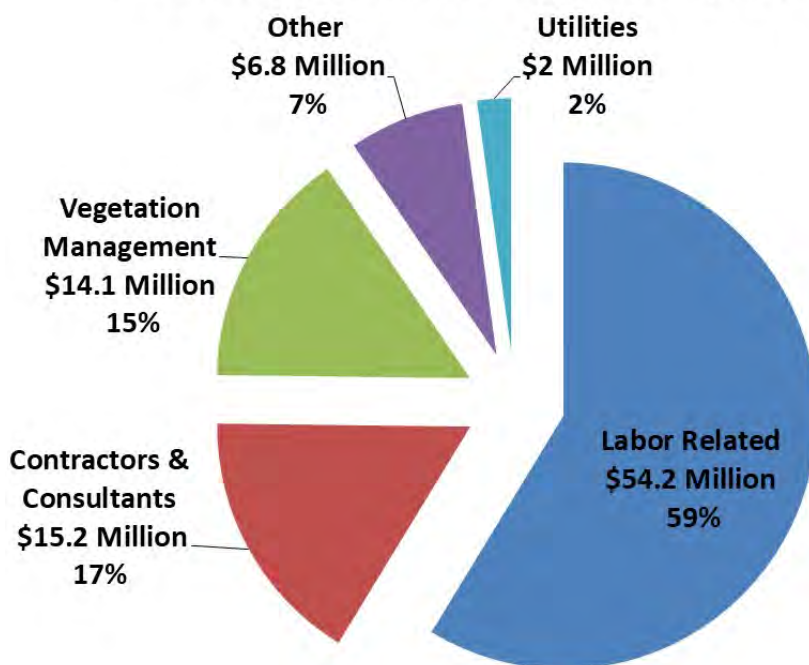
Operating Expenses

Fiscal Year 2025 Compared to Fiscal Year 2024

Operating expenses (excluding purchased power expense) increased \$2.5 million compared to fiscal year 2024. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as distribution, customer service, and administrative and general.

- Distribution expenses decreased by \$1.9 million, or 3.4 percent, primarily due to lower outside contractor and consultant costs. This decrease was partially offset by an increase in labor-related expenses.
- Customer service expenses were \$0.1 million higher, primarily due to an increase in labor-related expenses.
- Administrative and general expenses increased \$0.9 million, due to an increase in labor-related expenses and technology subscriptions offset by a decrease in materials.

FY 2025 Electric O&M Expense = \$92.3 Million



- Depreciation and amortization expense increased \$4.7 million, or 10.7 percent. KUB added \$127.7 million in assets during fiscal year 2025. A partial year of depreciation expense was recorded on these capital investments and a full year of depreciation expense was incurred on \$176.9 million in assets placed in service during fiscal year 2024. In addition, \$9.6 million of assets were retired in fiscal year 2025.
- Taxes and tax equivalents were \$1.4 million lower than the prior fiscal year, primarily due to the City of Knoxville's reduction in equalization rates.

Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

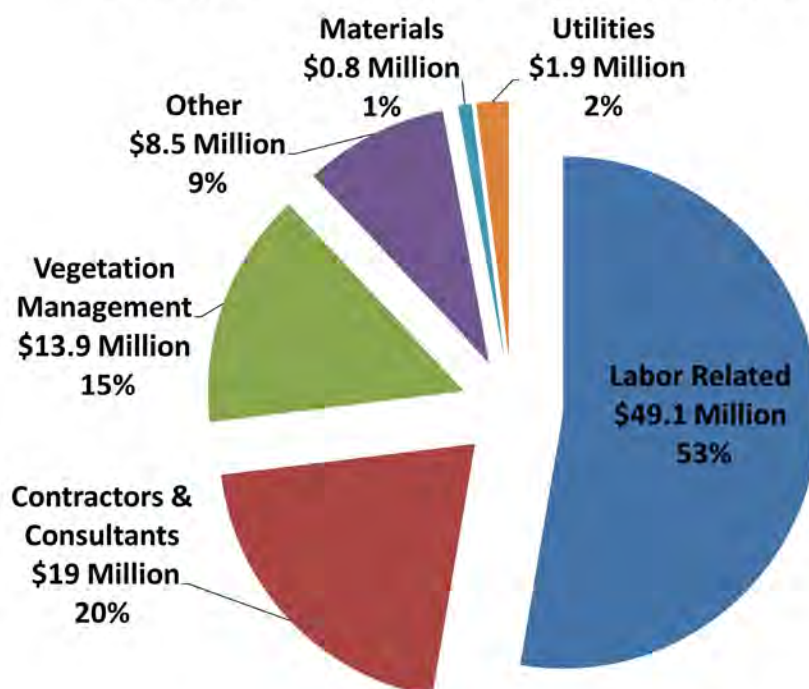
June 30, 2025 and 2024

Fiscal Year 2024 Compared to Fiscal Year 2023

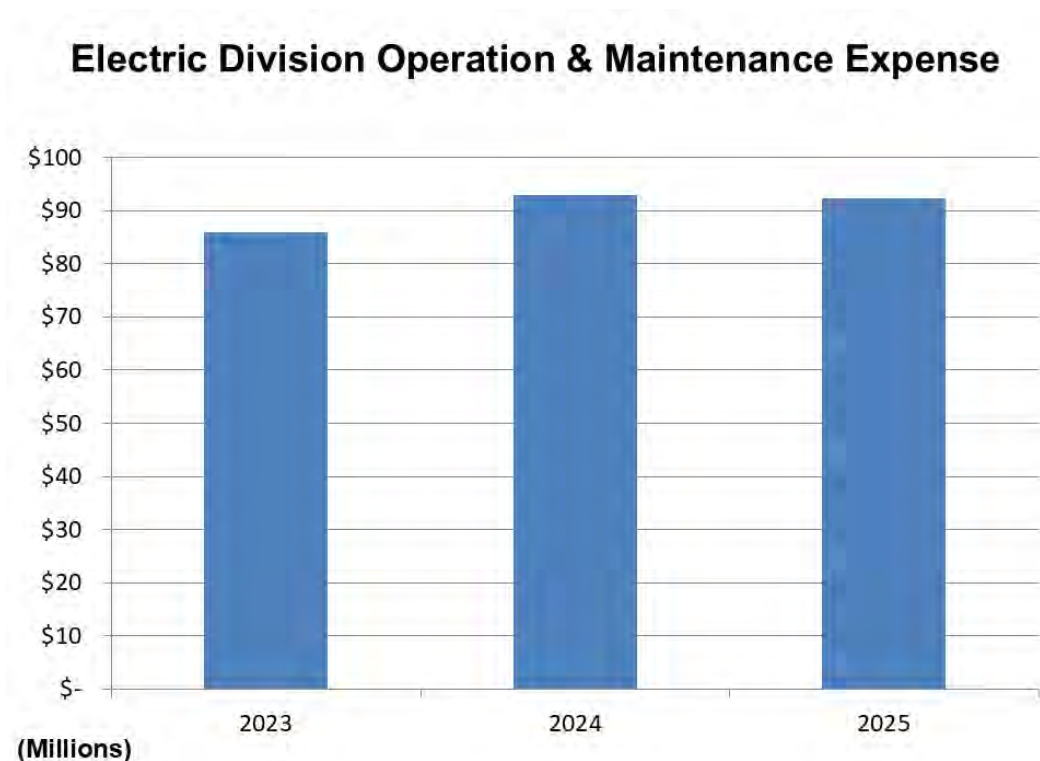
Operating expenses (excluding purchased power expense) increased \$12.5 million compared to fiscal year 2023. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as distribution, customer service, and administrative and general.

- Distribution expenses increased \$6.2 million or 12.1 percent, primarily due to an increase in labor-related expenses, vegetation management expenses, and outside contractor and consultant costs.
- Customer service expenses were \$2.3 million lower, primarily due to a change in methodology for technology-related costs that resulted in an offsetting increase in administration and general expenses.
- Administrative and general expenses increased \$3.5 million, primarily due to a change in methodology for technology-related costs that resulted in an offsetting decrease in customer service expenses and outside contractor and consultant costs.

FY 2024 Electric O&M Expense = \$93.2 Million



- Depreciation and amortization expense increased \$3.4 million or 8.4 percent. KUB added \$176.9 million in assets during fiscal year 2024. A partial year of depreciation expense was recorded on these capital investments and a full year of depreciation expense was incurred on \$77.3 million in assets placed in service during fiscal year 2023. In addition, \$20.1 million of assets were retired in fiscal year 2024.
- Taxes and tax equivalents were \$1.7 million higher than the prior fiscal year, primarily due to increased plant in service levels.



Other Income and Expense

Fiscal Year 2025 Compared to Fiscal Year 2024

Interest income increased \$1.8 million compared to the prior fiscal year, driven by higher cash balances and the replacement of maturing low-yield investments with new investments at significantly higher rates, despite a modest decline in overall interest rates.

Interest expense increased \$4.3 million, or 26 percent, due to new revenue bonds sold during fiscal year 2025 and interest on increased levels of customer deposits.

Other income (net) decreased \$3.1 million, due to a reduction in grant reimbursements and mark-to-market adjustments on investments.

Fiscal Year 2024 Compared to Fiscal Year 2023

Interest income increased \$1.8 million compared to the prior fiscal year, primarily due to higher interest rates throughout the year.

Interest expense increased \$3 million, or 21.9 percent, due to new revenue bonds sold during fiscal year 2024.

Other income (net) increased \$3.5 million, primarily due to grant reimbursements.

Knoxville Utilities Board Electric Division
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June 30, 2025 and 2024

Capital Assets

	Capital Assets As of June 30 (Net of Depreciation)		
<i>(in thousands of dollars)</i>	2025	2024	2023
Distribution Plant			
Services and Meters	\$ 67,138	\$ 53,243	\$ 44,256
Electric Station Equipment	186,334	144,074	85,676
Poles, Towers and Fixtures	179,304	175,823	163,802
Overhead Conductors	188,191	174,932	150,166
Line Transformers	67,146	65,160	62,002
Other Accounts	126,350	125,203	113,932
Total Distribution Plant	\$ 814,463	\$ 738,435	\$ 619,834
General Plant	85,592	82,681	67,698
Total Plant Assets	\$ 900,055	\$ 821,116	\$ 687,532
Work In Progress	84,415	62,166	96,958
Total Net Plant	\$ 984,470	\$ 883,282	\$ 784,490

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Knoxville Utilities Board Electric Division

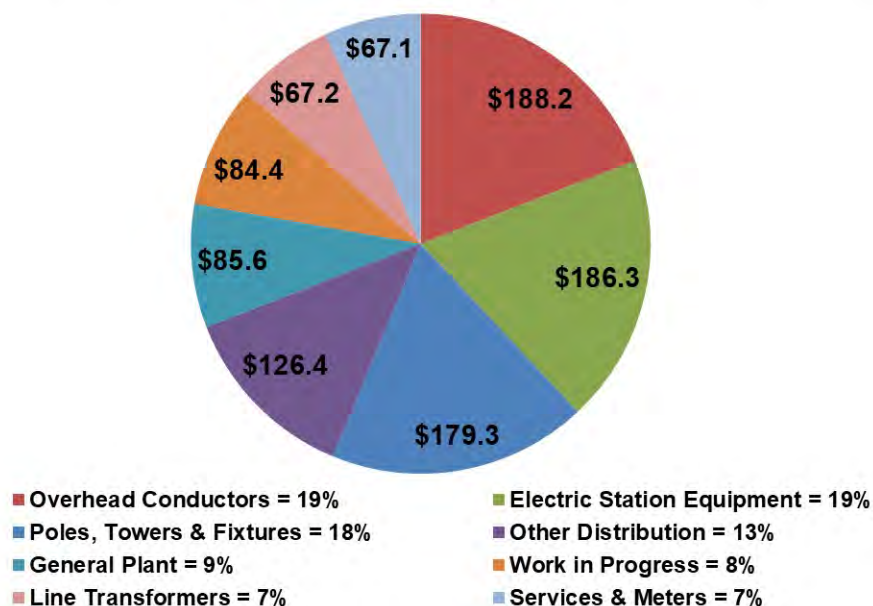
Management's Discussion and Analysis

June 30, 2025 and 2024

Fiscal Year 2025 Compared to Fiscal Year 2024

As of June 30, 2025, the Division had \$984.5 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$101.2 million, or 11.5 percent, over the end of the last fiscal year.

FY 2025 Electric Division Capital Assets = \$984.5 Million (in Millions)



Major capital asset expenditures during the year were as follows:

- \$76.3 million for fiber network buildout
- \$27.8 million for electric distribution system improvements
- \$22.7 million for installation of new electric services and the upgrade or replacement of existing services
- \$8.9 million for pole replacements
- \$4.3 million for auto and truck purchases
- \$3.2 million for building improvements

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Knoxville Utilities Board Electric Division

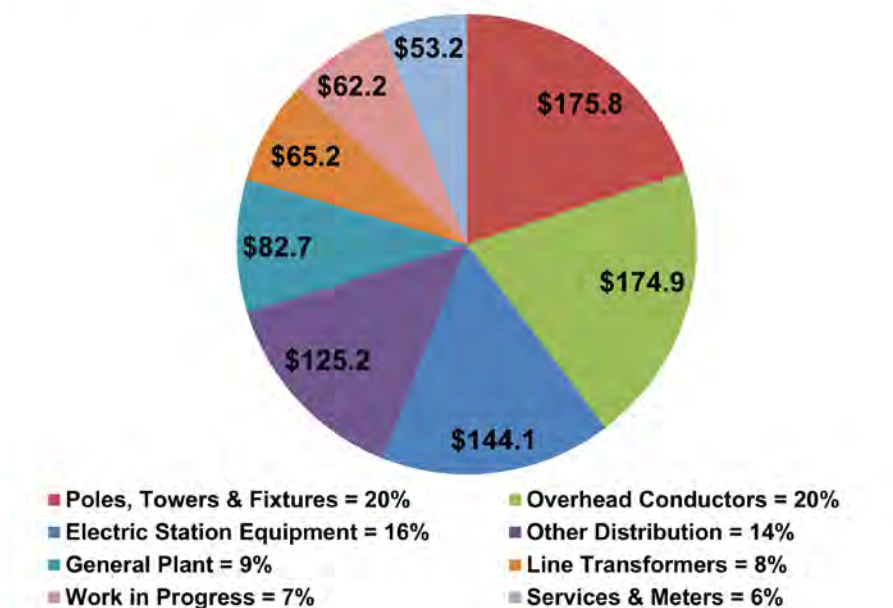
Management's Discussion and Analysis

June 30, 2025 and 2024

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$883.3 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 \$98.8 million, or 12.6 percent, over the end of the last fiscal year.

FY 2024 Electric Division Capital Assets = \$883.3 Million
(in Millions)



Major capital asset expenditures during the year were as follows:

- \$67.7 million for fiber network buildout
- \$32.3 million for electric distribution system improvements
- \$17.6 million for installation of new electric services and the upgrade or replacement of existing services
- \$7.3 million for pole replacements
- \$3.9 million for auto and truck purchases
- \$2.5 million for building improvements

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Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

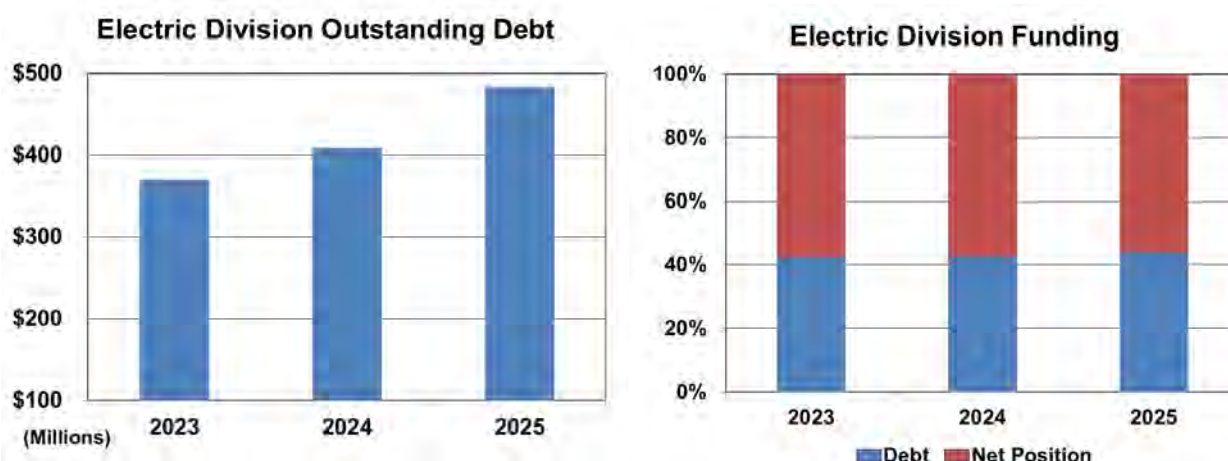
June 30, 2025 and 2024

Debt Administration

The Division's outstanding debt was \$483 million as of June 30, 2025. The bonds are secured solely by revenues of the Electric Division. Debt as a percentage of the Division's capital structure was 43.9 percent in 2025, 42.6 percent in 2024, and 42.3 percent in 2023. KUB's Debt Management Policy limits the Division's debt ratio to 50 percent or less.

Outstanding Debt As of June 30

<i>(in thousands of dollars)</i>	2025	2024	2023
Revenue bonds	\$ 483,005	\$ 409,325	\$ 369,795
Total outstanding debt	\$ 483,005	\$ 409,325	\$ 369,795



The Division will pay \$163.1 million in principal payments over the next ten years, representing 33.8 percent of the outstanding bonds. KUB's Debt Management Policy requires that a minimum of 30 percent of electric debt principal be repaid over the next ten years.

Fiscal Year 2025 Compared to Fiscal Year 2024

As of June 30, 2025, the Division had \$483 million in outstanding debt (including the current portion of revenue bonds), representing an increase of \$73.7 million, or 18 percent. As of June 30, 2025, the Division's weighted average cost of debt was 4.19 percent.

KUB sold \$91 million in electric system revenue bonds in July 2024 for the purpose of funding electric system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 4.05 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2055.

The Division's outstanding debt is rated by S&P Global Ratings and Moody's Investors Service. As of June 30, 2025, the Division's revenue bonds were rated AA- by S&P Global Ratings and Aa2 by Moody's Investors Service.

Knoxville Utilities Board Electric Division

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Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$409.3 million in outstanding debt (including the current portion of revenue bonds), representing an increase of \$39.5 million, or 10.7 percent. As of June 30, 2024, the Division's weighted average cost of debt was 4.13 percent.

KUB sold \$55 million in electric system revenue bonds in November 2023 for the purpose of funding electric system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 4.40 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2054.

The Division's outstanding debt is rated by S&P Global Ratings and Moody's Investors Service. As of June 30, 2024, the Division's revenue bonds were rated AA- by S&P Global Ratings and Aa2 by Moody's Investors Service.

Impacts on Future Financial Position

KUB anticipates adding 2,500 additional electric customers in fiscal year 2026.

As a component of the Fiber Division's start-up financing plan, the Electric Division will provide \$55 million of interdivisional loans. To date, \$44 million has been issued to the Fiber Division. A \$6 million loan is anticipated during fiscal year 2026.

The Pension Plan actuarial valuation resulted in an actuarially determined contribution of \$2,793,313 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Electric Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2025, measurement date. Subsequent to June 30, 2025, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$2,939,593 for the fiscal year ending June 30, 2027, based on the Plan's current funding policy. The Electric Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2026, measurement date. For the Plan year beginning January 1, 2025, the Plan's actuarial funded ratio is 103.9 percent, and the market value funded ratio is 100.3 percent.

The OPEB Plan actuarial valuation resulted in an actuarially determined contribution of \$1,217,234 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Electric Division's portion of this contribution will be determined as part of the actuarial analysis for the June 30, 2026, measurement date. Subsequent to June 30, 2025, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$968,538 for the fiscal year ending June 30, 2027, based on the Plan's current funding policy. The Electric Division's portion of this contribution will be determined as part of the actuarial analysis for the June 30, 2027, measurement date. For the Plan year beginning January 1, 2025, the Plan's actuarial funded ratio is 96.3 percent, and the market value funded ratio is 93.8 percent.

GASB Statement No. 103, *Financial Reporting Model Improvements*, is effective for fiscal years beginning after June 15, 2025. GASB Statement No. 104, *Disclosure of Certain Capital Assets*, is effective for fiscal years beginning after June 15, 2025. 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 2025.

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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, 2025, and 2024. 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, 2025 and 2024

	2025	2024
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 75,775,316	\$ 47,070,494
Short-term contingency fund investments	32,702,772	24,514,699
Accrued interest receivable	224,826	195,612
Accounts receivable, less allowance of uncollectible accounts of \$728,552 in 2025 and \$585,736 in 2024	84,561,014	70,181,439
Current portion of lease receivable	393,789	413,182
Current portion of notes receivable	2,200,000	1,850,000
Inventories	22,427,386	25,157,894
Prepaid expenses	960,811	932,888
Total current assets	<u>219,245,914</u>	<u>170,316,208</u>
Restricted assets:		
Electric bond fund	26,551,732	25,943,680
Other funds	702	701
Total restricted assets	<u>26,552,434</u>	<u>25,944,381</u>
Electric plant in service	1,479,861,197	1,361,717,745
Less accumulated depreciation	<u>(579,806,602)</u>	<u>(540,602,236)</u>
	900,054,595	821,115,509
Retirement in progress	1,575,374	1,313,060
Construction in progress	<u>82,839,636</u>	<u>60,853,205</u>
Net plant in service	<u>984,469,605</u>	<u>883,281,774</u>
Intangible assets:		
Intangible right of use asset	2,216,912	2,214,770
Intangible subscription asset	2,372,828	2,474,253
Less accumulated amortization	<u>(2,735,703)</u>	<u>(2,101,178)</u>
Net intangible assets	<u>1,854,037</u>	<u>2,587,845</u>
Other assets:		
Long-term contingency fund investments	25,134,150	24,889,914
Long-term lease receivable	3,709,448	4,103,237
Notes receivable	37,362,500	32,737,500
TVA conservation program receivable	10,729	78,051
Under recovered purchased power cost	5,929,336	5,057,514
Other	<u>3,848,826</u>	<u>3,120,088</u>
Total other assets	<u>75,994,989</u>	<u>69,986,304</u>
Total assets	<u>1,308,116,979</u>	<u>1,152,116,512</u>
Deferred outflows of resources:		
Pension outflow	7,643,847	13,547,110
OPEB outflow	<u>1,074,470</u>	<u>1,383,268</u>
Total deferred outflows of resources	<u>8,718,317</u>	<u>14,930,378</u>
Total assets and deferred outflows of resources	<u>\$ 1,316,835,296</u>	<u>\$ 1,167,046,890</u>

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

Knoxville Utilities Board Electric Division
Statements of Net Position
June 30, 2025 and 2024

	2025	2024
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	\$ 16,440,000	\$ 17,320,000
Current portion of accrued compensated absences	3,735,630	3,360,030
Current portion of lease liability	442,058	420,136
Current portion of subscription liability	352,339	339,323
Sales tax collections payable	1,248,772	1,022,428
Accounts payable	96,986,052	93,822,214
Accrued expenses	24,526,197	20,857,696
Customer deposits plus accrued interest	19,203,444	18,009,828
Accrued interest on revenue bonds	10,111,608	8,623,556
Total current liabilities	<u>173,046,100</u>	<u>163,775,211</u>
Other liabilities:		
TVA conservation program	13,195	89,790
Accrued compensated absences	1,839,937	1,730,925
Customer advances for construction	11,097,748	9,292,003
Lease liability	434,387	876,610
Subscription liability	754,988	1,107,416
Net pension liability	1,497,179	3,557,274
Net OPEB liability	2,579,621	4,397,612
Other	111,886	32,160
Total other liabilities	<u>18,328,941</u>	<u>21,083,790</u>
Long-term debt:		
Electric revenue bonds	466,565,000	392,005,000
Unamortized premiums/discounts	34,177,913	32,495,461
Total long-term debt	<u>500,742,913</u>	<u>424,500,461</u>
Total liabilities	<u>692,117,954</u>	<u>609,359,462</u>
Deferred inflows of resources:		
Pension inflow	216,907	163,056
Unamortized bond refunding costs	1,375,866	1,440,875
OPEB inflow	2,015,707	845,393
Lease inflow	3,835,343	4,328,965
Total deferred inflows of resources	<u>7,443,823</u>	<u>6,778,289</u>
Total liabilities and deferred inflows of resources	<u>699,561,777</u>	<u>616,137,751</u>
Net position		
Net investment in capital assets	458,504,837	433,775,494
Restricted for:		
Debt service	16,440,125	17,320,125
Other	702	701
Unrestricted	<u>142,327,855</u>	<u>99,812,819</u>
Total net position	<u>617,273,519</u>	<u>550,909,139</u>
Total liabilities, deferred inflows, and net position	<u>\$ 1,316,835,296</u>	<u>\$ 1,167,046,890</u>

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, 2025 and 2024

	2025	2024
Operating revenues	\$ 734,797,909	\$ 657,034,681
Operating expenses		
Purchased power	497,351,097	447,013,007
Distribution	55,428,405	57,375,210
Customer service	3,887,095	3,760,354
Administrative and general	32,967,986	32,025,453
Depreciation and amortization	48,781,855	44,066,858
Taxes and tax equivalents	20,301,359	21,651,025
Total operating expenses	<u>658,717,797</u>	<u>605,891,907</u>
Operating income	<u>76,080,112</u>	<u>51,142,774</u>
Non-operating revenues (expenses)		
Contributions in aid of construction	12,014,610	8,706,900
Interest income	8,526,790	6,686,576
Interest expense	(20,786,522)	(16,497,703)
Amortization of debt costs	1,957,483	1,742,154
Write-down of plant for costs recovered through contributions	(12,014,610)	(8,706,900)
Other	586,517	3,889,479
Total non-operating revenues (expenses)	<u>(9,715,732)</u>	<u>(4,179,494)</u>
Change in net position	66,364,380	46,963,280
Net position, beginning of year	550,909,139	503,945,859
Net position, end of year	<u>\$ 617,273,519</u>	<u>\$ 550,909,139</u>

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

Knoxville Utilities Board Electric Division

Statements of Cash Flows

Years Ended June 30, 2025 and 2024

	2025	2024
Cash flows from operating activities:		
Cash receipts from customers	\$ 710,065,836	\$ 635,118,281
Cash receipts from other operations	12,608,443	9,726,149
Cash payments to suppliers of goods or services	(541,177,335)	(499,450,070)
Cash payments to employees for services	(35,167,953)	(34,502,092)
Payment in lieu of taxes	(17,184,661)	(18,765,814)
Cash receipts from collections of TVA conservation loan program participants	69,308	184,825
Cash payments for TVA conservation loan program	<u>(78,582)</u>	<u>(193,934)</u>
Net cash provided by operating activities	<u>129,135,056</u>	<u>92,117,345</u>
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	93,956,131	58,785,192
Principal paid on revenue bonds	(17,320,000)	(15,470,000)
Decrease (increase) in unused bond proceeds	-	13
Interest paid on revenue bonds	(18,080,225)	(14,648,930)
Acquisition and construction of electric plant	(164,107,997)	(153,518,289)
Changes in electric bond fund, restricted	(608,052)	(2,897,488)
Customer advances for construction	2,203,655	714,381
Proceeds received on disposal of plant	310,754	307,483
Principal paid on lease liabilities	(420,301)	(396,743)
Principal paid on subscription liabilities	(339,411)	(601,010)
Interest paid on lease and subscription liabilities	(92,424)	(119,866)
Cash received from developers and individuals for capital purposes	<u>9,477,341</u>	<u>8,706,900</u>
Net cash used in capital and related financing activities	<u>(95,020,529)</u>	<u>(119,138,357)</u>
Cash flows from investing activities:		
Purchase of investment securities	(10,886,780)	(40,393,250)
Maturities of investment securities	5,000,000	38,200,000
Issuance of notes receivable from Fiber Division	(7,000,000)	(7,000,000)
Payments received on notes receivable from Fiber Division	2,025,000	1,529,167
Interest received	5,952,048	6,553,048
Other property and investments	<u>(499,973)</u>	<u>2,714,072</u>
Net cash (used in) provided by investing activities	<u>(5,409,705)</u>	<u>1,603,037</u>
Net increase (decrease) in cash and cash equivalents	28,704,822	(25,417,975)
Cash and cash equivalents, beginning of year	<u>47,070,494</u>	<u>72,488,469</u>
Cash and cash equivalents, end of year	<u>\$ 75,775,316</u>	<u>\$ 47,070,494</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 76,080,112	\$ 51,142,774
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	50,904,666	45,988,267
Changes in operating assets and liabilities:		
Accounts receivable	(11,842,306)	(11,618,614)
Lease receivable	413,182	(2,400,510)
Inventories	2,730,508	(3,614,761)
Prepaid expenses	(27,923)	(88,327)
TVA conservation program receivable	67,322	172,240
Other assets	(109,942)	217,575
Sales tax collections payable	226,344	16,206
Accounts payable and other accrued expenses	10,380,461	20,439,463
Unrecovered purchased power cost	(871,822)	(8,606,036)
TVA conservation program payable	(76,595)	(181,348)
Customer deposits plus accrued interest	1,181,323	656,572
Other liabilities	<u>79,726</u>	<u>(6,156)</u>
Net cash provided by operating activities	<u>\$ 129,135,056</u>	<u>\$ 92,117,345</u>
Noncash capital activities:		
Record intangible right of use asset and lease liability	\$ -	\$ 18,331

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

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2025 and 2024

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. 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 as of June 30, 2025, and 2024, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

Recently Adopted New Accounting Pronouncements

In June 2022, the GASB issued GASB Statement No. 101 (Statement No. 101), *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. Statement No. 101 is effective for fiscal years beginning after December 15, 2023. Adoption of this Statement did not result in a restatement of prior periods due to immateriality.

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2025 and 2024

In December 2023, the GASB issued GASB Statement No. 102 (Statement No. 102), *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. Statement No. 102 is effective for fiscal years beginning after June 15, 2024. Adoption of this Statement did not have a significant impact on KUB's financial statements.

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 "Depreciation and amortization" in the Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment. Depreciation for transportation equipment of \$2,122,811 in fiscal year 2025 and \$1,921,409 in fiscal year 2024 is included in operation and maintenance expense.

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 \$2,205,311 in fiscal year 2025 and \$1,474,202 in fiscal year 2024.

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

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2025 and 2024

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

OPEB Trust

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

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, 2025, and 2024, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, are based on a June 30, 2025, and 2024, measurement date, respectively. The net OPEB liability is \$5,315,804 (Division's share \$2,579,621) as of June 30, 2025, and \$9,373,073 (Division's share \$4,397,612) as of June 30, 2024.

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 12). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2025, and 2024, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025 and 2024, are based on a December 31, 2024, and 2023, measurement date, respectively. The net pension liability is

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2025 and 2024

\$3,054,172 (Division's share \$1,487,203) as of June 30, 2025, and \$7,452,380 (Division's share \$3,557,274) as of June 30, 2024.

KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single employer defined benefit pension plan, administered by KUB (Note 13). As required by GASB Statement No. 73, KUB measures the total pension liability of the QEBA. The amounts reported as of June 30, 2025, and 2024, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, are based on a December 31, 2024, and 2023, measurement date, respectively. The total pension liability of the QEBA is \$21,226 (Division's share \$9,976) as of June 30, 2025, and \$0 as of June 30, 2024.

For presentation purposes, the Pension Plan net pension liability and the QEBA total pension liability are disclosed in the Statement of Net Position as Net pension liability of \$1,497,179 as of June 30, 2025 and \$3,557,274 as of June 30, 2024. The Pension Plan deferred outflows and QEBA deferred outflows are disclosed as Pension outflow of \$7,643,847 as of June 30, 2025 and \$13,547,110 as of June 30, 2024. The Pension Plan deferred inflows and QEBA deferred inflows are disclosed as Pension inflow of \$216,907 as of June 30, 2025 and \$163,056 as of June 30, 2024.

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, over/under purchased power costs, lease liabilities, subscription liabilities, developer contributions, compensated absences, 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.

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2025 and 2024

Leases

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

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

Subscription-Based Information Technology Arrangements

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

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

Deferred Outflows and Inflows of Resources

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

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.

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2025 and 2024

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. During fiscal year 2025, KUB adopted GASB Statement No. 101, *Compensated Absences* (GASB 101). GASB 101 requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash items. The accompanying financial statements, as of and for the year ended June 30, 2024, have not been restated due to immaterial impact on the net position.

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 23, 2025, the date these financial statements were available to be issued, for items that should potentially be recognized or disclosed.

Purchased Power Adjustment

In October 2002, the Board adopted a Purchased Power Adjustment (PPA) to address changes in wholesale power costs. The PPA was established in response to an amendment to KUB's power supply contract under which, among other things, TVA relinquished its regulatory authority over KUB'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.

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

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2025 and 2024

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

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

Under the PPA mechanism, KUB tracks the actual over/(under) recovered amount in the Over/(Under) Recovered Purchased Power Cost accounts. These accounts are rolled into the PPA rate adjustments thereby assuring that any over/(under) recovered amounts are promptly passed on to KUB's electric customers. The amount of over/(under) recovered cost was (\$5,929,336) as of June 30, 2025, and (\$5,057,514) as of June 30, 2024.

Recently Issued Accounting Pronouncements

In April 2024, the GASB issued GASB Statement No. 103 (Statement No. 103), *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. Statement No. 103 is effective for fiscal years beginning after June 15, 2025.

In September 2024, the GASB issued GASB Statement No. 104 (Statement No. 104), *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. Statement No. 104 is effective for fiscal years beginning after June 15, 2025.

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.

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2025 and 2024

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

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

Classification of deposits and investments per Statement of Net Position:

	2025	2024
Current assets		
Cash and cash equivalents	\$ 75,775,316	\$ 47,070,494
Short-term contingency fund investments	32,250,427	24,223,706
Other assets		
Long-term contingency fund investments	25,134,150	24,889,914
Restricted assets		
Electric bond fund	26,551,732	25,943,680
Other funds	702	701
	<u>\$ 159,712,327</u>	<u>\$ 122,128,495</u>

The above amounts do not include accrued interest of \$452,345 in fiscal year 2025 and \$290,993 in fiscal year 2024. Interest income is recorded on an accrual basis.

Investments and maturities of KUB's cash equivalents and investments as held by financial institutions as of June 30, 2025:

	Cash Equivalents and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	\$ 106,424,443	\$ 106,424,443	\$ -
State Treasurer's Investment Pool	12,222,265	12,222,265	-
Agency Bonds	45,162,313	20,028,163	25,134,150
	<u>\$ 163,809,021</u>	<u>\$ 138,674,871</u>	<u>\$ 25,134,150</u>

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

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2025 and 2024

KUB has the following recurring fair value measurements as of June 30, 2025:

- U.S. Agency bonds of \$25,134,150, 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:

	2025	2024
Wholesale and retail customers		
Billed services	\$ 44,407,482	\$ 38,396,037
Unbilled services	30,615,604	25,122,548
Other	10,266,480	7,248,590
Allowance for uncollectible accounts	(728,552)	(585,736)
	<u>\$ 84,561,014</u>	<u>\$ 70,181,439</u>

5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	2025	2024
Trade accounts	\$ 96,986,052	\$ 93,822,214
Current portion of accrued compensated absences	3,735,630	3,360,030
Salaries and wages	1,307,480	1,196,921
Advances on pole rental	1,610,930	1,527,262
Self-insurance liabilities	1,437,114	1,299,885
Other current liabilities	20,170,673	16,833,628
	<u>\$ 125,247,879</u>	<u>\$ 118,039,940</u>

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Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2025 and 2024

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2024	Additions	Payments	Defeased	Balance June 30, 2025	Amounts Due Within One Year
Electric						
EE-2015 - 2.0 - 5.0%	\$ 16,815,000	\$ -	\$ 2,555,000	\$ -	\$ 14,260,000	\$ 2,670,000
GG-2016 - 2.0 - 5.0%	33,650,000	-	1,100,000	-	32,550,000	1,125,000
HH-2017 - 2.5 - 5.0%	10,520,000	-	2,460,000	-	8,060,000	2,560,000
II-2017 - 3.0 - 5.0%	35,060,000	-	985,000	-	34,075,000	1,035,000
JJ-2018 - 3.0 - 5.0%	35,725,000	-	965,000	-	34,760,000	1,005,000
KK-2020 - 5.0%	10,740,000	-	1,335,000	-	9,405,000	1,400,000
LL-2021 - 4.0 - 5.0%	60,715,000	-	5,015,000	-	55,700,000	2,745,000
MM-2022 - 4.0 - 5.0%	44,885,000	-	805,000	-	44,080,000	850,000
NN-2022 - 4.0 - 5.0%	27,215,000	-	825,000	-	26,390,000	845,000
OO-2022 - 4.0 - 5.0%	79,000,000	-	1,275,000	-	77,725,000	1,340,000
PP-2023 - 5.0%	55,000,000	-	-	-	55,000,000	865,000
QQ-2024 - 4.0 - 5.0%	-	91,000,000	-	-	91,000,000	-
Total bonds	\$ 409,325,000	\$ 91,000,000	\$ 17,320,000	\$ -	\$ 483,005,000	\$ 16,440,000
Unamortized Premium	32,495,461	3,778,026	2,095,574	-	-	-
Total long term debt	\$ 441,820,461	\$ 94,778,026	\$ 19,415,574	\$ -	\$ 483,005,000	\$ 16,440,000

	Balance June 30, 2023	Additions	Payments	Defeased	Balance June 30, 2024	Amounts Due Within One Year
Electric						
EE-2015 - 2.0 - 5.0%	\$ 19,230,000	\$ -	\$ 2,415,000	\$ -	\$ 16,815,000	\$ 2,555,000
FF-2015 - 2.0 - 5.0%	850,000	-	850,000	-	-	-
GG-2016 - 2.0 - 5.0%	34,700,000	-	1,050,000	-	33,650,000	1,100,000
HH-2017 - 2.5 - 5.0%	12,920,000	-	2,400,000	-	10,520,000	2,460,000
II-2017 - 3.0 - 5.0%	35,995,000	-	935,000	-	35,060,000	985,000
JJ-2018 - 3.0 - 5.0%	36,655,000	-	930,000	-	35,725,000	965,000
KK-2020 - 5.0%	12,010,000	-	1,270,000	-	10,740,000	1,335,000
LL-2021 - 4.0 - 5.0%	65,570,000	-	4,855,000	-	60,715,000	5,015,000
MM-2022 - 4.0 - 5.0%	45,650,000	-	765,000	-	44,885,000	805,000
NN-2022 - 4.0 - 5.0%	27,215,000	-	-	-	27,215,000	825,000
OO-2022 - 4.0 - 5.0%	79,000,000	-	-	-	79,000,000	1,275,000
PP-2023 - 5.0%	-	55,000,000	-	-	55,000,000	-
Total bonds	\$ 369,795,000	\$ 55,000,000	\$ 15,470,000	\$ -	\$ 409,325,000	\$ 17,320,000
Unamortized Premium	30,341,874	4,074,569	1,920,982	-	32,495,461	-
Total long term debt	\$ 400,136,874	\$ 59,074,569	\$ 17,390,982	\$ -	\$ 441,820,461	\$ 17,320,000

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2025 and 2024

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

Fiscal Year	Total		Grand Total
	Principal	Interest	
2026	\$ 16,440,000	\$ 19,855,793	\$ 36,295,793
2027	18,615,000	19,078,343	37,693,343
2028	19,370,000	18,278,940	37,648,940
2029	17,455,000	17,523,437	34,978,437
2030	18,145,000	16,774,837	34,919,837
2031-2035	73,045,000	73,826,576	146,871,576
2036-2040	84,120,000	57,264,489	141,384,489
2041-2045	97,315,000	38,381,852	135,696,852
2046-2050	81,765,000	19,737,192	101,502,192
2051-2055	56,735,000	4,955,975	61,690,975
Total	<u>\$ 483,005,000</u>	<u>\$ 285,677,434</u>	<u>\$ 768,682,434</u>

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, 2025, these requirements had been satisfied.

The Division's outstanding bonds payable contain provisions that in an event of default, outstanding amounts are to become immediately due if the Division is unable to make payment.

During fiscal year 2025, KUB's Electric Division issued Series QQ 2024 bonds to fund electric system capital improvements.

During fiscal year 2024, KUB's Electric Division issued Series PP 2023 bonds to fund electric system capital improvements.

Other liabilities consist of the following:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
TVA conservation program	\$ 89,790	\$ 1,987	\$ (78,582)	\$ 13,195
Accrued compensated absences	1,730,925	5,560,090	(5,451,078)	1,839,937
Customer advances for construction	9,292,003	5,444,804	(3,639,059)	11,097,748
Other	32,160	114,402	(34,676)	111,886
	<u>\$ 11,144,878</u>	<u>\$ 11,121,283</u>	<u>\$ (9,203,395)</u>	<u>\$ 13,062,766</u>

Knoxville Utilities Board Electric Division
Notes to Financial Statements
June 30, 2025 and 2024

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
TVA conservation program	\$ 271,138	\$ 13,659	\$ (195,007)	\$ 89,790
Accrued compensated absences	1,638,322	3,324,661	(3,232,058)	1,730,925
Customer advances for construction	8,995,706	4,104,911	(3,808,614)	9,292,003
Other	38,317	40,157	(46,314)	32,160
	<u>\$ 10,943,483</u>	<u>\$ 7,483,388</u>	<u>\$ (7,281,993)</u>	<u>\$ 11,144,878</u>

7. Lease Receivables

KUB, as lessor, leases office space, land, and fiber optic cables under non-cancelable lease arrangements. Terms of the leases range from one to fourteen years and contain fixed payment terms. Certain leases contain an option to renew that has been considered in the lease receivable when the lessee is reasonably certain to exercise the renewal option. KUB recognized lease revenue, which is included in other operating revenues, of \$485,646 in 2025 and \$481,441 in 2024. KUB also recognized interest income from leases, which is included in non-operating revenues, totaling \$149,477 in 2025 and \$152,105 in 2024. Total lease receivables were \$4,103,237 (\$393,789 current) and \$4,516,419 (\$413,182 current) as of June 30, 2025, and 2024, respectively, and are included in other assets on the Statement of Net Position.

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Knoxville Utilities Board Electric Division
Notes to Financial Statements
June 30, 2025 and 2024

8. Lease Liabilities

Changes in lease liabilities are summarized as follows:

	Balance June 30, 2024		Increase		Decrease		Balance June 30, 2025
Total lease liabilities	\$ 1,296,746	\$	<u>-</u>	\$	<u>(420,301)</u>	\$	876,445
Less current portion	<u>(420,136)</u>						<u>(442,058)</u>
Long-term portion	\$ <u>876,610</u>					\$	<u>434,387</u>

	Balance June 30, 2023		Increase		Decrease		Balance June 30, 2024
Total lease liabilities	\$ 1,673,950	\$	<u>18,331</u>	\$	<u>(395,535)</u>	\$	1,296,746
Less current portion	<u>(391,979)</u>						<u>(420,136)</u>
Long-term portion	\$ <u>1,281,971</u>					\$	<u>876,610</u>

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

Maturities and future interest requirements related to the balances of lease liabilities outstanding as of June 30, 2025, are summarized as follows:

	Lease Maturities	Interest Requirements
2026	\$ 442,058	\$ 27,283
2027	351,318	10,391
2028	9,894	3,681
2029	2,998	3,257
2030	3,211	3,232
2031-2035	19,810	15,424
2036-2040	27,901	12,944
2041-2043	<u>19,255</u>	<u>5,095</u>
	<u>876,445</u>	<u>81,307</u>

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Knoxville Utilities Board Electric Division
Notes to Financial Statements
June 30, 2025 and 2024

9. Subscription-Based Information Technology Agreement Liabilities

Changes in SBITA liabilities are summarized as follows:

	Balance June 30, 2024		Increase		Decrease		Balance June 30, 2025
Total SBITA liabilities	\$ 1,446,739	\$	-	\$	(339,412)	\$	1,107,327
Less current portion	(339,323)						(352,339)
Long-term portion	<u>\$ 1,107,416</u>					\$	<u>754,988</u>

	Balance June 30, 2023		Increase		Decrease		Balance June 30, 2024
Total SBITA liabilities	\$ 2,047,749	\$	-	\$	(601,010)	\$	1,446,739
Less current portion	(398,116)						(339,323)
Long-term portion	<u>\$ 1,649,633</u>					\$	<u>1,107,416</u>

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

Maturities and future interest requirements related to the balances of SBITA liabilities outstanding as of June 30, 2025, are summarized as follows:

	Subscription Maturities		Interest Requirements
2026	\$ 352,339	\$	36,191
2027	367,437		22,257
2028	387,551		7,600
	<u>\$ 1,107,327</u>	\$	<u>66,048</u>

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Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2025 and 2024

10. Capital and Intangible Assets

Capital and intangible asset activity was as follows:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
Distribution Plant				
Services and Meters	\$ 92,684,334	\$ 18,838,950	\$ (141,995)	\$ 111,381,289
Electric Station Equipment	286,073,633	54,258,301	(270,554)	340,061,380
Poles, Towers and Fixtures	255,203,197	10,573,687	-	265,776,884
Overhead Conductors	222,392,698	19,623,756	-	242,016,454
Line Transformers	116,531,268	4,816,592	-	121,347,860
Other Accounts	215,317,948	7,367,291	(419,467)	222,265,772
Total Distribution Plant	\$ 1,188,203,078	\$ 115,478,577	\$ (832,016)	\$ 1,302,849,639
 General Plant	 173,514,667	 12,233,814	 (8,736,923)	 177,011,558
Total Plant Assets	\$ 1,361,717,745	\$ 127,712,391	\$ (9,568,939)	\$ 1,479,861,197
Less Accumulated Depreciation	(540,602,236)	(50,263,046)	11,058,680	(579,806,602)
Net Plant Assets	\$ 821,115,509	\$ 77,449,345	\$ 1,489,741	\$ 900,054,595
 Work In Progress	 62,166,265	 151,273,866	 (129,025,121)	 84,415,010
Total Net Plant	\$ 883,281,774	\$ 228,723,211	\$ (127,535,380)	\$ 984,469,605
 Intangible Right of Use Assets				
Office space	\$ 2,002,297	\$ 3,022	\$ -	\$ 2,005,319
Equipment	42,259	-	(880)	41,379
Other	170,214	-	-	170,214
Total Intangible Right of Use Assets	\$ 2,214,770	\$ 3,022	\$ (880)	\$ 2,216,912
Less Accumulated Amortization	(1,037,258)	(406,072)	-	(1,443,330)
Net Intangible Right of Use Assets	\$ 1,177,512	\$ (403,050)	\$ (880)	\$ 773,582
 Intangible Subscription Assets				
Intangible Subscription Assets	\$ 2,474,253	\$ -	\$ (101,425)	\$ 2,372,828
Less Accumulated Amortization	(1,063,920)	(329,878)	101,425	(1,292,373)
Net Intangible Subscription Assets	\$ 1,410,333	\$ (329,878)	\$ -	\$ 1,080,455

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Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2025 and 2024

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Distribution Plant				
Services and Meters	\$ 79,480,092	\$ 13,379,485	\$ (175,243)	\$ 92,684,334
Electric Station Equipment	218,924,364	67,605,046	(455,777)	286,073,633
Poles, Towers and Fixtures	237,092,817	19,242,803	(1,132,423)	255,203,197
Overhead Conductors	199,084,887	29,551,211	(6,243,400)	222,392,698
Line Transformers	111,182,883	5,863,192	(514,807)	116,531,268
Other Accounts	199,366,678	17,411,436	(1,460,166)	215,317,948
Total Distribution Plant	\$ 1,045,131,721	\$ 153,053,173	\$ (9,981,816)	\$ 1,188,203,078
General Plant	159,738,348	23,856,518	(10,080,199)	173,514,667
Total Plant Assets	\$ 1,204,870,069	\$ 176,909,691	\$ (20,062,015)	\$ 1,361,717,745
Less Accumulated Depreciation	(517,337,699)	(45,313,637)	22,049,100	(540,602,236)
Net Plant Assets	\$ 687,532,370	\$ 131,596,054	\$ 1,987,085	\$ 821,115,509
Work In Progress	96,957,972	143,716,646	(178,508,353)	62,166,265
Total Net Plant	\$ 784,490,342	\$ 275,312,700	\$ (176,521,268)	\$ 883,281,774
Intangible Right of Use Assets				
Office space	\$ 1,980,114	\$ 22,183	\$ -	\$ 2,002,297
Equipment	61,181	-	(18,922)	42,259
Other	170,214	-	-	170,214
Total Intangible Right of Use Assets	\$ 2,211,509	\$ 22,183	\$ (18,922)	\$ 2,214,770
Less Accumulated Amortization	(642,378)	(413,802)	18,922	(1,037,258)
Net Intangible Right of Use Assets	\$ 1,569,131	\$ (391,619)	\$ -	\$ 1,177,512
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 2,798,972	\$ -	\$ (324,719)	\$ 2,474,253
Less Accumulated Amortization	(790,233)	(273,687)	-	(1,063,920)
Net Intangible Subscription Assets	\$ 2,008,739	\$ (273,687)	\$ (324,719)	\$ 1,410,333

11. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. As of June 30, 2025, and June 30, 2024, the amount of these liabilities was \$1,437,114 and \$1,299,885, respectively, resulting from the following changes:

	2025	2024
Balance, beginning of year	\$ 1,299,885	\$ 1,188,749
Current year claims and changes in estimates	9,426,453	9,765,664
Claims payments	(9,289,224)	(9,654,528)
Balance, end of year	<u>\$ 1,437,114</u>	<u>\$ 1,299,885</u>

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2025 and 2024

12. Pension Plan

Description of Plan

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

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

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

	2024	2023
Inactive plan members:		
Terminated vested participants	10	9
Retirees and beneficiaries	589	602
Active plan members	<u>359</u>	<u>389</u>
Total	<u>958</u>	<u>1,000</u>

Retirement Benefits

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

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

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

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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, 2024:

Asset Class	Target Allocation
Domestic equity – large cap	20% - 50%
Domestic equity – small/mid cap	0% - 30%
Multi-asset credit	0% - 20%
Non-U.S. equity	0% - 20%
U.S. core real estate	0% - 10%
Fixed income	20% - 40%
Cash and deposits	0% - 5%

Contributions of \$2,210,234 and \$1,108,147 for 2023 and 2022, respectively, were made during the Plan sponsor’s fiscal years ended June 30, 2025, and 2024, respectively. Of these amounts, \$1,076,254 and \$528,956 are attributable to the Electric Division. The fiscal year 2025 contribution was determined as part of the January 1, 2023, 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

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date (employment date) and continuing until the assumed retirement, termination, disability, or death.

Net Pension Liability (Asset)

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, will be based on the December 31, 2024, and 2023, measurement date, respectively. The net pension liability is \$3,054,172 (Division's share \$1,487,203) as of June 30, 2025, and \$7,452,380 (Division's share \$3,557,274) as of June 30, 2024.

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

	2024	2023
Total pension liability	\$ 274,028,893	\$ 263,351,035
Plan fiduciary net position	<u>(270,974,721)</u>	<u>(255,898,655)</u>
Plan's net pension liability	<u>\$ 3,054,172</u>	<u>\$ 7,452,380</u>
Plan fiduciary net position as a percentage of the total pension liability	98.89%	97.17%

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

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2023	\$ 263,351,035	\$ 255,898,655	\$ 7,452,380
Changes for the year:			
Service cost	7,764,986	-	7,764,986
Interest	18,573,527	-	18,573,527
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	2,346,811	-	2,346,811
Changes of Assumptions	1,425,345	-	1,425,345
Contributions - employer	-	1,659,187	(1,659,187)
Contributions - rollovers	-	75	(75)
Contributions - member	-	4,971,073	(4,971,073)
Net investment income	-	28,541,389	(28,541,389)
Benefit payments	(19,432,811)	(19,432,811)	-
Administrative expense	-	(662,847)	662,847
Net changes	10,677,858	15,076,066	(4,398,208)
Balances at December 31, 2024	\$ 274,028,893	\$ 270,974,721	\$ 3,054,172

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, 2024, rolled forward to December 31, 2024; January 1, 2023, rolled forward to December 31, 2023
Discount rate	7.00% as of December 31, 2024 and 2023
Salary increases	From 2.50% to 8.50%, based on years of service as of December 31, 2024 and from 2.50% to 5.65% as of December 31, 2023
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 MP-2021, fully generational as of December 31, 2024; Scale MP-2018 was used as of December 31, 2023
Inflation	2.5% as of December 31, 2024 and 2023

The actuarial assumptions used in the January 1, 2024, valuation was based on an actuarial experience study covering January 1, 2019 through December 31, 2023, and the assumptions used in the January 1, 2023 valuation were based on an actuarial experience study covering the period January 1, 2014 through December 31, 2018.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class.

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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, 2024, and 2023, are summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. Prior to February 22, 2024, the Plan had both aggregate and long duration fixed income. As of December 31, 2024, the Plan has only aggregate fixed income. Effective September 30, 2024 the REIT fund was transferred to a U.S. core real estate fund.

Asset Class	Long Term Expected Real Rate of Return	
	2024	2023
Domestic equity	6.0%	5.6%
Non-U.S. equity	6.5%	6.5%
Real estate equity	n/a	5.8%
Real estate U.S. core	5.1%	n/a
Debt securities	2.5%	1.9%
Cash and deposits	1.2%	0.7%

Discount rate

The discount rate used to measure the total pension liability was 7.00 percent as of December 31, 2024, and December 31, 2023. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability of the Plan as of December 31, 2024, calculated using the discount rate of 7.00 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 (6.00 percent) or one percent higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Plan's net pension liability	\$ 29,141,576	\$ 3,054,172	\$ (19,335,531)

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

For the year ended June 30, 2025, KUB recognized pension expense of \$10,401,958 and the Electric Division's share was \$4,975,102.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2023, this average was three years. During the measurement year, there was a liability experience loss of \$2,346,811, with \$782,270 of that recognized in the current year and each of the next two years, resulting in a deferred outflow of \$1,564,541. Unrecognized liability experience losses from prior periods were \$2,580,215, of which \$1,463,476 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,116,739. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,681,280 (Division's share \$1,305,625).

During the measurement year, there was an assumption change loss of \$1,425,345 with \$475,115 of that recognized in the current year and each of the next two years, resulting in a deferred outflow of \$950,230. Net unrecognized assumption change losses from prior periods were \$2,634,336, of which \$1,317,168 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$1,317,168. The combination of unrecognized assumption change losses this year, along with unrecognized assumption change losses from prior periods, results in a deferred outflow of \$2,267,398 (Division's share \$1,104,089).

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 \$11,091,799, of which \$2,218,360 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$22,505,337, of which \$4,001,667 was recognized as an increase in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with net unrecognized investment losses from prior periods, results in a deferred outflow of \$9,630,231 (Division's share \$4,689,355).

The impact of the change in proportionate share for the Electric Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is three years. This change resulted in a deferred inflow of \$194,711, with \$64,904 of that recognized in the current year and the remaining amount recognized over the next two years, resulting in a deferred inflow of resources of \$129,807. Net proportionate share changes from the prior period were \$162,227, of which \$75,127 was recognized in the current year, resulting in a deferred inflow of resources of \$87,100. Unrecognized proportionate share changes from prior periods of \$50,004, of which \$50,004 was recognized in the current year, resulted in a deferred outflow of \$0. In addition, KUB's Electric Division recorded a deferred outflow of resources of \$538,127 for employer contributions made between December 31, 2024 and June 30, 2025.

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The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Electric Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,305,625	\$ -
Changes in assumptions	1,104,089	-
Net difference between projected and actual earnings on pension plan investments	4,689,355	-
Change in proportionate share	-	216,907
Contributions subsequent to measurement date	538,127	-
Total	<u>\$ 7,637,196</u>	<u>\$ 216,907</u>

\$538,127 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, 2026. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2026	\$ 4,938,939
2027	6,061,086
2028	(3,037,653)
2029	(1,080,210)
2030	-
Thereafter	-

For the year ended June 30, 2024, KUB recognized pension expense of \$6,394,757 and the Electric Division's share was \$3,027,303.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2022, this average was four years. During the measurement year, there was a liability experience loss of \$2,092,475, with \$523,119 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$1,569,356. Unrecognized liability experience losses from prior periods were \$1,951,216, of which \$940,357 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,010,859. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,580,215 (Division's share \$1,231,624). Unrecognized liability gains from prior periods were \$210,825, of which \$210,825 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$0.

During the measurement year, there were no benefit changes or assumption changes. Net unrecognized assumption change losses from prior periods were \$5,646,136, of which \$3,011,800 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$2,634,336 (Division's share \$1,257,458).

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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 \$20,099,370, of which \$4,019,874 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 \$39,628,509, of which \$1,043,676 was recognized as an increase in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with net unrecognized investment losses from prior periods, results in a deferred outflow of \$22,505,337 (Division's share \$10,742,563).

The impact of the change in proportionate share for the Electric Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is four years. This change resulted in a deferred inflow of \$47,840, with \$11,960 of that recognized in the current year and the remaining amount recognized over the next three years, resulting in a deferred inflow of resources of \$35,880. Net proportionate share changes from the prior period were \$189,521, of which \$63,174 was recognized in the current year, resulting in a deferred inflow of resources of \$126,347. Unrecognized proportionate share changes from prior periods of \$100,009, of which \$50,005 was recognized in the current year, resulted in a deferred outflow of \$50,004. In addition, KUB's Electric Division recorded a deferred outflow of resources of \$264,478 for employer contributions made between December 31, 2023, and June 30, 2024.

The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Electric Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,231,624	\$ -
Changes in assumptions	1,257,458	-
Net difference between projected and actual earnings on pension plan investments	10,742,563	-
Change in proportionate share	50,004	162,227
Contributions subsequent to measurement date	264,478	-
Total	<u>\$ 13,546,127</u>	<u>\$ 162,227</u>

13. Qualified Excess Benefit Arrangement

Description

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

As of June 30, 2025, there are 341 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not

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separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis. There are no assets accumulated in a trust that meets the GASB's criteria.

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, 2025, and 2024, are based on a December 31, 2024, and 2023, measurement date, respectively. The total pension liability of the QEBA is \$21,226 (Division's share \$9,976) as of June 30, 2025, and \$0 as of June 30, 2024.

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

	2024	2023
Total pension liability	\$21,226	\$0
Deferred outflows	(14,151)	(2,051)
Deferred inflows	-	1,704
Net impact on Statement of Net Position	<u>\$7,075</u>	<u>(\$347)</u>
Covered payroll	\$34,776,504	\$35,604,464
Total pension liability as a % of covered payroll	0.06%	0.00%

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

	Increase (Decrease)
	Total Pension Liability
Balances at December 31, 2023	\$ -
Changes for the year:	
Service cost	-
Interest	-
Changes of Benefits	-
Differences between Expected and Actual Experience	21,226
Changes of Assumptions	-
Benefit payments	-
Net changes	<u>21,226</u>
Balances at December 31, 2024	<u>\$ 21,226</u>

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Actuarial Assumptions

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

Valuation dates	January 1, 2024, rolled forward to December 31, 2024
Actuarial cost method	Individual entry age
Discount rate	4.08% at January 1, 2024
Salary increases	From 2.50% to 8.50%, based on years of service
Mortality	115% and 110% of the PubG-2010 table for males and females, respectively, using the benefits-weighted Public Sector General Healthy Annuitant Mortality Table for ages 50 and older and the benefits-weighted Public Sector General Employee Table for ages under 50, both projected from the 2010 base rates using scale MP-2021, fully generational as of December 31, 2024
Inflation	2.50%

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 4.08% at December 31, 2024.

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, 2024, calculated using the discount rate of 4.08 percent, as well as what the QEBA's liability would be if it were calculated using a discount rate that is one percent lower (3.08 percent) or one percent higher (5.08 percent) than the current rate.

	1% Decrease (3.08%)	Current Discount Rate (4.08%)	1% Increase (5.08%)
QEBA's total pension liability	\$ 24,131	\$ 21,226	\$ 18,639

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

For the year ended June 30, 2025, KUB recognized pension expense of \$7,422 (Division's share \$3,492) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [\$7,075 - (\$347) + \$-].

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, 2023, this average was three years.

During the measurement year, there was an experience loss of \$21,226 with \$7,075 recognized in the current year and the remaining deferred outflow of \$14,151 (Division's share \$6,651) to be recognized over the next two years. Unrecognized experience losses from prior periods were \$2,033, with the full amount recognized as an increase in pension expense in the current year. Unrecognized experience gains from prior periods were \$1,704, with the full amount recognized as a decrease in pension expense in the current year.

Unrecognized assumption change losses from prior periods were \$19, with the full amount recognized as an increase in pension expense in the current year.

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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	\$ 14,151	\$ -
Changes in assumptions	-	-
Total	<u>\$ 14,151</u>	<u>\$ -</u>
Division's share	<u>\$ 6,651</u>	<u>\$ -</u>

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

Year ended June 30:

2026	\$ 7,075
2027	7,076
2028	-
2029	-
2030	-
Thereafter	-

For the year ended June 30, 2024, KUB recognized pension expense of \$3,024 (Division's share \$1,452) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [(\$347) – (\$3,371)+ \$-].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2020, this average was four years. There was a deferred inflow at the end of the measurement year of \$1,717 (Division's share \$829) from experience gains in prior years and a deferred outflow of \$2,033 (Division's share \$976) from experience losses in prior years.

There was a deferred outflow of \$18 (Division's share \$7) from assumption changes in prior years.

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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	\$ 2,033	\$ 1,717
Changes in assumptions	18	-
Total	<u>\$ 2,051</u>	<u>\$ 1,717</u>
Division's share	<u>\$ 983</u>	<u>\$ 835</u>

14. Defined Contribution Plan

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

KUB funded 401(k) matching contributions and non-elective contributions of \$4,799,996 (Division's share \$2,255,998) and \$3,909,598 (Division's share \$1,873,454), respectively, for the years ended June 30, 2025, and 2024.

Vesting

Participants are immediately vested in their own contributions to the Plan, plus actual earnings on these contributions. Participants become 100% vested and entitled to the full value of their account, less any loans outstanding, upon death or disability or upon retirement after attaining their normal retirement age (first of the month coinciding with or following attainment of age 62).

Otherwise, vesting in the KUB matching contribution and non-elective contribution (as applicable) portion of their account plus related earnings are based on years of service and date of hire, as follows:

Participants hired prior to January 1, 2011 are 100% vested in the KUB matching contribution portion of their account.

Participants hired by KUB after December 31, 2010 are vested in the KUB matching and non-elective contribution portion of their account as follows:

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<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 2 years	0%
2	20%
3	40%
4	60%
5	80%
6 or more	100%

Forfeitures

Forfeitures are created when participants terminate employment before becoming entitled to their full benefits under the Plan. Upon forfeiture, the match and non-elective funds become available to offset Plan expenses. The Plan experienced forfeitures of \$243,630 during calendar year 2024 and \$306,016 during calendar year 2023. Forfeitures of \$271,595 and \$295,955 were used to reduce employer contributions in 2024 and 2023, respectively. The ending balance of forfeited assets in the Plan, including contributions and dividends, totaled \$10,862 and \$37,985 as of December 31, 2024 and 2023, respectively.

15. Other Post-Employment Benefits (OPEB)

Description of Trust

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

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

Knoxville Utilities Board Electric Division
Notes to Financial Statements
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Participants in the Plan consisted of the following as of June 30:

	HRA		Retiree Medical Benefit	
	2025	2024	2025	2024
Retirees	16	9	707	722
Dependents of retirees	16	7	385	401
Eligible active employees	1,109	1,127	128	144
Total	1,141	1,143	1,220	1,267

Benefits

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

Contributions and Funding

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

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

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

Based on the date of retirement, certain retired members are required to contribute specified amounts monthly to maintain health insurance. Those who retired prior to July 1983 have no required monthly premiums for themselves or dependents. The retirees, or their surviving dependents, who retired between August 1983 and January 1998 are required to pay \$275 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 \$275 for single coverage and \$550 for family coverage. There is currently no premium for Medicare eligible retirees or dependents. KUB is responsible for determining the level of retired plan member contributions on an annual basis as part of its review of healthcare cost sharing.

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

Knoxville Utilities Board Electric Division

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Investments

The Trust holds investments in a balanced fund, which invests in passively managed common trust index funds, managed and sponsored by State Street Global Advisors (SSgA), with an asset allocation mirroring the asset allocation of the Trust and rebalanced monthly. The Trust's Investment Policy was established and may only be amended by the KUB Board of Commissioners. The Trust's Investment Policy is to invest in a manner that will provide sufficient investment return to meet current and future retiree health benefits, while conforming to all governing State and Federal statutes. It allows investment of Trust assets in any type of security instrument allowed for in T.C.A 8-50-1203. The following was the Trust's adopted investment target allocations as set forth in the Trust's Investment Policy as of June 30, 2025:

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%

Actuarially determined contributions for the Electric Division of \$621,143 and \$557,271 were made to the OPEB Trust in fiscal years ended June 30, 2025 and 2024, respectively. These were based on the OPEB actuarial valuations as of January 1, 2023, and 2022.

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, 2025, and 2024, and the Total OPEB Liability as of the valuation date January 1, 2024, updated to June 30, 2025, and January 1, 2023, updated to June 30, 2024, respectively. The Division's share of the total net OPEB liability was \$2,579,621 as of June 30, 2025, and \$4,397,612 as of June 30, 2024.

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

	2025	2024
Total OPEB liability	\$ 60,675,101	\$ 61,042,928
Plan fiduciary net position	55,359,297	51,669,855
Net OPEB liability	\$ 5,315,804	\$ 9,373,073
Plan fiduciary net position as a percentage of the total OPEB liability	91.24%	84.65%

Knoxville Utilities Board Electric Division
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June 30, 2025 and 2024

Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2024	\$ 61,042,928	\$ 51,669,855	\$ 9,373,073
Changes for the year:			
Service cost	506,802	-	506,802
Interest	4,176,096	-	4,176,096
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	(154,501)	-	(154,501)
Changes of Assumptions	(1,302,021)	-	(1,302,021)
Contributions - employer	-	1,279,985	(1,279,985)
Contributions - member	-	-	-
Net investment income	-	6,084,906	(6,084,906)
Benefit payments	(3,594,203)	(3,594,203)	-
Administrative expense	-	(81,246)	81,246
Net changes	(367,827)	3,689,442	(4,057,269)
Balances at June 30, 2025	<u>\$ 60,675,101</u>	<u>\$ 55,359,297</u>	<u>\$ 5,315,804</u>

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, 2024, rolled forward to June 30, 2025; January 1, 2023, rolled forward to June 30, 2024
Discount rate:	7.00% as of June 30, 2025 and June 30, 2024
Healthcare cost trend rates:	<i>Pre-Medicare:</i> 8.00% grading down to 3.935% over 20 years as of June 30, 2025; 5.75% grading down to 3.935% over 20 years as of June 30, 2024 <i>Medicare:</i> 6.00% grading down to 3.935% over 20 years as of June 30, 2025; 11.30% grading down to 3.935% over 20 years as of June 30, 2024 <i>Administrative expenses:</i> 3.0% per year
Salary increases:	From 2.50% to 8.50%
Mortality:	115% and 110% of the benefits-weighted Public Sector General Healthy Annuitant Mortality Table (PubG-2010) respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Healthy Annuitant Mortality Table, both projected using scale MP-2021 fully generational
Inflation:	2.50%

Knoxville Utilities Board Electric Division

Notes to Financial Statements

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The actuarial assumptions used in the January 1, 2024 valuation were based on the results of an actuarial experience study for the period January 1, 2019 through December 31, 2023. The January 1, 2023 valuation assumptions were based on the results of actuarial experience study for the periods January 1, 2014, through December 31, 2018.

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

Asset Class	Long Term Expected Real Rate of Return	
	2025	2024
Domestic equity	6.0%	5.4%
International equity	6.4%	6.1%
Emerging Market equity	7.3%	7.8%
Real estate equity	6.3%	5.5%
Debt securities	2.4%	2.3%
Cash and deposits	0.9%	0.9%

Discount rate

The discount rate used to measure the total OPEB liability was 7.00 percent as of June 30, 2025 and June 30, 2024. 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 Division's share of the Trust as of June 30, 2025, calculated using the discount rate of 7.00 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is one percent lower (6.00 percent) or one percent higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB liability	\$10,974,569	\$5,315,804	\$512,532

Knoxville Utilities Board Electric Division

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

The following presents the net OPEB liability of the Division's share of the Trust as of June 30, 2025, as well as what the Trust's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percent lower or one percent higher than the current rate:

	1% Decrease	Baseline Trends	1% Increase
Net OPEB liability	\$435,302	\$5,315,804	\$10,948,243

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

For the year ended June 30, 2025, KUB's Electric Division recognized OPEB expense of \$282,266.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience gain of \$154,501, with \$22,072 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$132,429 (Division's share \$64,264). Unrecognized experience losses from prior periods were \$587,407, of which \$100,703 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of resources of \$486,704 (Division's share \$236,185).

During the measurement year, there were no benefit changes.

During the measurement year, there was an assumption change gain of \$1,302,021, with \$186,003 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$1,116,018. Unrecognized assumption change gains from prior period were \$1,801,872, of which \$300,312 was recognized as a decrease in OPEB expense in the current year and resulted in a deferred inflow of resources of \$1,501,560. The combination of unrecognized assumption change gains this year, along with unrecognized assumption change gains from prior periods, results in a deferred inflow of resources of \$2,617,578 (Division's share \$1,270,243). Unrecognized assumption losses from prior periods were \$1,805,588, of which \$361,118 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of \$1,444,470 (Division's share \$700,964).

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 \$2,550,439, of which \$510,088 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$2,040,351. Net unrecognized investment losses from prior periods were \$496,150, of which \$140,457 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$636,607. The combination of unrecognized gains and losses from the current year and prior periods results in a deferred inflow of resources of \$1,403,744 (Division's share \$681,200).

The impact of the change in proportionate share for the Electric Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is seven years. This change resulted in a deferred outflow of \$133,394, with \$19,057 of that recognized in the current year and the remaining amount recognized over the next six years, resulting in a deferred outflow of resources of \$114,337. Net proportionate share changes from prior periods were \$27,753, with \$4,769 of that recognized in the current year resulting in a deferred outflow of \$22,984. The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Electric Division.

Knoxville Utilities Board Electric Division
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June 30, 2025 and 2024

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 236,185	\$ 64,264
Changes in assumptions	700,964	1,270,243
Net difference between projected and actual earnings on OPEB plan investments	-	681,200
Change in proportionate share	137,321	-
Total	<u>\$ 1,074,470</u>	<u>\$ 2,015,707</u>

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

Year ended June 30:	
2026	\$ 614,525
2027	(571,135)
2028	(473,372)
2029	(246,302)
2030	(183,032)
Thereafter	(81,921)

For the year ended June 30, 2024, KUB's Electric Division recognized OPEB expense of \$953,249.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience loss of \$587,252, with \$83,893 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$503,359. Unrecognized experience losses from prior periods were \$100,858, of which \$16,810 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of resources of \$84,048. The combination of unrecognized experience gains or losses results in a deferred outflow of resources of \$587,407 (Division's share \$275,595).

During the measurement year, there was a benefit change gain of \$164,746. The entire amount was recognized as a decrease in OPEB expense in the current year.

During the measurement year, there was an assumption change gain of \$2,102,184, with \$300,312 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$1,801,872 (Division's share \$845,392). Unrecognized assumption losses from prior periods were \$2,166,706, of which \$361,118 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of \$1,805,588 (Division's share \$847,136).

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 \$2,339,599, of which \$467,920 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$1,871,679. Net unrecognized investment losses from prior periods were \$3,211,114, of which \$843,284 was recognized as an increase in OPEB expense in the current year, resulting in

Knoxville Utilities Board Electric Division
Notes to Financial Statements
June 30, 2025 and 2024

a net deferred outflow of \$2,367,829. The combination of unrecognized gains and losses from the current year and prior periods results in a deferred outflow of resources of \$496,150 (Division's share \$232,784).

The impact of the change in proportionate share for the Electric Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is seven years. This change resulted in a deferred outflow of \$27,385, with \$3,913 of that recognized in the current year and the remaining amount recognized over the next six years, resulting in a deferred outflow of resources of \$23,472. Net proportionate share changes from prior periods were \$5,137, with \$856 of that recognized in the current year resulting in a deferred outflow of \$4,281. The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Electric Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 275,595	\$ -
Changes in assumptions	847,136	845,392
Net difference between projected and actual earnings on OPEB plan investments	232,784	-
Change in proportionate share	27,753	-
Total	<u>\$ 1,383,268</u>	<u>\$ 845,392</u>

16. 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, 2025, and 2024, are summarized as follows:

	2025	2024
City of Knoxville		
Amounts billed by the Division for utilities and related services	\$ 8,106,261	\$ 7,373,294
Payments by the Division in lieu of property tax	9,869,896	10,429,071
Payments by the Division for services provided	6,658	17,590
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	8,304,229	7,143,305
Interdivisional rental expense	168,598	227,017
Interdivisional rental income	1,752,167	1,891,086
Amounts billed to the Division by other divisions for utilities services provided	139,215	320,018
Interdivisional interest income	1,516,244	1,172,928
Interdivisional access and utilization income	6,634,534	3,044,523

Knoxville Utilities Board Electric Division

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June 30, 2025 and 2024

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

	2025	2024
Accounts receivable	\$ 472,229	\$ 469,395

Broadband services are provided by a high-speed fiber optic network that is owned and maintained by the Electric Division. The Fiber Division shares in the cost to build and operate the Fiber network by paying the Electric Division an annual access fee based on the year-end value of those assets and the related expenses. The Fiber Division also pays the Electric Division an annual utilization fee based on attachments to the network.

In October 2021, the Division issued an interdivisional loan of \$10 million to the Fiber Division at an interest rate of 3.89 percent. In August 2022, the Division issued an interdivisional loan of \$7 million to the Fiber Division at an interest rate of 3.93 percent. In February 2023, the Division issued an interdivisional loan of \$13 million to the Fiber Division at an interest rate of 4.02 percent. In May 2024, the Division issued an interdivisional loan of \$7 million to the Fiber Division at an interest rate of 4.13 percent. In December 2024, the Division issued an interdivisional loan of \$7 million to the Fiber Division at an interest rate of 4.19 percent. The Division received interest revenue of \$1,516,244 for the year ended June 30, 2025, and \$1,172,928 for the year ended June 30, 2024.

17. Other Commitments and Contingencies

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

Knoxville Utilities Board Electric Division

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

June 30, 2025

	Year ended December 31									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability										
Service cost	\$ 7,764,986	\$ 8,221,181	\$ 6,349,402	\$ 6,647,220	\$ 5,227,657	\$ 6,142,213	\$ 5,095,488	\$ 4,607,486	\$ 4,226,985	\$ 4,157,062
Interest	18,573,527	17,868,490	17,430,465	16,982,226	16,393,202	16,030,626	15,344,193	15,015,282	14,966,559	14,812,784
Changes of benefit terms	-	-	-	-	-	163,199	-	-	-	-
Differences between expected and actual experience	2,346,811	2,092,475	282,014	1,935,276	1,930,170	(1,054,117)	(605,649)	(1,087,161)	(2,233,762)	(1,890,334)
Changes of assumptions	1,425,345	-	5,268,672	-	-	8,473,160	-	(357,633)	(2,932,883)	-
Benefit payments, including refunds of member contributions	(19,432,811)	(19,237,834)	(17,125,610)	(17,725,963)	(16,006,565)	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)
Net change in total pension liability	10,677,858	8,944,312	12,204,943	7,838,759	7,544,464	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586
Total pension liability - beginning	263,351,035	254,406,723	242,201,780	234,363,021	226,818,557	212,157,951	207,598,733	204,390,738	204,502,350	202,773,764
Total pension liability - ending (a)	\$ 274,028,893	\$ 263,351,035	\$ 254,406,723	\$ 242,201,780	\$ 234,363,021	\$ 226,818,557	\$ 212,157,951	\$ 207,598,733	\$ 204,390,738	\$ 204,502,350
Plan fiduciary net position										
Contributions - employer	\$ 1,659,187	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887
Contributions - participants	4,971,148	5,752,609	3,812,595	3,939,687	2,284,727	3,170,825	2,081,125	1,488,632	555,075	487,546
Net investment income	28,540,651	35,927,438	(63,493,985)	37,575,566	44,814,914	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)
Other additions	738	4,568	9,415	112,484	7,740	13,579	62,616	82,239	45,848	30,879
Benefit payments, including refunds of member contributions	(19,400,811)	(19,193,834)	(17,065,610)	(17,653,963)	(15,962,565)	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)
Administrative expense	(662,847)	(602,078)	(498,988)	(441,017)	(455,191)	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)
Death benefits	(32,000)	(44,000)	(60,000)	(72,000)	(44,000)	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)
Net change in plan fiduciary net position**	15,076,066	23,710,964	(74,151,803)	26,877,185	33,522,377	40,431,737	(21,868,910)	22,862,426	5,052,489	(9,333,204)
Plan fiduciary net position - beginning**	255,898,655	232,187,691	306,339,494	279,462,309	245,939,932	205,508,195	227,377,105	204,514,679	199,462,190	208,795,394
Plan fiduciary net position - ending (b)**	\$ 270,974,721	\$ 255,898,655	\$ 232,187,691	\$ 306,339,494	\$ 279,462,309	\$ 245,939,932	\$ 205,508,195	\$ 227,377,105	\$ 204,514,679	\$ 199,462,190
Plan's net pension liability - ending (a) - (b)	\$ 3,054,172	\$ 7,452,380	\$ 22,219,032	\$ (64,137,714)	\$ (45,099,288)	\$ (19,121,375)	\$ 6,649,756	\$ (19,778,372)	\$ (123,941)	\$ 5,040,160
Plan fiduciary net position as a percentage of the total pension liability	98.89%	97.17%	91.27%	126.48%	119.24%	108.43%	96.87%	109.53%	100.06%	97.54%
Covered payroll	\$ 34,776,504	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743
Plan's net pension liability as a percentage of covered payroll	8.78%	20.93%	59.39%	(168.45%)	(108.61%)	(47.48%)	15.78%	(45.67%)	(0.28%)	11.34%

Notes to Schedule:

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division

Required Supplementary Information – Schedule of Employer Pension Contributions

June 30, 2025

	Year ended December 31											
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015		
Actuarially determined contribution	\$ 1,659,187	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887		
Contribution in relation to the actuarially determined contribution	1,659,187	1,866,261	3,144,770	3,416,428	2,876,752	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887		
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Covered payroll	\$ 34,776,504	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743		
Contributions as a percentage of covered payroll	4.77%	5.24%	8.41%	8.97%	6.93%	7.13%	8.20%	9.90%	11.80%	13.48%		

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, 2023 and January 1, 2022

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age

Asset valuation method: 5-year smoothed market, adjusted to remain within 20% of the market value

Amortization method: As of January 1, 2023: Level dollar, 30-year closed period with 18 years remaining, or a level dollar, 30-year open period for a negative unfunded liability

As of January 1, 2022: Level dollar, 30-year closed period with 19 years remaining, or a level dollar, 30-year open period for a negative unfunded liability

As of January 1, 2023 and 2022, the unfunded liability was negative.

Discount rate: 7.00% as of January 1, 2023; 7.25% as of January 1, 2022

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

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

Inflation: 2.5%

Please refer to prior year's audited financial statements for prior methods and assumptions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division

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

June 30, 2025

	2025	2024	2023	*Year ended June 30 2022	2021	2020	2019	2018
Total OPEB liability								
Service cost	\$ 506,802	\$ 615,753	\$ 595,392	\$ 416,277	\$ 283,786	\$ 256,270	\$ 270,515	\$ 202,603
Interest	4,176,096	4,256,122	4,133,008	3,858,276	3,861,304	3,672,291	3,624,737	3,295,240
Change of benefit terms	-	(164,746)	-	6,594,293	-	(202,408)	-	-
Differences between expected and actual experience	(154,501)	587,252	117,668	60,951	42,802	43,902	999,098	1,324,769
Changes of assumptions	(1,302,021)	(2,102,184)	2,527,824	-	(4,105,835)	3,604,843	3,231,601	(397,180)
Benefit payments	(3,594,203)	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	(367,827)	(594,174)	3,100,822	7,021,162	(3,029,122)	4,346,302	4,593,507	1,126,693
Total OPEB liability - beginning	61,042,928	61,637,102	58,536,280	51,515,118	54,544,240	50,197,938	45,604,431	44,477,738
Total OPEB liability - ending (a)	\$ 60,675,101	\$ 61,042,928	\$ 61,637,102	\$ 58,536,280	\$ 51,515,118	\$ 54,544,240	\$ 50,197,938	\$ 45,604,431
Plan fiduciary net position								
Contributions - employer	\$ 1,279,985	\$ 1,187,768	\$ 1,413,392	\$ 1,989,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Net investment income	6,084,906	5,656,390	4,333,538	(8,122,417)	12,890,602	975,155	2,981,928	3,705,473
Benefit payments	(3,594,203)	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(81,246)	(94,379)	(101,186)	(71,187)	(44,496)	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	3,689,442	2,963,408	1,372,674	(10,113,173)	10,492,153	(1,795,403)	(605,303)	355,066
Plan fiduciary net position - beginning	51,669,855	48,706,447	47,333,773	57,446,946	46,954,793	48,750,196	49,355,499	49,000,433
Plan fiduciary net position - ending (b)	\$ 55,359,297	\$ 51,669,855	\$ 48,706,447	\$ 47,333,773	\$ 57,446,946	\$ 46,954,793	\$ 48,750,196	\$ 49,355,499
Net OPEB liability (asset) - ending (a) - (b)	\$ 5,315,804	\$ 9,373,073	\$ 12,930,655	\$ 11,202,507	\$ (5,931,828)	\$ 7,589,447	\$ 1,447,742	\$ (3,751,068)
Plan fiduciary net position as a percentage of the total OPEB liability	91.24%	84.65%	79.02%	80.86%	111.51%	86.09%	97.12%	108.23%
Covered employee payroll**	\$ 89,939,256	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	5.91%	11.21%	18.44%	15.15%	(27.49%)	32.48%	5.95%	(15.84%)

Notes to Schedule:

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

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division

Required Supplementary Information – Schedule of Employer OPEB Contributions

June 30, 2025

	2025	2024	2023	*Year ended June 30 2022	2021	2020	2019	2018
Actuarially determined contribution	\$ 1,279,985	\$ 1,187,768	\$ 1,413,392	\$ 489,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Contribution in relation to the annual required contribution	1,279,985	1,187,768	1,413,392	1,989,066	757,226	311,324	-	-
Contribution deficiency/(excess)	\$ -	\$ -	\$ -	\$ (1,500,000)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll*	\$ 89,939,256	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Contributions as a percentage of covered employee payroll	1.42%	1.42%	2.02%	2.69%	3.51%	1.33%	0.00%	0.00%

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

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

Notes to Schedule:

Valuation Date: January 1, 2023 and January 1, 2022
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: 15-year layered amortization bases for annual changes in the unfunded liabilities as of January 1, 2022 and 2023; 30-year rolling amortization for a funding surplus; As of January 1, 2022 and 2023, there was an unfunded liability
Discount rate: 7.25% and 7.00% as of January 1, 2022 and 2023, respectively
Healthcare cost trend rate: Pre-Medicare: 5.75% in 2022 and 5.70% in 2023 grading down to 3.935% in 2042 and beyond using the Getzen trend model
Medicare: 11.30% in 2022 and 7.40% in 2023 grading down to 3.935% in 2042 and beyond using the Getzen trend model
Administrative expenses: 3.0% per year
Salary increases: From 2.50% to 5.65%, based on years of service
Mortality: 115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational
Inflation: 2.5%
Investment rate of return: 7.25% and 7.00% as of January 1, 2022 and 2023, respectively
Retirement age: 2% at ages 50-57, grading up to 100% at age 70

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2025

	*Year ended December 31								
	2024	2023	2022	2021	2020	2019	2018	2017	2016
Total pension liability									
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 941	\$ 584	\$ -
Interest (includes interest on service cost)	-	-	-	268	388	9,181	9,676	7,535	-
Changes of benefit terms	-	-	-	-	-	(218,272)	-	-	185,077
Differences between expected and actual experience	21,226	-	-	(6,816)	10,165	34	(36,125)	13,684	-
Changes of assumptions	-	-	-	-	91	13,342	(22,950)	73,461	-
Benefit payments, including refunds of member contributions	-	-	-	(12,166)	(12,166)	(15,932)	-	-	-
Net change in total pension liability	<u>21,226</u>	<u>-</u>	<u>-</u>	<u>(18,714)</u>	<u>(1,522)</u>	<u>(211,647)</u>	<u>(48,458)</u>	<u>95,264</u>	<u>185,077</u>
Total pension liability - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,714</u>	<u>20,236</u>	<u>231,883</u>	<u>280,341</u>	<u>185,077</u>	<u>-</u>
Total pension liability - ending	<u>\$ 21,226</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,714</u>	<u>\$ 20,236</u>	<u>\$ 231,883</u>	<u>\$ 280,341</u>	<u>\$ 185,077</u>
Covered payroll	\$ 34,776,504	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747
Total pension liability as a percentage of covered payroll	0.06%	0.00%	0.00%	0.00%	0.05%	0.05%	0.55%	0.65%	0.42%

Notes to Schedule:

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2025

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FY	EE-2015		GG-2016		HH-2017		II-2017		JJ-2018		KK-2020		LL-2021	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
25-26 \$	2,670,000	\$ 387,750	\$ 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	\$ 2,745,000	\$ 2,459,075
26-27	2,735,000	306,675	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	2,890,000	2,318,200
27-28	2,850,000	222,900	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	2,995,000	2,171,075
28-29	2,955,000	135,825	1,200,000	787,437			1,140,000	925,500	1,130,000	1,057,281	1,595,000	211,125	3,315,000	2,013,325
29-30	3,050,000	45,750	1,200,000	762,687			1,175,000	890,775	1,165,000	1,022,856	1,675,000	129,375	3,465,000	1,843,825
30-31			1,250,000	731,187			1,215,000	854,925	1,200,000	986,631	1,750,000	43,750	2,525,000	1,694,075
31-32			1,275,000	693,312			1,250,000	817,950	1,240,000	947,731			3,495,000	1,543,575
32-33			1,325,000	654,312			1,285,000	779,925	1,285,000	905,897			2,850,000	1,384,950
33-34			1,350,000	614,187			1,325,000	740,775	1,330,000	860,938			2,845,000	1,242,575
34-35			1,400,000	572,937			1,365,000	700,425	1,375,000	813,600			2,845,000	1,100,325
35-36			1,450,000	535,625			1,410,000	658,800	1,420,000	766,463			2,845,000	972,300
36-37			1,475,000	500,875			1,450,000	615,900	1,470,000	719,500			2,845,000	858,500
37-38			1,525,000	459,563			1,495,000	571,725	1,520,000	669,963			2,845,000	744,700
38-39			1,550,000	417,313			1,540,000	526,200	1,570,000	617,819			2,845,000	630,900
39-40			1,600,000	377,937			1,590,000	479,250	1,625,000	562,888			2,845,000	517,100
40-41			1,650,000	335,250			1,635,000	430,875	1,685,000	504,963			2,845,000	403,300
41-42			1,675,000	289,531			1,685,000	381,075	1,745,000	444,938			2,845,000	289,500
42-43			1,725,000	242,781			1,740,000	329,700	1,805,000	382,813			2,845,000	175,700
43-44			1,775,000	194,656			1,790,000	275,631	1,870,000	318,500			1,485,000	89,100
44-45			1,825,000	142,875			1,850,000	218,756	1,935,000	251,913			1,485,000	29,700
45-46			1,900,000	87,000			1,910,000	160,006	2,005,000	182,963				
46-47			1,950,000	29,250			1,970,000	98,151	2,075,000	111,563				
47-48							2,035,000	33,069	2,150,000	37,625				
48-49														
49-50														
50-51														
51-52														
52-53														
53-54														
54-55														
Total \$	<u>14,260,000</u>	<u>\$ 1,098,900</u>	<u>\$ 32,550,000</u>	<u>\$ 10,931,529</u>	<u>\$ 8,060,000</u>	<u>\$ 483,513</u>	<u>\$ 34,075,000</u>	<u>\$ 13,474,713</u>	<u>\$ 34,760,000</u>	<u>\$ 15,576,288</u>	<u>\$ 9,405,000</u>	<u>\$ 1,472,375</u>	<u>\$ 55,700,000</u>	<u>\$ 22,481,800</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2025

Continued from Previous Page

FY	MM-2022		NN-2022		OO-2022		PP-2023		QQ-2024		Total		Grand Total (P + I)
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
25-26	\$ 850,000	\$ 1,849,600	\$ 845,000	\$ 1,111,275	\$ 1,340,000	\$ 3,457,300	\$ 865,000	\$ 2,728,375	\$ 4,065,144	\$ 16,440,000	\$ 19,855,793	\$ 36,295,793	
26-27	895,000	1,805,975	865,000	1,068,525	1,410,000	3,388,550	910,000	2,684,000	1,475,000	4,028,269	18,615,000	19,078,343	37,693,343
27-28	940,000	1,760,100	885,000	1,024,775	1,480,000	3,316,300	955,000	2,637,375	1,550,000	3,952,643	19,370,000	18,278,940	37,648,940
28-29	990,000	1,711,850	935,000	979,275	1,560,000	3,240,300	1,005,000	2,588,375	1,630,000	3,873,144	17,455,000	17,523,437	34,978,437
29-30	1,040,000	1,661,100	965,000	931,775	1,640,000	3,160,300	1,055,000	2,536,875	1,715,000	3,789,519	18,145,000	16,774,837	34,919,837
30-31	1,090,000	1,607,850	1,025,000	882,025	1,720,000	3,076,300	1,110,000	2,482,750	1,805,000	3,701,519	14,690,000	16,061,012	30,751,012
31-32	1,150,000	1,551,850	1,050,000	830,150	1,810,000	2,988,050	1,165,000	2,425,875	1,895,000	3,609,018	14,330,000	15,407,511	29,737,511
32-33	1,205,000	1,492,975	1,110,000	776,150	1,905,000	2,895,175	1,225,000	2,366,125	1,990,000	3,511,894	14,180,000	14,767,403	28,947,403
33-34	1,270,000	1,431,100	1,170,000	725,000	2,000,000	2,797,550	1,290,000	2,303,250	2,095,000	3,409,769	14,675,000	14,125,144	28,800,144
34-35	1,335,000	1,365,975	1,190,000	677,800	2,105,000	2,694,925	1,355,000	2,237,125	2,200,000	3,302,394	15,170,000	13,465,506	28,635,506
35-36	1,395,000	1,304,700	1,240,000	629,200	2,210,000	2,587,050	1,425,000	2,167,625	2,315,000	3,189,518	15,710,000	12,811,281	28,521,281
36-37	1,450,000	1,247,800	1,285,000	578,700	2,325,000	2,473,675	1,495,000	2,094,625	2,435,000	3,070,769	16,230,000	12,160,344	28,390,344
37-38	1,510,000	1,188,600	1,335,000	526,300	2,445,000	2,354,425	1,575,000	2,017,875	2,560,000	2,945,894	16,810,000	11,479,045	28,289,045
38-39	1,575,000	1,126,900	1,380,000	472,000	2,570,000	2,229,050	1,655,000	1,937,125	2,690,000	2,814,643	17,375,000	10,771,950	28,146,950
39-40	1,640,000	1,062,600	1,425,000	415,900	2,700,000	2,097,300	1,740,000	1,852,250	2,830,000	2,676,644	17,995,000	10,041,869	28,036,869
40-41	1,705,000	995,700	1,475,000	357,900	2,840,000	1,958,800	1,830,000	1,763,000	2,975,000	2,531,519	18,640,000	9,281,307	27,921,307
41-42	1,775,000	926,100	1,520,000	298,000	2,985,000	1,813,175	1,925,000	1,669,125	3,125,000	2,379,019	19,280,000	8,490,463	27,770,463
42-43	1,845,000	853,700	1,590,000	235,800	3,135,000	1,660,175	2,020,000	1,570,500	3,285,000	2,218,769	19,990,000	7,669,938	27,659,938
43-44	1,920,000	778,400	1,640,000	171,200	3,280,000	1,516,200	2,125,000	1,466,875	3,455,000	2,050,269	19,340,000	6,860,831	26,200,831
44-45	2,000,000	700,000	1,710,000	104,200	3,415,000	1,382,300	2,235,000	1,357,875	3,610,000	1,891,694	20,065,000	6,079,313	26,144,313
45-46	2,080,000	618,400	1,750,000	35,000	3,555,000	1,242,900	2,350,000	1,243,250	3,760,000	1,744,294	19,310,000	5,313,813	24,623,813
46-47	2,165,000	533,500			3,700,000	1,097,800	2,470,000	1,122,750	3,915,000	1,588,346	18,245,000	4,581,360	22,826,360
47-48	2,255,000	445,100			3,850,000	946,800	2,595,000	996,125	4,080,000	1,426,000	16,965,000	3,884,719	20,849,719
48-49	2,350,000	353,000			4,010,000	789,600	2,730,000	863,000	4,245,000	1,259,500	13,335,000	3,265,100	16,600,100
49-50	2,450,000	257,000			4,170,000	626,000	2,870,000	723,000	4,420,000	1,086,200	13,910,000	2,692,200	16,602,200
50-51	2,550,000	157,000			4,340,000	455,800	3,015,000	575,875	4,600,000	905,800	14,505,000	2,094,475	16,599,475
51-52	2,650,000	53,000			4,520,000	278,600	3,170,000	421,250	4,785,000	718,100	15,125,000	1,470,950	16,595,950
52-53					4,705,000	94,100	3,335,000	258,625	4,980,000	522,800	13,020,000	875,525	13,895,525
53-54							3,505,000	87,625	5,185,000	319,500	8,690,000	407,125	9,097,125
54-55									5,395,000	107,900	5,395,000	107,900	5,502,900
Total	\$ 44,080,000	\$ 28,839,875	\$ 26,390,000	\$ 12,830,950	\$ 77,725,000	\$ 56,618,500	\$ 55,000,000	\$ 49,178,500	\$ 91,000,000	\$ 72,690,491	\$ 483,005,000	\$ 285,677,434	\$ 768,682,434

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Changes in Long-term Debt by Individual Issue
June 30, 2025

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding Balance 7/1/2024	Issued During Period	Paid/Matured During Period	Refunded During Period	Outstanding Balance 6/30/2025
Business-Type Activities									
BONDS PAYABLE									
<u>Payable through Electric Fund</u>									
Revenue Bond Refunding, Series EE-2015	\$ 28,550,000	2.0-5.0	05/01/15	07/01/29	\$ 16,815,000	\$ -	\$ 2,555,000	\$ -	\$ 14,260,000
Revenue Bond, Series GG-2016	\$ 40,000,000	2.0-5.0	08/05/16	07/01/46	33,650,000	-	1,100,000	-	32,550,000
Revenue Bond Refunding, Series HH-2017	\$ 23,445,000	2.5-5.0	04/07/17	07/01/27	10,520,000	-	2,460,000	-	8,060,000
Revenue Bond, Series II-2017	\$ 40,000,000	3.0-5.0	09/15/17	07/01/47	35,060,000	-	985,000	-	34,075,000
Revenue Bond, Series JJ-2018	\$ 39,995,000	3.0-5.0	09/14/18	07/01/47	35,725,000	-	965,000	-	34,760,000
Revenue Bond Refunding, Series KK-2020	\$ 14,380,000	5.0	05/22/20	07/01/30	10,740,000	-	1,335,000	-	9,405,000
Revenue Bond Refunding, Series LL-2021	\$ 70,180,000	4.0-5.0	04/19/21	07/01/44	60,715,000	-	5,015,000	-	55,700,000
Revenue Bond, Series MM-2022	\$ 45,650,000	4.0-5.0	04/29/22	07/01/51	44,885,000	-	805,000	-	44,080,000
Revenue Bond Refunding, Series NN-2022	\$ 27,215,000	4.0-5.0	05/13/22	07/01/45	27,215,000	-	825,000	-	26,390,000
Revenue Bond, Series OO-2022	\$ 79,000,000	4.0-5.0	12/16/22	07/01/52	79,000,000	-	1,275,000	-	77,725,000
Revenue Bond, Series PP-2023	\$ 55,000,000	5.0	12/08/23	07/01/53	55,000,000	-	-	-	55,000,000
Revenue Bond, Series QQ-2024	\$ 91,000,000	4.0-5.0	08/29/24	07/01/54	-	91,000,000	-	-	91,000,000
					<u>\$ 409,325,000</u>	<u>\$ 91,000,000</u>	<u>\$ 17,320,000</u>	<u>\$ -</u>	<u>\$ 483,005,000</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Changes in Lease Liabilities
June 30, 2025

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Maturity Date	Outstanding 6/30/2024	Issued During Period	Paid and/or Matured During Period	Remeasure- ments	Outstanding 6/30/2025
<u>Lease Liabilities</u>									
<u>Payable through Electric Fund</u>									
American Towers - Rocky Hill	\$ 34,545	3.90%	11/1/2022	10/31/2027	\$ 24,445	\$ -	\$ (6,765)	\$ -	\$ 17,680
American Towers - Tillery/Bluegrass	34,759	3.90%	11/1/2022	10/31/2027	24,445	-	(6,765)	-	17,680
Crown Castle	86,124	3.90%	3/1/2023	2/1/2043	83,312	-	(2,280)	-	81,032
Manki 1 Investments	145,079	3.88%	7/1/2020	5/31/2027	88,023	-	(29,066)	(35)	58,922
R&S Logistics (Sublease)	1,835,035	3.88%	7/1/2020	3/31/2027	1,051,936	-	(359,825)	-	692,111
Ricoh Americas	17,907	3.88%	7/1/2020	7/31/2025	7,212	-	(6,161)	(129)	922
RJ Young Company	24,352	3.88%	7/1/2020	6/30/2026	6,447	-	(6,313)	(134)	-
SBA Properties	14,786	3.90%	1/1/2023	12/31/2027	10,926	-	(2,828)	-	8,098
Total Lease Liabilities					<u>\$ 1,296,746</u>	<u>\$ -</u>	<u>\$ (420,003)</u>	<u>\$ (298)</u>	<u>\$ 876,445</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information – Schedule of Insurance in Force
June 30, 2025
(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.

Environmental and Pollution Legal Liability

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

Property Insurance

This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - \$250,000,000 per occurrence (subject to certain sub limits); \$3,500,000 deductible per occurrence.

Travel Accident

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

Excess Insurance for General Liability

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

Excess Insurance for Workers' Compensation

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

Employee Health Plan Stop Loss Coverage

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses for more than \$700,000 per individual participant.

Cyber Security Liability

Liability coverage resulting from losses related to a covered event such as data breaches, ransomware, regulatory fines, cyber extortion, business interruption and other cyber-related events. Limits of coverage - \$5,000,000; \$500,000 deductible.

Drone

Liability coverage resulting from losses related to bodily injury or damaged property arising out of the ownership, maintenance, or use of a drone aircraft. Limits of coverage - \$2,000,000.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(Unaudited)

Rate Class	Base Charge	Number of Customers
Residential	Customer Charge: \$22.04 per month, less Hydro Allocation Credit: \$1.54 per month. Energy Charge: Summer Period \$0.12410 per kWh per month. Winter Period \$0.12369 per kWh per month. Transition Period \$0.12369 per kWh per month.	200,496
Residential Time of Use	Customer Charge: \$22.04 per month, less Hydro Allocation Credit: \$1.54 per month. Energy Charge: Onpeak \$0.23089 per kWh per month for all metered onpeak kWh Offpeak \$0.09472 per kWh per month for all metered offpeak kWh	80
Commercial/Industrial	<p>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:</p> Customer Charge: \$33.00 per delivery point per month. Demand Charge: Summer Period \$0.50 per kW of billing demand. Winter Period \$0.50 per kW of billing demand. Transition Period \$0.50 per kW of billing demand. Energy Charge: Summer Period \$0.14369 per kWh per month. Winter Period \$0.14328 per kWh per month. Transition Period \$0.14328 per kWh per month.	20,922
	<p>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:</p> Customer Charge: \$125.00 per delivery point per month. Demand Charge: Summer Period First 50 kW of billing demand at \$0.50 per kW. Over 50 kW of billing demand at \$19.34 per kW. Winter Period First 50 kW of billing demand at \$0.50 per kW. Over 50 kW of billing demand at \$18.55 per kW. Transition Period First 50 kW of billing demand at \$0.50 per kW. Over 50 kW of billing demand at \$18.55 per kW. Energy Charge: Summer Period First 15,000 kWh per month at \$0.17672 per kWh. Additional kWh per month at \$0.08321 per kWh. Winter Period First 15,000 kWh per month at \$0.17631 per kWh. Additional kWh per month at \$0.08321 per kWh. Transition Period First 15,000 kWh per month at \$0.17631 per kWh. Additional kWh per month at \$0.08321 per kWh.	2,574
	See accompanying Independent Auditor's Report	

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(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:		33
	Customer Charge:	\$313.00 per delivery point per month.	
	Demand Charge:	Summer Period First 1,000 kW of billing demand per month, at \$20.22 per kW. Excess over 1,000 kW of billing demand per month, at \$20.96 per kW, plus an additional \$20.96 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 \$19.46 per kW. Excess over 1,000 kW of billing demand per month, at \$20.20 per kW, plus an additional \$20.20 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 \$19.46 per kW. Excess over 1,000 kW of billing demand per month, at \$20.20 per kW, plus an additional \$20.20 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 \$0.09468 per kWh per month.	
		Winter Period \$0.09468 per kWh per month.	
		Transition Period \$0.09468 per kWh per month.	

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(Unaudited)

Rate Class	Number of Customers
Commercial/ Industrial Time of Use	
A. 1. If 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: Customer Charge: \$33.00 per delivery point per month. Demand Charge: \$2.27 per kW of maximum billing demand per month. Energy Charge: Onpeak \$0.23710 per kWh per month for all metered onpeak kWh Offpeak \$0.10038 per kWh per month for all metered offpeak kWh	271
2A. If 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 100 kW: Customer Charge: \$125.00 per delivery point per month. Demand Charge: \$5.16 per kW of maximum billing demand per month. Energy Charge: Onpeak \$0.25099 per kWh per month for all metered onpeak kWh Offpeak \$0.11427 per kWh per month for all metered offpeak kWh	49
2B. If 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 100 kW but not more than 1,000 kW: Customer Charge: \$143.00 per delivery point per month. Demand Charge: \$7.58 per kW of maximum billing demand per month. Energy Charge: Onpeak \$0.22460 per kWh per month for all metered onpeak kWh Offpeak \$0.08788 per kWh per month for all metered offpeak kWh	36

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Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
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(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	\$11.82 per kW per month of the customer's onpeak billing demand	
		Maximum Demand	\$6.88 per kW per month of the customer's maximum billing demand	
		Excess Demand	\$18.70 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	\$10.77 per kW per month of the customer's onpeak billing demand	
		Maximum Demand	\$6.88 per kW per month of the customer's maximum billing demand	
		Excess Demand	\$17.65 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	\$10.77 per kW per month of the customer's onpeak billing demand	
		Maximum Demand	\$6.88 per kW per month of the customer's maximum billing demand	
		Excess Demand	\$17.65 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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Knoxville Utilities Board Electric Division
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Energy Charge: Summer Period	Onpeak	\$0.10208 per kWh per month for all metered onpeak kWh
	Offpeak: Block 1	\$0.07496 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 2	\$0.03733 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 3	\$0.03362 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	\$0.08972 per kWh per month for all metered onpeak kWh
	Offpeak: Block 1	\$0.07737 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 2	\$0.03733 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 3	\$0.03362 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	\$0.07461 per kWh per month for all metered onpeak kWh
	Offpeak: Block 1	\$0.07461 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 2	\$0.03733 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 3	\$0.03362 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 \$0.02529 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.

See accompanying Independent Auditor's Report

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

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 \$11.82 per kW per month of the customer's onpeak billing demand	
			Maximum Demand \$6.72 per kW per month of the customer's maximum billing demand	
			Excess Demand \$18.54 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
		Winter Period	Onpeak Demand \$10.77 per kW per month of the customer's onpeak billing demand	
			Maximum Demand \$6.72 per kW per month of the customer's maximum billing demand	
			Excess Demand \$17.49 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.	
		Transition Period	Onpeak Demand \$10.77 per kW per month of the customer's onpeak billing demand	
			Maximum Demand \$6.72 per kW per month of the customer's maximum billing demand	
			Excess Demand \$17.49 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.	

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Energy Charge: Summer Period	Onpeak	\$0.10206 per kWh per month for all metered onpeak kWh
	Offpeak: Block 1	\$0.07494 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 2	\$0.03731 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 3	\$0.03360 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	\$0.08970 per kWh per month for all metered onpeak kWh
	Offpeak: Block 1	\$0.07459 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 2	\$0.03731 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 3	\$0.03360 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	\$0.07459 per kWh per month for all metered onpeak kWh
	Offpeak: Block 1	\$0.07459 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 2	\$0.03731 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 3	\$0.03360 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 \$0.02529 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.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(Unaudited)

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	\$11.82 per kW per month of the customer's onpeak billing demand	
		Maximum Demand	\$6.59 per kW per month of the customer's maximum billing demand	
		Excess Demand	\$18.41 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	\$10.77 per kW per month of the customer's onpeak billing demand	
		Maximum Demand	\$6.59 per kW per month of the customer's maximum billing demand	
		Excess Demand	\$17.36 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	\$10.77 per kW per month of the customer's onpeak billing demand	
		Maximum Demand	\$6.59 per kW per month of the customer's maximum billing demand	
		Excess Demand	\$17.36 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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Knoxville Utilities Board Electric Division
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(Unaudited)

Energy Charge: Summer Period	Onpeak	\$0.10206 per kWh per month for all metered onpeak kWh
	Offpeak: Block 1	\$0.07494 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 2	\$0.03607 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 3	\$0.03360 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	\$0.08970 per kWh per month for all metered onpeak kWh
	Offpeak: Block 1	\$0.07735 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 2	\$0.03607 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 3	\$0.03360 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	\$0.07459 per kWh per month for all metered onpeak kWh
	Offpeak: Block 1	\$0.07459 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 2	\$0.03607 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 3	\$0.03360 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 \$0.02529 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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Knoxville Utilities Board Electric Division
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(Unaudited)

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:		10	
		Customer Charge: \$1,500 per delivery point per month.			
		Administrative Charge: \$700 per delivery point per month.			
		Demand Charge:			
		Summer Period	Onpeak Demand		\$12.04 per kW per month of the customer's onpeak billing demand
			Maximum Demand		\$8.64 per kW per month of the customer's maximum billing demand
			Excess Demand		\$20.68 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		\$10.99 per kW per month of the customer's onpeak billing demand
			Maximum Demand		\$8.64 per kW per month of the customer's maximum billing demand
			Excess Demand		\$19.63 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	\$10.99 per kW per month of the customer's onpeak billing demand			
	Maximum Demand	\$8.64 per kW per month of the customer's maximum billing demand			
	Excess Demand	\$19.63 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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Knoxville Utilities Board Electric Division
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Energy Charge: Summer Period	Onpeak	\$0.13674 per kWh per month for all metered onpeak kWh
	Offpeak: Block 1	\$0.09989 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 2	\$0.05318 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 3	\$0.04985 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	\$0.11992 per kWh per month for all metered onpeak kWh
	Offpeak: Block 1	\$0.10316 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 2	\$0.05318 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 3	\$0.04985 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	\$0.10448 per kWh per month for all metered onpeak kWh
	Offpeak: Block 1	\$0.10448 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 2	\$0.05318 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
	Block 3	\$0.04985 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 \$0.02691 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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Knoxville Utilities Board Electric Division
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(Unaudited)

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.		
		Customer Charge: \$1,500 per delivery point per month.		
		Administrative Charge: \$700 per delivery point per month.		
		Demand Charge:		
		Summer Period	Onpeak Demand	\$11.15 per kW per month of the customer's onpeak billing demand
			Maximum Demand	\$3.45 per kW per month of the customer's maximum billing demand
			Excess Demand	\$14.60 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.
		Winter Period	Onpeak Demand	\$10.09 per kW per month of the customer's onpeak billing demand
			Maximum Demand	\$3.45 per kW per month of the customer's maximum billing demand
			Excess Demand	\$13.54 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.
	Transition Period	Onpeak Demand	\$10.09 per kW per month of the customer's onpeak billing demand	
		Maximum Demand	\$3.45 per kW per month of the customer's maximum billing demand	
		Excess Demand	\$13.54 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(Unaudited)

Energy Charge:	Summer Period	Onpeak	\$0.09361 per kWh per month for all metered onpeak kWh
		Offpeak: Block 1	\$0.06640 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 2	\$0.03409 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 3	\$0.03132 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	\$0.08120 per kWh per month for all metered onpeak kWh
		Offpeak: Block 1	\$0.06884 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 2	\$0.03409 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 3	\$0.03132 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	\$0.06977 per kWh per month for all metered onpeak kWh
		Offpeak: Block 1	\$0.06977 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 2	\$0.03409 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 3	\$0.03132 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 \$0.02553 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.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(Unaudited)

Rate Class	Base Charge	Number of Customers						
Manufacturing	<p>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.</p> <p>Customer Charge: \$1,500 per delivery point per month.</p> <p>Administrative Charge: \$700 per delivery point per month.</p> <p>Demand Charge:</p> <table> <tr> <td>Summer Period</td> <td> Onpeak Demand \$11.15 per kW per month of the customer's onpeak billing demand Maximum Demand \$3.33 per kW per month of the customer's maximum billing demand Excess Demand \$14.48 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher. </td> </tr> <tr> <td>Winter Period</td> <td> Onpeak Demand \$10.09 per kW per month of the customer's onpeak billing demand Maximum Demand \$3.33 per kW per month of the customer's maximum billing demand Excess Demand \$13.42 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. </td> </tr> <tr> <td>Transition Period</td> <td> Onpeak Demand \$10.09 per kW per month of the customer's onpeak billing demand Maximum Demand \$3.33 per kW per month of the customer's maximum billing demand Excess Demand \$13.42 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. </td> </tr> </table>	Summer Period	Onpeak Demand \$11.15 per kW per month of the customer's onpeak billing demand Maximum Demand \$3.33 per kW per month of the customer's maximum billing demand Excess Demand \$14.48 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	Winter Period	Onpeak Demand \$10.09 per kW per month of the customer's onpeak billing demand Maximum Demand \$3.33 per kW per month of the customer's maximum billing demand Excess Demand \$13.42 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 \$10.09 per kW per month of the customer's onpeak billing demand Maximum Demand \$3.33 per kW per month of the customer's maximum billing demand Excess Demand \$13.42 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.	1
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See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(Unaudited)

Energy Charge:	Summer Period	Onpeak	\$0.09282 per kWh per month for all metered onpeak kWh
		Offpeak: Block 1	\$0.06560 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 2	\$0.03605 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 3	\$0.03605 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	\$0.08040 per kWh per month for all metered onpeak kWh
		Offpeak: Block 1	\$0.06802 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 2	\$0.03605 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 3	\$0.03605 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	\$0.06897 per kWh per month for all metered onpeak kWh, plus
		Offpeak: Block 1	\$0.06897 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
		Block 2	\$0.03605 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
		Block 3	\$0.03605 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 \$0.02553 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.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(Unaudited)

Rate Class	Base Charge		Number of Customers																											
Manufacturing	D.	<p>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.</p> <p>Customer Charge: \$1,500 per delivery point per month.</p> <p>Administrative Charge: \$700 per delivery point per month.</p> <p>Demand Charge:</p> <table><tr><td>Summer Period</td><td>Onpeak Demand</td><td>\$11.15 per kW per month of the customer's onpeak billing demand</td></tr><tr><td></td><td>Maximum Demand</td><td>\$2.89 per kW per month of the customer's maximum billing demand</td></tr><tr><td></td><td>Excess Demand</td><td>\$14.04 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.</td></tr><tr><td>Winter Period</td><td>Onpeak Demand</td><td>\$10.09 per kW per month of the customer's onpeak billing demand</td></tr><tr><td></td><td>Maximum Demand</td><td>\$2.89 per kW per month of the customer's maximum billing demand</td></tr><tr><td></td><td>Excess Demand</td><td>\$12.98 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.</td></tr><tr><td>Transition Period</td><td>Onpeak Demand</td><td>\$10.09 per kW per month of the customer's onpeak billing demand</td></tr><tr><td></td><td>Maximum Demand</td><td>\$2.89 per kW per month of the customer's maximum billing demand</td></tr><tr><td></td><td>Excess Demand</td><td>\$12.98 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.</td></tr></table>	Summer Period	Onpeak Demand	\$11.15 per kW per month of the customer's onpeak billing demand		Maximum Demand	\$2.89 per kW per month of the customer's maximum billing demand		Excess Demand	\$14.04 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	\$10.09 per kW per month of the customer's onpeak billing demand		Maximum Demand	\$2.89 per kW per month of the customer's maximum billing demand		Excess Demand	\$12.98 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	\$10.09 per kW per month of the customer's onpeak billing demand		Maximum Demand	\$2.89 per kW per month of the customer's maximum billing demand		Excess Demand	\$12.98 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.	2
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See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(Unaudited)

Energy Charge:	Summer Period	Onpeak	\$0.08905 per kWh per month for all metered onpeak kWh
		Offpeak: Block 1	\$0.06185 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 2	\$0.03292 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 3	\$0.03228 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	\$0.07663 per kWh per month for all metered onpeak kWh
		Offpeak: Block 1	\$0.06425 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 2	\$0.03292 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 3	\$0.03228 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	\$0.06520 per kWh per month for all metered onpeak kWh
		Offpeak: Block 1	\$0.06520 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 2	\$0.03292 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 3	\$0.03228 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 \$0.02553 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.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(Unaudited)

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.		
		Customer Charge: \$1,500 per delivery point per month.		
		Administrative Charge: \$700 per delivery point per month.		
		Demand Charge:		
		Summer Period	Onpeak Demand	\$11.27 per kW per month of the customer's onpeak billing demand
			Maximum Demand	\$6.64 per kW per month of the customer's maximum billing demand
			Excess Demand	\$17.91 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.
		Winter Period	Onpeak Demand	\$10.20 per kW per month of the customer's onpeak billing demand
			Maximum Demand	\$6.64 per kW per month of the customer's maximum billing demand
			Excess Demand	\$16.84 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.
	Transition Period	Onpeak Demand	\$10.20 per kW per month of the customer's onpeak billing demand	
		Maximum Demand	\$6.64 per kW per month of the customer's maximum billing demand	
		Excess Demand	\$16.84 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.	

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(Unaudited)

Energy Charge:	Summer Period	Onpeak	\$0.10872 per kWh per month for all metered onpeak kWh
		Offpeak: Block 1	\$0.08123 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 2	\$0.05106 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 3	\$0.04826 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	\$0.09617 per kWh per month for all metered onpeak kWh
		Offpeak: Block 1	\$0.08367 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 2	\$0.05106 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 3	\$0.04826 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	\$0.08464 per kWh per month for all metered onpeak kWh
		Offpeak: Block 1	\$0.08464 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 2	\$0.05106 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy
		Block 3	\$0.04826 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 \$0.02691 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.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(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 \$0.11339 per kWh per month. Winter Period \$0.11339 per kWh per month. Transition Period \$0.11339 per kWh per month.			
	Facility Charge: The annual facility charge shall be 13.00 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	25,432		
	Charges Per Fixture Per Month			
a. Type of Fixture	Lamp Size	Rated kWh	Facility Charge	Total Lamp Charge
Light-Emitting Diode (LED)	100WE	21	\$ 6.62	\$ 9.00
	250WE	58	8.20	14.78
	400WE	79	11.26	20.22
High Pressure Sodium	100W	42	5.76	10.52
	250W	105	6.83	18.74
	400W	165	8.04	26.75
	1000W*	385	12.87	56.53
Decorative	100W	42	6.57	11.33
* 1,000 watt fixtures not offered for new service.				
b. Energy Charge:	For each lamp size under a. above, \$0.11339 per rated kWh per month.			
Additional pole charge:	\$5.80 per pole.			

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(Unaudited)

Rate Class	Base Charge	Number of Customers
Electric Vehicle Charging	This rate shall exclusively apply to separately metered charging stations for electric vehicles where the charging station's demand is greater than 50 kW but not more than 5,000 kW.	-
	Customer Charge: \$104.00 per delivery point per month.	
	Energy Charge: Onpeak \$0.33974 per kWh per month for all metered onpeak kWh	
	Offpeak \$0.21796 per kWh per month for all metered offpeak kWh	

See accompanying Independent Auditor's Report

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Commissioners
Electric Division of the Knoxville Utilities Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the 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, 2025, 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 17, 2025, which references, that the financial statements, are only that portion of Knoxville Utilities Board that resulted from the transactions of the Electric Division.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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.

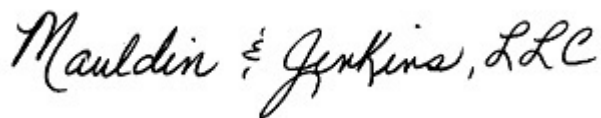
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any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

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Chattanooga, Tennessee
October 17, 2025



Fiber Division

Financial Statements and Supplemental Information June 30, 2025 and 2024

KUB Board of Commissioners

Cynthia Gibson, Chair

Ron Feinbaum

Celeste Herbert

Dr. Craig Pickett, Jr.

Claudia Caballero, Vice Chair

Kathy Hamilton

Phyllis Nichols

Management

Gabriel Bolas II

President and Chief Executive Officer

Mark Walker

Senior Vice President and Chief Financial Officer

Jamie Davis

Senior Vice President Fiber and Chief Technology Officer

John Williams

Senior Vice President and Chief Infrastructure and
Compliance Officer

John Gresham

Senior Vice President and Chief Engineering and
Operations Officer

Tiffany Martin

Senior Vice President and Chief Customer and Talent Officer

Erin Gill

Vice President Communications and External Relations

Knoxville Utilities Board Fiber Division

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June 30, 2025 and 2024

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Fiber Division of the Knoxville Utilities Board

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Fiber 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, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Division as of June 30, 2025 and 2024, and the changes in financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

-
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Division's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-22, the schedule of changes in net pension liability and related ratios, the schedule of employer pension contributions, the schedule of changes in net OPEB liability and related ratios, the schedule of employer OPEB contributions and the schedule of changes in total pension liability and related ratios - qualified governmental excess benefit arrangement on pages 58-62 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's basic financial statements. The schedule of debt maturities by fiscal year, the schedule of changes in long-term debt by individual issue are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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.

The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of debt maturities by fiscal year, the schedule of changes in long-term debt by individual issue, and schedule of changes in lease liabilities are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the statistical information but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Emphasis of Matter

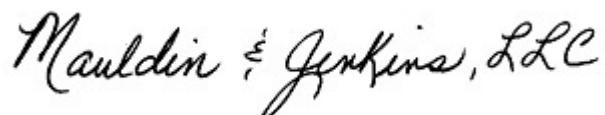
As discussed in Note 1, the financial statements present only the Fiber Division and do not purport to, and do not, present fairly the financial position of the Knoxville Utilities Board, as of June 30, 2025 and 2024, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

The financial statements of the Division as of June 30, 2024, were audited by other auditors whose report dated October 23, 2024, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2025, 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 the Division's 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.



Chattanooga, Tennessee
October 17, 2025

Knoxville Utilities Board Fiber Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Knoxville Utilities Board (KUB), comprised of the Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. The Fiber Division (Division) will provide 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 Fiber Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board as of June 30, 2025, and 2024, the changes in its financial position for the year 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, 2025, activities, resulting changes, and current known facts, and should be read in conjunction with the Division's financial statements.

Fiber Division Highlights

System Highlights

KUB continued to expand its broadband network this fiscal year reaching more of the service territory and adding 11,657 customers.

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

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

As a component of the Fiber Division's start-up financing plan, approved by KUB's Board and TVA, the Electric Division will provide \$55 million of interdivisional loans. The first \$10 million was provided in October 2021, \$7 million was provided in August 2022, \$13 million was provided in February 2023, and \$5 million was provided in May 2024, all maturing in June 2030. The Electric Division issued a \$2 million loan in May 2024, and a \$7 million loan in December 2024 to the Fiber Division, both maturing in June 2032.

Knoxville Utilities Board Fiber Division

Management's Discussion and Analysis

June 30, 2025 and 2024

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

As of June 30, 2025, the Fiber Division had 22,416 customers.

The Tennessee Emergency Broadband Fund selected KUB for a grant of \$15.3 million to assist in the provision of broadband access to Grainger, Jefferson, Sevier, and Union Counties. As of June 30, 2025, KUB has received \$10.6 million in reimbursements.

KUB's internet assistance program, ConnectED, provides free high-speed internet to student households who qualify, with funding from the City of Knoxville and Knox County. ConnectED participants receive \$80 monthly toward fiber-related charges.

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

Financial Highlights

Fiscal Year 2025 Compared to Fiscal Year 2024

The Division's Change in Net Position decreased \$3.9 million in fiscal year 2024. Comparatively, net position decreased \$8.2 million in fiscal year 2024. During the initial phases of system buildout and customer growth, the Fiber Division has been operating under a negative annual change in net position, and a deficit net position balance. This negative annual change in net position will continue to decrease and become positive as operating revenues increase with the addition of customers as the system builds out. At that time, KUB fully anticipates future operations with a positive change in net position that will lead to a surplus net position balance.

Operating revenue increased \$10.7 million compared to the prior year. Operating expenses increased \$6.2 million. Operating and maintenance (O&M) expenditures increased \$6.2 million. Depreciation and amortization expense, as well as taxes and tax equivalents, remained consistent with the prior year.

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

Interest expense increased \$0.3 million, due to higher levels of notes payable outstanding.

Total capital assets (net) increased \$0.1 million, reflecting new fiber equipment.

As of June 30, 2025, the Division had a \$39.6 million note payable to the Electric Division in outstanding debt (including the current portion of note payable).

During the fiscal year, the Division was issued \$7 million of additional interdivisional loans from the Electric Division. KUB's Board and TVA have approved proposed loans of up to \$55 million to the Division from the Electric Division.

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's Change in Net Position decreased \$8.2 million in fiscal year 2024. Comparatively, net position decreased \$9.2 million in fiscal year 2023.

Knoxville Utilities Board Fiber Division Management's Discussion and Analysis June 30, 2025 and 2024

Operating revenue increased \$5.5 million compared to the prior year. Operating expenses increased \$4.2 million. Operating and maintenance (O&M) expenditures increased \$4.1 million. Depreciation and amortization expense remained flat. Taxes and tax equivalents increased \$0.1 million.

Interest income was consistent with the prior fiscal year.

Interest expense increased \$0.3 million, due to higher levels of notes payable outstanding.

Total capital assets (net) increased \$0.5 million, reflecting fiber systems and equipment.

As of June 30, 2024, the Division had a \$34.6 million note payable to the Electric Division in outstanding debt (including the current portion of note payable).

During the fiscal year, the Division was issued \$7 million of additional interdivisional loans from the Electric Division. KUB's Board and TVA have approved proposed loans of up to \$55 million to the Division from the Electric Division.

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Knoxville Utilities Board Fiber Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Knoxville Utilities Board Fiber 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, fiber plant in service, intangible, or other assets.

Liabilities are classified as current, other, or long-term debt. Net position is classified as net investment in capital assets, restricted, or unrestricted. Net position tells the user what 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 and intangible assets, less lease and subscription liabilities and the outstanding balances of debt used to acquire, construct, or improve those assets.

Restricted net position includes assets that have been limited to specific uses by 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, non-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.

Knoxville Utilities Board Fiber Division
Management's Discussion and Analysis
June 30, 2025 and 2024

Condensed Financial Statements

Statement of Net Position

The following table reflects the condensed Statement of Net Position for the Fiber Division compared to the prior fiscal year.

Statement of Net Position
As of June 30

<i>(in thousands of dollars)</i>	2025	2024	2023
Current, restricted, intangible, and other assets	\$ 18,515	\$ 16,920	\$ 19,736
Capital assets, net	<u>5,148</u>	<u>4,999</u>	<u>4,510</u>
Total assets	<u>23,663</u>	<u>21,919</u>	<u>24,246</u>
Deferred outflows of resources	<u>586</u>	<u>908</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>24,249</u>	<u>22,827</u>	<u>24,246</u>
Current and other liabilities	10,174	9,376	8,316
Long-term debt outstanding	<u>37,363</u>	<u>32,737</u>	<u>27,617</u>
Total liabilities	<u>47,537</u>	<u>42,113</u>	<u>35,933</u>
Deferred inflows of resources	<u>644</u>	<u>722</u>	<u>120</u>
Total liabilities and deferred inflows of resources	<u>48,181</u>	<u>42,835</u>	<u>36,053</u>
Net position			
Net investment in capital assets	4,343	4,306	4,120
Restricted	-	-	-
Unrestricted	<u>(28,275)</u>	<u>(24,314)</u>	<u>(15,928)</u>
Total net position	<u>\$ (23,932)</u>	<u>\$ (20,008)</u>	<u>\$ (11,808)</u>

Normal Impacts on Statement of Net Position

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

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

Knoxville Utilities Board Fiber Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Impacts and Analysis

Current, Restricted, Intangible, and Other Assets

Fiscal Year 2025 Compared to Fiscal Year 2024

Current, restricted, intangible, and other assets increased \$1.6 million compared to the prior year. The change is primarily due to a increase in general fund cash (consisting of cash and cash equivalents) of \$1.6 million.

Fiscal Year 2024 Compared to Fiscal Year 2023

Current, restricted, intangible, and other assets decreased \$2.8 million compared to the prior year. The change is primarily due to a decrease in general fund cash (consisting of cash and cash equivalents) of \$3 million.

Capital Assets

Fiscal Year 2025 Compared to Fiscal Year 2024

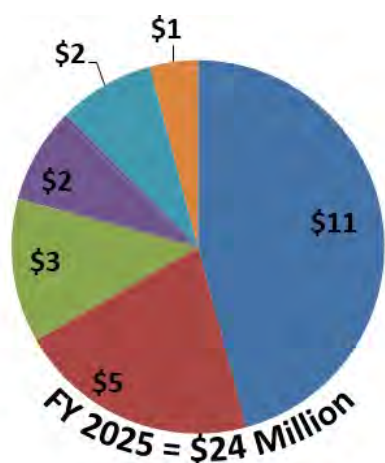
Capital assets increased \$0.1 million, primarily due to the purchase of fiber equipment.

Fiscal Year 2024 Compared to Fiscal Year 2023

Capital assets increased \$0.5 million. Major capital expenditures included \$0.5 million for fiber systems and equipment.

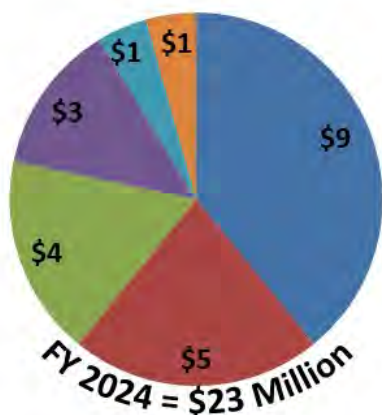
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Knoxville Utilities Board Fiber Division
Management's Discussion and Analysis
June 30, 2025 and 2024



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

	<u>FY25</u>	<u>FY24</u>
General and Contingency Funds	46%	41%
Plant	21%	22%
Intangible Assets	13%	18%
Other Assets	8%	10%
Restricted Assets	8%	5%
Deferred Outflows of Resources	4%	4%



Current and Other Liabilities

Fiscal Year 2025 Compared to Fiscal Year 2024

Current and other liabilities increased \$0.8 million compared to the prior year. This was primarily driven by a \$0.7 million increase in accrued expenses, a \$0.5 million increase in unearned revenue, and a \$0.4 million increase in the current portion of the note payable. These increases were offset by a \$0.4 million decrease in lease liability (including the current portion), a \$0.3 million decrease in subscription liability (including the current portion), and a \$0.1 million decrease in the actuarially determined net OPEB liability.

Fiscal Year 2024 Compared to Fiscal Year 2023

Current and other liabilities increased \$1 million compared to the prior year. Accrued expenses increased \$0.8 million, the current portion of the note payable increased \$0.4 million, unearned revenue increased \$0.3 million, and the actuarially determined net OPEB liability increased \$0.3 million. These increases were offset by a \$0.5 million decrease in payables.

Knoxville Utilities Board Fiber Division

Management's Discussion and Analysis

June 30, 2025 and 2024

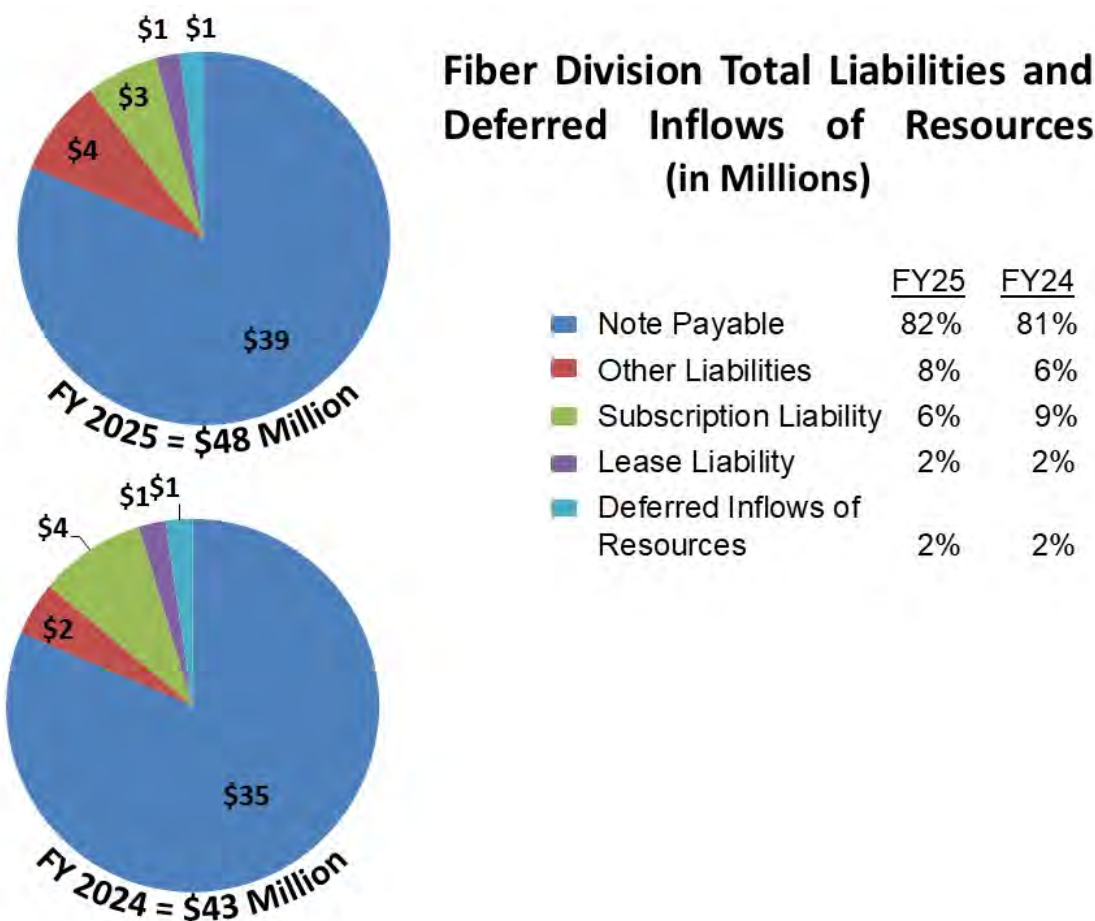
Long-Term Debt

Fiscal Year 2025 Compared to Fiscal Year 2024

Long-term debt was \$4.6 million higher than the prior year. During the fiscal year, the Division was issued \$7 million of additional interdivisional loans from the Electric Division. KUB's Board and TVA have approved proposed loans of up to \$55 million to the Division from the Electric Division.

Fiscal Year 2024 Compared to Fiscal Year 2023

Long-term debt was \$5.2 million higher than the prior year. During the fiscal year, the Division was issued \$7 million of additional interdivisional loans from the Electric Division. KUB's Board and TVA have approved proposed loans of up to \$55 million to the Division from the Electric Division.



Net Position

Fiscal Year 2025 Compared to Fiscal Year 2024

Total net position decreased \$3.9 million. Net investment in capital assets and restricted net position was comparable to the prior year. Unrestricted net position decreased \$3.9 million.

Knoxville Utilities Board Fiber Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Fiscal Year 2024 Compared to Fiscal Year 2023

Total net position decreased \$8.2 million. Net investment in capital assets increased \$0.2 million, while restricted net position was comparable to the prior year. Unrestricted net position decreased \$8.4 million.

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 Fiber Division compared to the prior fiscal year.

Statement of Revenues, Expenses and Changes in Net Position For the Year Ended June 30

<i>(in thousands of dollars)</i>	2025	2024	2023
Operating revenues	\$ 17,134	\$ 6,420	\$ 880
Operating expenses			
Products and promotions	13,427	8,358	4,342
Customer service	1,819	1,552	1,745
Administrative and general	3,580	2,689	2,387
Depreciation and amortization	854	877	833
Taxes and tax equivalents	248	247	189
Total operating expenses	<u>19,928</u>	<u>13,723</u>	<u>9,496</u>
Operating income	<u>(2,794)</u>	<u>(7,303)</u>	<u>(8,616)</u>
Interest income	564	475	435
Interest expense	(1,694)	(1,372)	(1,061)
Other income/(expense)	-	-	-
Change in net position	\$ <u>(3,924)</u>	\$ <u>(8,200)</u>	\$ <u>(9,242)</u>

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

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

- Operating revenue is largely determined by the number of broadband services provided to customers for the fiscal year. Any change (increase/decrease) in retail fiber rates would also be a cause of change in operating revenue.
- Operating expenses (products and promotions, 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 system maintenance.
- Depreciation and amortization expense is impacted by intangible assets, 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.

Knoxville Utilities Board Fiber Division

Management's Discussion and Analysis

June 30, 2025 and 2024

- 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 2025 Compared to Fiscal Year 2024

The Division's Change in Net Position was (\$3.9 million) in fiscal year 2025, due to \$17.1 million in operating revenues and \$0.6 million in interest income offset by \$19.9 million in operating expenses and \$1.7 million in interest expense.

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's Change in Net Position was (\$8.2 million) in fiscal year 2024, due to \$6.5 million in operating revenues and \$0.5 million in interest income offset by \$13.7 million in operating expenses and \$1.4 million in interest expense.

Margin from Sales

Fiscal Year 2025 Compared to Fiscal Year 2024

The Fiber Division had operating revenues of \$17.1 million in fiscal year 2025, due to system growth.

Fiscal Year 2024 Compared to Fiscal Year 2023

The Fiber Division had operating revenues of \$6.4 million in fiscal year 2024.

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Knoxville Utilities Board Fiber Division

Management's Discussion and Analysis

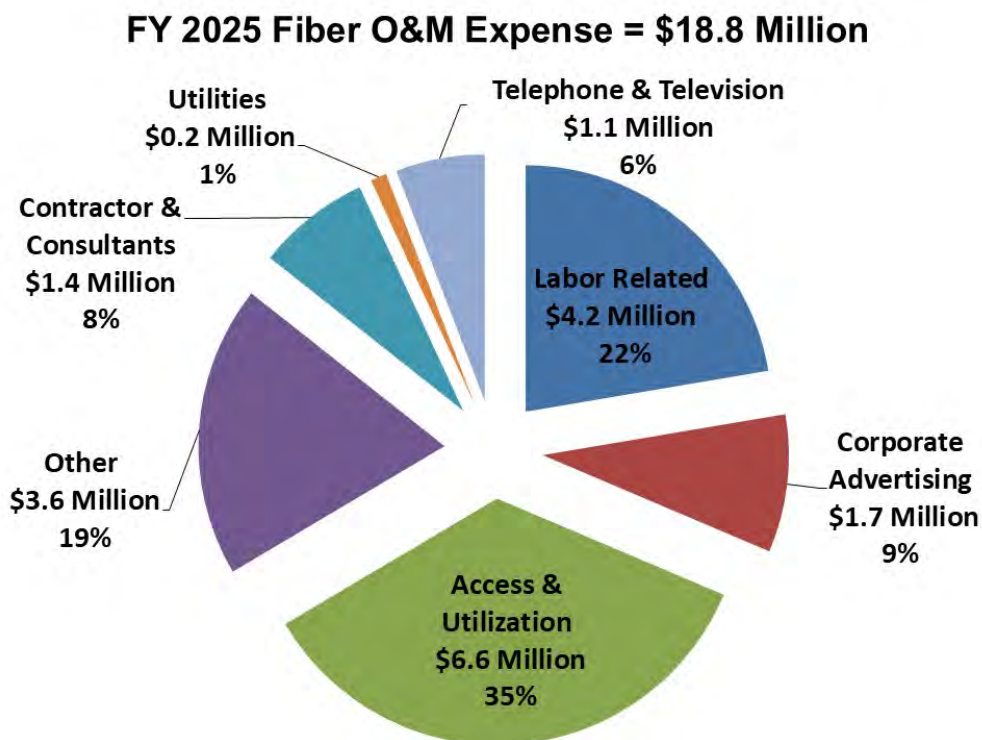
June 30, 2025 and 2024

Operating Expenses

Fiscal Year 2025 Compared to Fiscal Year 2024

Operating expenses increased \$6.2 million compared to fiscal year 2024. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as products and promotions, customer service, and administrative and general.

- Products and promotions expenses were \$5.1 million higher the prior fiscal year, primarily due to increased access and utilization costs, television expenses, and material costs.
- Customer service expenses were \$0.3 million higher, primarily due labor-related costs.
- Administrative and general expenses increased \$0.9 million, primarily due to labor-related costs.



- Depreciation and amortization expense was consistent with the prior fiscal year. KUB added \$0.3 million in assets during fiscal year 2025. A partial year of depreciation was recorded on these capital assets, and a full year of depreciation expense was incurred on \$0.5 in fiber system assets placed in service during fiscal year 2024.
- Taxes and tax equivalents payments remained consistent with the prior fiscal year.

Knoxville Utilities Board Fiber Division

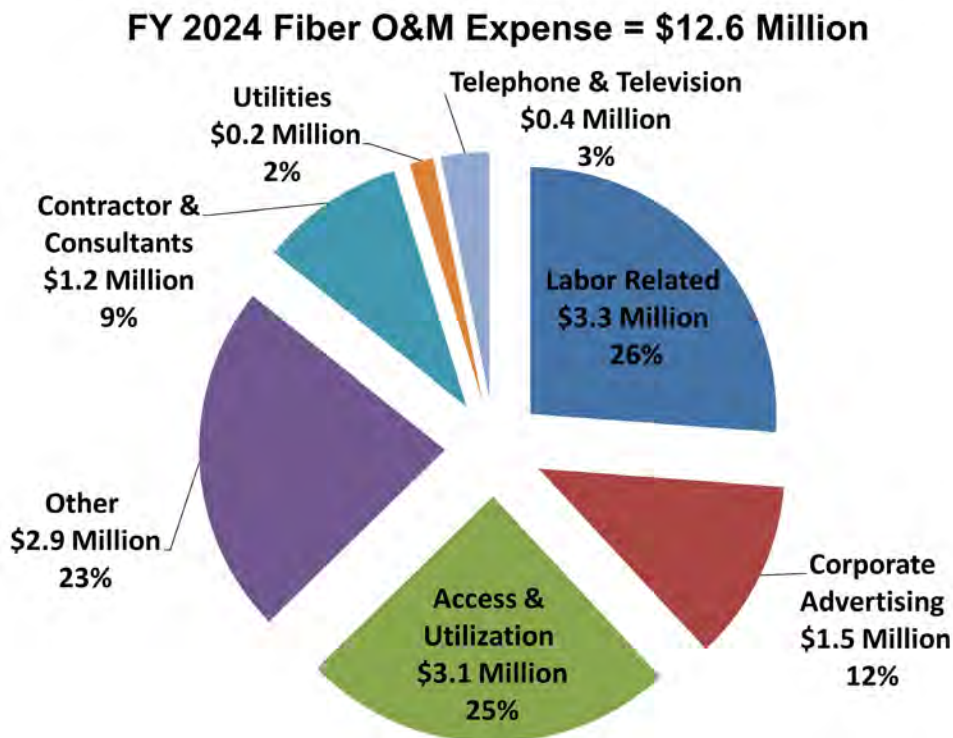
Management's Discussion and Analysis

June 30, 2025 and 2024

Fiscal Year 2024 Compared to Fiscal Year 2023

Operating expenses increased \$4.2 million compared to fiscal year 2023. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as products and promotions, customer service, and administrative and general.

- Products and promotions expenses were \$4 million higher the prior fiscal year, primarily due to materials, contractor and consultants, and access and utilization expenses.
- Customer service expenses were \$0.2 million lower, primarily due to a change in methodology for technology-related costs that resulted in an offsetting increase in administration and general expenses.
- Administrative and general expenses increased \$0.3 million, primarily due to increased technology-related costs, including a change in methodology that resulted in an offsetting decrease in customer service expenses.



- Depreciation and amortization expense was consistent with the prior fiscal year. KUB added \$0.5 million in assets during fiscal year 2024. A partial year of depreciation was recorded on these capital assets and a full year of depreciation expense was incurred on \$0.8 in fiber system assets placed in service during fiscal year 2023.
- Taxes and tax equivalents increased \$0.1 million.

**Knoxville Utilities Board Fiber Division
Management's Discussion and Analysis
June 30, 2025 and 2024**



Other Income and Expense

Fiscal Year 2025 Compared to Fiscal Year 2024

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

Interest expense was \$0.3 million higher than the prior fiscal year due to higher notes payable.

Fiscal Year 2024 Compared to Fiscal Year 2023

Interest income was consistent with the prior fiscal year.

Interest expense was \$0.3 million higher than the prior fiscal year due to higher notes payable.

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Knoxville Utilities Board Fiber Division

Management's Discussion and Analysis

June 30, 2025 and 2024

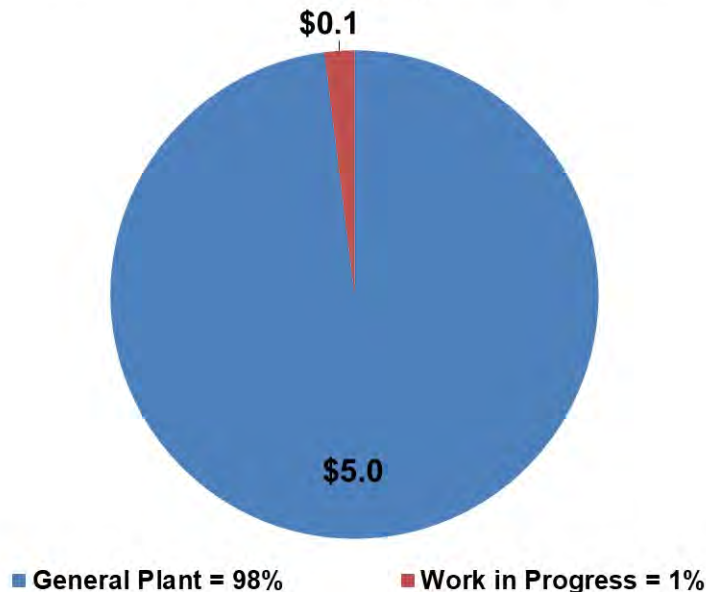
Capital Assets

	Capital Assets As of June 30 (Net of Depreciation)		
(in thousands of dollars)	2025	2024	2023
General Plant	\$ 5,085	\$ 4,892	\$ 4,474
Total Plant Assets	\$ 5,085	\$ 4,892	\$ 4,474
Work In Progress	63	107	36
Total Net Plant	<u>\$ 5,148</u>	<u>\$ 4,999</u>	<u>\$ 4,510</u>

Fiscal Year 2025 Compared to Fiscal Year 2024

As of June 30, 2025, the Division had \$5.1 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 \$0.1 million over the end of last fiscal year.

FY 2025 Fiber Division Capital Assets = \$5.1 Million
(in Millions)



Major capital asset expenditures during the year were as follows:

- \$0.1 million for fiber trucks and autos

Knoxville Utilities Board Fiber Division

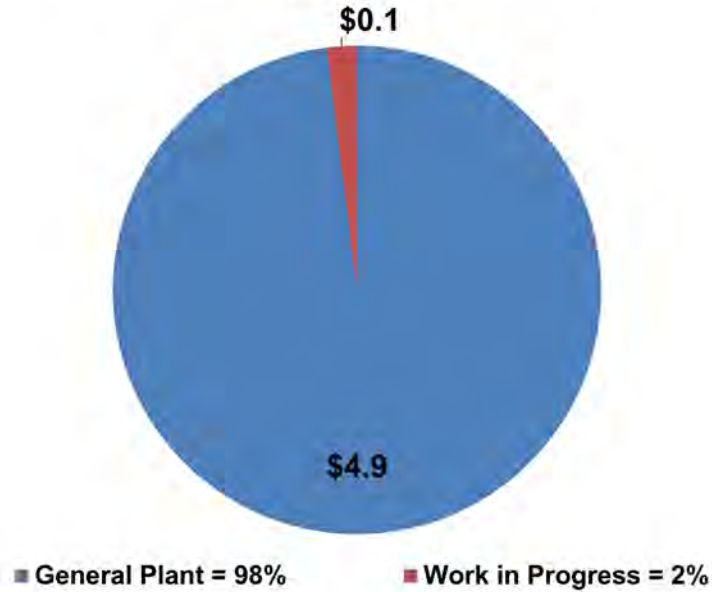
Management's Discussion and Analysis

June 30, 2025 and 2024

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$5 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$0.5 million over the end of last fiscal year.

FY 2024 Fiber Division Capital Assets = \$5 Million
(in Millions)



Major capital asset expenditures during the year were as follows:

- \$0.4 million in fiber trucks and autos

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Knoxville Utilities Board Fiber Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Debt Administration

The Division's outstanding debt was \$39.6 million as of June 30, 2025. In support of KUB's Fiber Division, the Electric Division issued a series of loans to the Fiber Division. The Electric Division issued a \$10 million loan in October 2021, a \$7 million loan in August 2022, a \$13 million loan in February 2023, and a \$5 million loan in May 2024 to the Fiber Division, all maturing in June 2030. The Electric Division issued a \$2 million loan in May 2024, and a \$7 million loan in December 2024 to the Fiber Division, both maturing in June 2032.

This investment supports construction of an advanced fiber infrastructure to improve electric system operations and to enable residential and commercial broadband services for KUB customers.

Outstanding Debt As of June 30

<i>(in thousands of dollars)</i>	2025	2024	2023
Note Payable	\$ 39,563	\$ 34,588	\$ 29,117
Total outstanding debt	\$ 39,563	\$ 34,588	\$ 29,117

Fiscal Year 2025 Compared to Fiscal Year 2024

As of June 30, 2025, the Division had \$39.6 million in outstanding debt (including the current portion of note payable), compared to \$34.6 million as of June 30, 2024. During the course of the fiscal year, \$2.0 million of principal payments were made on the outstanding debt.

In December 2024, the Division was issued an interdivisional loan of \$7 million from the Electric Division at an interest rate of 4.19 percent.

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$34.6 million in outstanding debt (including the current portion of note payable), compared to \$29.1 million as of June 30, 2023.

In May 2024, the Division was issued an interdivisional loan of \$7 million from the Electric Division at an interest rate of 4.13 percent. During the course of the fiscal year, \$1.5 million of principal payments were made on the outstanding debt.

Impacts on Future Financial Position

KUB anticipates adding 11,100 additional fiber customers during fiscal year 2026.

Broadband services will be provided by a high-speed fiber optic network that will be owned and maintained by the Electric Division. The Fiber Division will share in the cost to build and operate the Fiber network by paying the Electric Division an annual access fee based on the year-end value of those assets and the related expenses. The Fiber Division will also pay the Electric Division an annual utilization fee based on attachments to the network.

As a component of the Fiber Division's start-up financing plan, the Electric Division will provide \$55 million of interdivisional loans. To date, \$44 million has been issued to the Fiber Division. A \$6 million loan is anticipated during fiscal year 2026.

Knoxville Utilities Board Fiber Division Management's Discussion and Analysis June 30, 2025 and 2024

The Pension Plan actuarial valuation resulted in an actuarially determined contribution of \$2,793,313 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Fiber Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2025, measurement date. Subsequent to June 30, 2025, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$2,939,593 for the fiscal year ending June 30, 2027, based on the Plan's current funding policy. The Fiber Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2026, measurement date. For the Plan year beginning January 1, 2025, the Plan's actuarial funded ratio is 103.9 percent, and the market value funded ratio is 100.3 percent.

The OPEB Plan actuarial valuation resulted in an actuarially determined contribution of \$1,217,234 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Fiber Division's portion of this contribution will be determined as part of the actuarial analysis for the June 30, 2026, measurement date. Subsequent to June 30, 2025, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$968,538 for the fiscal year ending June 30, 2027, based on the Plan's current funding policy. The Fiber Division's portion of this contribution will be determined as part of the actuarial analysis for the June 30, 2027, measurement date. For the Plan year beginning January 1, 2025, the Plan's actuarial funded ratio is 96.3 percent, and the market value funded ratio is 93.8 percent.

GASB Statement No. 103, *Financial Reporting Model Improvements*, is effective for fiscal years beginning after June 15, 2025. GASB Statement No. 104, *Disclosure of Certain Capital Assets*, is effective for fiscal years beginning after June 15, 2025. 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 2025.

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, 2025, and 2024. 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 Fiber Division
Statements of Net Position
June 30, 2025 and 2024

	2025	2024
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 10,856,874	\$ 9,294,082
Accounts receivable, less allowance of uncollectible accounts of \$26,641 in 2025 and \$4,091 in 2024	1,003,795	475,593
Current portion of lease receivable	22,727	24,056
Inventories	1,046,613	1,472,872
Prepaid expenses	96,436	75,159
Total current assets	<u>13,026,445</u>	<u>11,341,762</u>
Restricted assets:		
Student internet special fund	1,848,211	1,119,548
Other funds	46	46
Total restricted assets	<u>1,848,257</u>	<u>1,119,594</u>
Fiber plant in service	5,385,163	5,033,917
Less accumulated depreciation	<u>(300,582)</u>	<u>(142,109)</u>
	5,084,581	4,891,808
Construction in progress	62,965	106,805
Net plant in service	<u>5,147,546</u>	<u>4,998,613</u>
Intangible assets:		
Intangible right of use asset	1,859,859	1,858,978
Intangible subscription asset	4,287,604	4,290,863
Less accumulated amortization	<u>(2,740,913)</u>	<u>(1,944,420)</u>
Net intangible assets	<u>3,406,550</u>	<u>4,205,421</u>
Other assets:		
Long-term lease receivable	229,209	251,937
Other	4,871	1,135
Total other assets	<u>234,080</u>	<u>253,072</u>
Total assets	<u>23,662,878</u>	<u>21,918,462</u>
Deferred outflows of resources:		
Pension outflow	333,761	605,685
OPEB outflow	252,502	302,249
Total deferred outflows of resources	<u>586,263</u>	<u>907,934</u>
Total assets and deferred outflows of resources	<u>\$ 24,249,141</u>	<u>\$ 22,826,396</u>

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

Knoxville Utilities Board Fiber Division
Statements of Net Position
June 30, 2025 and 2024

	2025	2024
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of note payable	\$ 2,200,000	\$ 1,850,000
Current portion of accrued compensated absences	218,099	159,537
Current portion of lease liability	384,677	360,351
Current portion of subscription liability	467,133	325,072
Sales tax collections payable	61,786	19,476
Accounts payable	125,025	138,167
Unearned revenue	901,316	428,327
Accrued expenses	1,966,143	1,218,724
Accrued interest	133,337	115,554
Total current liabilities	<u>6,457,516</u>	<u>4,615,208</u>
Other liabilities:		
Accrued compensated absences	107,422	82,186
Lease liability	306,448	692,154
Subscription liability	3,053,433	3,520,477
Net pension liability	62,343	159,645
Net OPEB liability	182,704	305,393
Other	5,224	-
Total other liabilities	<u>3,717,574</u>	<u>4,759,855</u>
Long-term debt:		
Long-term note payable	<u>37,362,500</u>	<u>32,737,500</u>
Total long-term debt	<u>37,362,500</u>	<u>32,737,500</u>
Total liabilities	<u>47,537,590</u>	<u>42,112,563</u>
Deferred inflows of resources:		
Pension inflow	265,590	398,385
OPEB inflow	142,764	58,709
Lease inflow	<u>235,451</u>	<u>264,569</u>
Total deferred inflows of resources	<u>643,805</u>	<u>721,663</u>
Total liabilities and deferred inflows of resources	<u>48,181,395</u>	<u>42,834,226</u>
Net position		
Net investment in capital assets	4,342,405	4,305,980
Restricted for:		
Other	46	46
Unrestricted	<u>(28,274,705)</u>	<u>(24,313,856)</u>
Total net position	<u>(23,932,254)</u>	<u>(20,007,830)</u>
Total liabilities, deferred inflows, and net position	<u>\$ 24,249,141</u>	<u>\$ 22,826,396</u>

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

Knoxville Utilities Board Fiber Division
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2025 and 2024

	2025	2024
Operating revenues	\$ 17,134,243	\$ 6,419,654
Operating expenses		
Products and promotions	13,427,027	8,357,671
Customer service	1,818,746	1,551,564
Administrative and general	3,580,041	2,689,048
Depreciation and amortization	854,633	876,983
Taxes and tax equivalents	247,675	247,161
Total operating expenses	<u>19,928,122</u>	<u>13,722,427</u>
Operating loss	<u>(2,793,879)</u>	<u>(7,302,773)</u>
Non-operating revenues (expenses)		
Interest income	563,579	475,018
Interest expense	(1,693,951)	(1,372,211)
Other	<u>(173)</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>(1,130,545)</u>	<u>(897,193)</u>
Change in net position	<u>(3,924,424)</u>	<u>(8,199,966)</u>
Net position, beginning of year	<u>(20,007,830)</u>	<u>(11,807,864)</u>
Net position, end of year	<u>\$ (23,932,254)</u>	<u>\$ (20,007,830)</u>

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

Knoxville Utilities Board Fiber Division

Statements of Cash Flows

Years Ended June 30, 2025 and 2024

	2025	2024
Cash flows from operating activities:		
Cash receipts from customers	\$ 16,995,780	\$ 6,343,474
Cash receipts from other operations	170,187	(806,056)
Cash payments to suppliers of goods or services	(15,005,998)	(9,826,078)
Cash payments to employees for services	(3,450,295)	(2,149,149)
Payment in lieu of taxes	(15,350)	(37,033)
Net cash used in operating activities	<u>(1,305,676)</u>	<u>(6,474,842)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of fiber plant	(307,578)	(586,387)
Principal paid on lease liabilities	(361,380)	(336,711)
Principal paid on subscription liabilities	(324,983)	(165,568)
Interest paid on lease and subscription liabilities	<u>(177,707)</u>	<u>(199,283)</u>
Net cash used in capital and related financing activities	<u>(1,171,648)</u>	<u>(1,287,949)</u>
Cash flows from noncapital and related financing activities:		
Proceeds from notes payable to Electric Division	7,000,000	7,000,000
Principal payments on notes payable to Electric Division	(2,025,000)	(1,529,167)
Interest paid on notes payable to Electric Division	<u>(1,498,461)</u>	<u>(1,153,781)</u>
Net cash provided by noncapital and related financing activities	<u>3,476,539</u>	<u>4,317,052</u>
Cash flows from investing activities:		
Interest received	563,579	475,018
Other property and investments	<u>(2)</u>	<u>-</u>
Net cash provided by investing activities	<u>563,577</u>	<u>475,018</u>
Net increase (decrease) in cash and cash equivalents	1,562,792	(2,970,721)
Cash and cash equivalents, beginning of year	<u>9,294,082</u>	<u>12,264,803</u>
Cash and cash equivalents, end of year	<u>\$ 10,856,874</u>	<u>\$ 9,294,082</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (2,793,879)	\$ (7,302,773)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	958,102	897,804
Changes in operating assets and liabilities:		
Accounts receivable	(528,202)	(382,746)
Lease receivable	24,057	(150,678)
Inventories	426,259	413,588
Prepaid expenses	(21,277)	(14,567)
Other assets	(20,537)	(806,979)
Sales tax collections payable	42,310	16,458
Accounts payable and other accrued expenses	129,278	510,836
Unearned revenue	472,989	344,215
Other liabilities	5,224	-
Net cash used in operating activities	<u>\$ (1,305,676)</u>	<u>\$ (6,474,842)</u>
Noncash capital activities:		
Record intangible right of use asset and lease liability	\$ -	\$ 18,331

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

Knoxville Utilities Board Fiber Division

Notes to Financial Statements

June 30, 2025 and 2024

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. The Fiber Division (Division) will provide 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 Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Fiber Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board as of June 30, 2025, and 2024, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

Recently Adopted New Accounting Pronouncements

In June 2022, the GASB issued GASB Statement No. 101 (Statement No. 101), *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. Statement No. 101 is effective for fiscal years beginning after December 15, 2023. Adoption of this Statement did not result in a restatement of prior periods due to immateriality.

Knoxville Utilities Board Fiber Division

Notes to Financial Statements

June 30, 2025 and 2024

In December 2023, the GASB issued GASB Statement No. 102 (Statement No. 102), *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. Statement No. 102 is effective for fiscal years beginning after June 15, 2024. Adoption of this Statement did not have a significant impact on KUB's financial statements.

Fiber Plant

Fiber 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 fiber 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 "Depreciation and amortization" in the Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment. Depreciation for transportation equipment of \$103,468 in fiscal year 2025 and \$20,820 in fiscal year 2024 is included in operation and maintenance expense.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of the KUB Fiber Division. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unearned revenue. Revenues are reported net of bad debt expense of \$49,774 in fiscal year 2025 and \$7,034 in fiscal year 2024.

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

Knoxville Utilities Board Fiber Division

Notes to Financial Statements

June 30, 2025 and 2024

- 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.

Inventories

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

OPEB Trust

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

KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2025, and 2024, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, are based on a June 30, 2025, and 2024, measurement date, respectively. The net OPEB liability is \$5,315,804 (Division's share \$182,704) as of June 30, 2025, and \$9,373,073 (Division's share \$305,393) as of June 30, 2024.

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 12). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2025, and 2024, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025 and 2024, are based on a December 31, 2024, and 2023, measurement date, respectively. The net pension liability is \$3,054,172 (Division's share \$61,706) as of June 30, 2025, and \$7,452,380 (Division's share \$159,645) as of June 30, 2024.

KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single employer defined benefit pension plan, administered by KUB (Note 13). As required by GASB Statement No. 73, KUB measures the total pension liability of the QEBA. The amounts reported as of June 30, 2025, and 2024, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, are based on a December 31, 2024, and 2023, measurement date, respectively. The total pension liability of the QEBA is \$21,226 (Division's share \$637) as of June 30, 2025, and \$0 as of June 30, 2024. KUB's Fiber Division did not share in the allocation prior to June 30, 2025.

Knoxville Utilities Board Fiber Division

Notes to Financial Statements

June 30, 2025 and 2024

For presentation purposes, the Pension Plan net pension liability and the QEBA total pension liability are disclosed in the Statement of Net Position as Net pension liability of \$62,343 as of June 30, 2025 and \$159,645 as of June 30, 2024. The Pension Plan deferred outflows and QEBA deferred outflows are disclosed as Pension outflow of \$333,761 as of June 30, 2025 and \$605,685 as of June 30, 2024. The Pension Plan deferred inflows and QEBA deferred inflows are disclosed as Pension inflow of \$265,590 as of June 30, 2025 and \$398,385 as of June 30, 2024.

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, lease liabilities, subscription liabilities, compensated absences, 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 designated by management for contingency purposes and economic development. Assets are reported as restricted when limitations on their use are either imposed by creditors, contributors, grantors or imposed by enabling legislation.

KUB has established a program called ConnectED that provides financial assistance to student households in need, with donations from the City of Knoxville and Knox County. ConnectED provides up to \$80 monthly to qualified families for internet and router services. The restricted asset is shown in the student internet special fund while the associated liability is shown in accrued expenses.

Cash Equivalents

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

Leases

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

Knoxville Utilities Board Fiber Division

Notes to Financial Statements

June 30, 2025 and 2024

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

Subscription-Based Information Technology Arrangements

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

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

Deferred Outflows and Inflows of Resources

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

Compensated Absences

KUB accrues a liability for earned but unpaid paid time off (PTO) days. During fiscal year 2025, KUB adopted GASB Statement No. 101, *Compensated Absences* (GASB 101). GASB 101 requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash items. The accompanying financial statements, as of and for the year ended June 30, 2024, have not been restated due to immaterial impact on the net position.

Reclassification

Certain 2024 amounts have been reclassified to conform to the 2025 presentation.

Subsequent Events

KUB has evaluated events and transactions through October 23, 2025, the date these financial statements were available to be issued, for items that should potentially be recognized or disclosed.

Recently Issued Accounting Pronouncements

In April 2024, the GASB issued GASB Statement No. 103 (Statement No. 103), *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. Statement No. 103 is effective for fiscal years beginning after June 15, 2025.

Knoxville Utilities Board Fiber Division

Notes to Financial Statements

June 30, 2025 and 2024

In September 2024, the GASB issued GASB Statement No. 104 (Statement No. 104), *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. Statement No. 104 is effective for fiscal years beginning after June 15, 2025.

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

3. Deposits and Investments

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

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

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

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

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

Knoxville Utilities Board Fiber Division
Notes to Financial Statements
June 30, 2025 and 2024

Classification of deposits and investments per Statement of Net Position:

	2025	2024
Current assets		
Cash and cash equivalents	\$ 10,856,874	\$ 9,294,082
Restricted assets		
Student internet special fund	1,848,211	1,119,548
Other funds	46	46
	<u>\$ 12,705,131</u>	<u>\$ 10,413,676</u>

Investments and maturities of KUB's cash equivalents and investments as held by financial institutions as of June 30, 2025:

	Cash Equivalents and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	\$ 11,327,363	\$ 11,327,363	\$ -
	<u>\$ 11,327,363</u>	<u>\$ 11,327,363</u>	<u>\$ -</u>

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

The Division has no recurring fair value measurements as of June 30, 2025.

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:

	2025	2024
Wholesale and retail customers		
Billed services	\$ 1,030,436	\$ 479,684
Allowance for uncollectible accounts	(26,641)	(4,091)
	<u>\$ 1,003,795</u>	<u>\$ 475,593</u>

Knoxville Utilities Board Fiber Division
Notes to Financial Statements
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5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following

	2025	2024
Trade accounts	\$ 125,025	\$ 138,167
Current portion of accrued compensated absences	218,099	159,537
Salaries and wages	57,348	50,040
Self-insurance liabilities	70,150	50,902
Other current liabilities	<u>1,838,645</u>	<u>1,117,782</u>
	<u>\$ 2,309,267</u>	<u>\$ 1,516,428</u>

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2024	Additions	Payments	Balance June 30, 2025
Notes payable	\$ 34,587,500	\$ <u>7,000,000</u>	\$ <u>(2,025,000)</u>	\$ 39,562,500
Less current portion	<u>(1,850,000)</u>			<u>(2,200,000)</u>
Long-term portion	<u>\$ 32,737,500</u>			<u>\$ 37,362,500</u>

	Balance June 30, 2023	Additions	Payments	Balance June 30, 2024
Notes payable	\$ 29,116,667	\$ <u>7,000,000</u>	\$ <u>(1,529,167)</u>	\$ 34,587,500
Less current portion	<u>(1,500,000)</u>			<u>(1,850,000)</u>
Long-term portion	<u>\$ 27,616,667</u>			<u>\$ 32,737,500</u>

Fiscal Year	Principal	Total Interest	Grand Total
2026	\$ 2,200,000	\$ 1,559,507	\$ 3,759,507
2027	2,200,000	1,471,052	3,671,052
2028	7,788,518	1,382,597	9,171,115
2029	14,540,714	1,078,759	15,619,473
2030	7,163,851	499,525	7,663,376
2031-2032	<u>5,669,417</u>	<u>331,119</u>	<u>6,000,536</u>
Total	<u>\$ 39,562,500</u>	<u>\$ 6,322,559</u>	<u>\$ 45,885,059</u>

In support of KUB's Fiber Division, the Electric Division issued a series of loans to the Fiber Division. The Electric Division issued a \$10 million loan in October 2021, a \$7 million loan in August 2022, a \$13 million loan in February 2023, and a \$5 million loan in May 2024 to the Fiber Division, all maturing in June 2030. The Electric Division issued a \$2 million loan in May 2024, and a \$7 million loan in December 2024 to the Fiber Division, both maturing in June 2032. The loans support startup costs of the Fiber Division as KUB's advanced fiber infrastructure is being constructed to allow customers to receive broadband services.

Knoxville Utilities Board Fiber Division

Notes to Financial Statements

June 30, 2025 and 2024

Other liabilities consist of the following:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
Accrued compensated absences	82,186	420,361	(395,125)	107,422
Other	-	5,810	(586)	5,224
	<u>\$ 82,186</u>	<u>\$ 426,171</u>	<u>\$ (395,711)</u>	<u>\$ 112,646</u>

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Accrued compensated absences	\$ 82,018	\$ 189,848	\$ (189,680)	\$ 82,186
	<u>\$ 82,018</u>	<u>\$ 189,848</u>	<u>\$ (189,680)</u>	<u>\$ 82,186</u>

7. Lease Receivables

KUB, as lessor, leases office space under non-cancelable lease arrangements. Terms of the leases range from one to fourteen years and contain fixed payment terms. Certain leases contain an option to renew that has been considered in the lease receivable when the lessee is reasonably certain to exercise the renewal option. KUB recognized lease revenue, which is included in other operating revenues, of \$28,609 in 2025 and \$28,333 in 2024. KUB also recognized interest income from leases, which is included in non-operating revenues, totaling \$9,096 in 2025 and \$9,257 in 2024. Total lease receivables were \$251,936 (\$22,727 current) and \$275,993 (\$24,056 current) as of June 30, 2025, and 2024, respectively, and are included in other assets on the Statement of Net Position.

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Knoxville Utilities Board Fiber Division
Notes to Financial Statements
June 30, 2025 and 2024

8. Lease Liabilities

Changes in lease liabilities are summarized as follows:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
Total lease liabilities	\$ 1,052,505	\$ -	\$ (361,380)	\$ 691,125
Less current portion	(360,351)			(384,677)
Long-term portion	<u>\$ 692,154</u>			<u>\$ 306,448</u>

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Total lease liabilities	\$ 1,371,488	\$ 18,331	\$ (337,314)	\$ 1,052,505
Less current portion	(332,905)			(360,351)
Long-term portion	<u>\$ 1,038,583</u>			<u>\$ 692,154</u>

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

Maturities and future interest requirements related to the balances of lease liabilities outstanding as of June 30, 2025, are summarized as follows:

	Lease Maturities	Interest Requirements
2026	\$ 384,677	\$ 19,700
2027	306,448	4,941
	<u>\$ 691,125</u>	<u>\$ 24,641</u>

9. Subscription-Based Information Technology Agreement Liabilities

Changes in SBITA liabilities are summarized as follows:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
Total SBITA liabilities	\$ 3,845,549	\$ -	\$ (324,983)	\$ 3,520,566
Less current portion	(325,072)			(467,133)
Long-term portion	<u>\$ 3,520,477</u>			<u>\$ 3,053,433</u>

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Total SBITA liabilities	\$ 4,011,116	\$ -	\$ (165,567)	\$ 3,845,549
Less current portion	(165,278)			(325,072)
Long-term portion	<u>\$ 3,845,838</u>			<u>\$ 3,520,477</u>

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June 30, 2025 and 2024

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

Maturities and future interest requirements related to the balances of SBITA liabilities outstanding as of June 30, 2025, are summarized as follows:

	Subscription Maturities	Interest Requirements
2026	\$ 467,133	\$ 128,955
2027	544,174	109,144
2028	565,724	87,595
2029	588,127	65,191
2030	611,418	41,901
2031-2032	743,990	18,215
	<u>\$ 3,520,566</u>	<u>\$ 451,001</u>

10. Capital and Intangible Assets

Capital and intangible asset activity was as follows:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
General Plant	\$ 5,033,917	\$ 351,246	\$ -	\$ 5,385,163
Total Plant Assets	\$ 5,033,917	\$ 351,246	\$ -	\$ 5,385,163
Less Accumulated Depreciation	(142,109)	(158,473)	-	(300,582)
Net Plant Assets	\$ 4,891,808	\$ 192,773	\$ -	\$ 5,084,581
Work In Progress	106,805	57,382	(101,222)	62,965
Total Net Plant	<u>\$ 4,998,613</u>	<u>\$ 250,155</u>	<u>\$ (101,222)</u>	<u>\$ 5,147,546</u>
Intangible Right of Use Assets				
Office space	\$ 1,857,218	\$ -	\$ -	\$ 1,857,218
Equipment	1,760	-	881	2,641
Other	-	-	-	-
Total Intangible Right of Use Assets	\$ 1,858,978	\$ -	\$ 881	\$ 1,859,859
Less Accumulated Amortization	(915,540)	(344,233)	-	(1,259,773)
Net Intangible Right of Use Assets	<u>\$ 943,438</u>	<u>\$ (344,233)</u>	<u>\$ 881</u>	<u>\$ 600,086</u>
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 4,290,863	\$ -	\$ (3,259)	\$ 4,287,604
Less Accumulated Amortization	(1,028,880)	(455,519)	3,259	(1,481,140)
Net Intangible Subscription Assets	<u>\$ 3,261,983</u>	<u>\$ (455,519)</u>	<u>\$ -</u>	<u>\$ 2,806,464</u>

Knoxville Utilities Board Fiber Division

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	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
General Plant	\$ 4,518,939	\$ 514,978	\$ -	\$ 5,033,917
Total Plant Assets	\$ 4,518,939	\$ 514,978	\$ -	\$ 5,033,917
Less Accumulated Depreciation	(44,735)	(97,374)	-	(142,109)
Net Plant Assets	\$ 4,474,204	\$ 417,604	\$ -	\$ 4,891,808
Work In Progress	35,395	548,396	(476,986)	106,805
Total Net Plant	<u>\$ 4,509,599</u>	<u>\$ 966,000</u>	<u>\$ (476,986)</u>	<u>\$ 4,998,613</u>
Intangible Right of Use Assets				
Office space	\$ 1,835,035	\$ 22,183	\$ -	\$ 1,857,218
Equipment	3,990	-	(2,230)	1,760
Other	-	-	-	-
Total Intangible Right of Use Assets	\$ 1,839,025	\$ 22,183	\$ (2,230)	\$ 1,858,978
Less Accumulated Amortization	(566,854)	(350,916)	2,230	(915,540)
Net Intangible Right of Use Assets	<u>\$ 1,272,171</u>	<u>\$ (328,733)</u>	<u>\$ -</u>	<u>\$ 943,438</u>
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 4,293,885	\$ -	\$ (3,022)	\$ 4,290,863
Less Accumulated Amortization	(573,538)	(455,342)	-	(1,028,880)
Net Intangible Subscription Assets	<u>\$ 3,720,347</u>	<u>\$ (455,342)</u>	<u>\$ (3,022)</u>	<u>\$ 3,261,983</u>

11. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. As of June 30, 2025, and June 30, 2024, the amount of these liabilities was \$79,150 and \$50,902, respectively, resulting from the following changes:

	2025	2024
Balance, beginning of year	\$ 50,902	\$ 63,943
Current year claims and changes in estimates	512,689	365,072
Claims payments	(484,441)	(378,113)
Balance, end of year	<u>\$ 79,150</u>	<u>\$ 50,902</u>

12. Pension Plan

Description of Plan

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

Knoxville Utilities Board Fiber Division

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the Charter of the City of Knoxville §1107(J). KUB Board Resolution No. 979, effective July 1, 1999, as amended by Resolution No. 1037, establishing the KUB Retirement System, was amended effective June 18, 2020, to amend the term "Trustee" to include both custodians and/or trustees, in order to provide flexibility should KUB choose to change from its current Pension trustee. The Plan is designed to provide retirement, disability, and death benefits to KUB employees. KUB administers the Plan through an Administrative Committee consisting of seven KUB employees that are appointed by KUB's President and CEO. Any amendments to the Plan involving costs not approved in the operating budget must be adopted by KUB's Board of Commissioners, upon recommendation by KUB's President and CEO. All other amendments to the Plan may be approved by KUB's President and CEO upon 60 days notification to the Board's Audit and Finance Committee. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017. For purposes of this disclosure, presentation is on a consolidated basis unless division's share is specified.

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

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

	2024	2023
Inactive plan members:		
Terminated vested participants	10	9
Retirees and beneficiaries	589	602
Active plan members	<u>359</u>	<u>389</u>
Total	<u>958</u>	<u>1,000</u>

Retirement Benefits

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

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

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

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

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

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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, 2024:

Asset Class	Target Allocation
Domestic equity – large cap	20% - 50%
Domestic equity – small/mid cap	0% - 30%
Multi-asset credit	0% - 20%
Non-U.S. equity	0% - 20%
U.S. core real estate	0% - 10%
Fixed income	20% - 40%
Cash and deposits	0% - 5%

Contributions of \$2,210,234 and \$1,108,147 for 2023 and 2022, respectively, were made during the Plan sponsor's fiscal years ended June 30, 2025, and 2024, respectively. Of these amounts, \$44,656 and \$23,739 are attributable to the Fiber Division. The fiscal year 2025 contribution was determined as part of the January 1, 2023, valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability, or death.

Net Pension Liability (Asset)

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, will be based on the December 31, 2024, and 2023, measurement date,

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respectively. The net pension liability is \$3,054,172 (Division's share \$61,706) as of June 30, 2025, and \$7,452,380 (Division's share \$159,645) as of June 30, 2024.

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

	2024	2023
Total pension liability	\$ 274,028,893	\$ 263,351,035
Plan fiduciary net position	(270,974,721)	(255,898,655)
Plan's net pension liability	<u>\$ 3,054,172</u>	<u>\$ 7,452,380</u>

Plan fiduciary net position as a percentage of the total pension liability	98.89%	97.17%
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Changes in Net Pension Liability (Asset) are as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2023	\$ 263,351,035	\$ 255,898,655	\$ 7,452,380
Changes for the year:			
Service cost	7,764,986	-	7,764,986
Interest	18,573,527	-	18,573,527
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	2,346,811	-	2,346,811
Changes of Assumptions	1,425,345	-	1,425,345
Contributions - employer	-	1,659,187	(1,659,187)
Contributions - rollovers	-	75	(75)
Contributions - member	-	4,971,073	(4,971,073)
Net investment income	-	28,541,389	(28,541,389)
Benefit payments	(19,432,811)	(19,432,811)	-
Administrative expense	-	(662,847)	662,847
Net changes	<u>10,677,858</u>	<u>15,076,066</u>	<u>(4,398,208)</u>
Balances at December 31, 2024	<u>\$ 274,028,893</u>	<u>\$ 270,974,721</u>	<u>\$ 3,054,172</u>

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, 2024, rolled forward to December 31, 2024; January 1, 2023, rolled forward to December 31, 2023
Discount rate	7.00% as of December 31, 2024 and 2023
Salary increases	From 2.50% to 8.50%, based on years of service as of December 31, 2024 and from 2.50% to 5.65% as of December 31, 2023
Mortality	115% and 110% of the PubG-2010 table for males and females, respectively, using the Public Sector General Employee Table for

Knoxville Utilities Board Fiber Division

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ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP-2021, fully generational as of December 31, 2024; Scale MP-2018 was used as of December 31, 2023

Inflation 2.5% as of December 31, 2024 and 2023

The actuarial assumptions used in the January 1, 2024, valuation was based on an actuarial experience study covering January 1, 2019 through December 31, 2023, and the assumptions used in the January 1, 2023 valuation were based on an actuarial experience study covering the period January 1, 2014 through December 31, 2018.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2024, and 2023, are summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. Prior to February 22, 2024, the Plan had both aggregate and long duration fixed income. As of December 31, 2024, the Plan has only aggregate fixed income. Effective September 30, 2024 the REIT fund was transferred to a U.S. core real estate fund.

Asset Class	Long Term Expected Real Rate of Return	
	2024	2023
Domestic equity	6.0%	5.6%
Non-U.S. equity	6.5%	6.5%
Real estate equity	n/a	5.8%
Real estate U.S. core	5.1%	n/a
Debt securities	2.5%	1.9%
Cash and deposits	1.2%	0.7%

Discount rate

The discount rate used to measure the total pension liability was 7.00 percent as of December 31, 2024, and December 31, 2023. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability of the Plan as of December 31, 2024, calculated using the discount rate of 7.00 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 (6.00 percent) or one percent higher (8.00 percent) than the current rate:

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	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Plan's net pension liability	\$ 29,141,576	\$ 3,054,172	\$ (19,335,531)

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

For the year ended June 30, 2025, KUB recognized pension expense of \$10,401,958 and the Fiber Division's share was \$85,595.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2023, this average was three years. During the measurement year, there was a liability experience loss of \$2,346,811, with \$782,270 of that recognized in the current year and each of the next two years, resulting in a deferred outflow of \$1,564,541. Unrecognized liability experience losses from prior periods were \$2,580,215, of which \$1,463,476 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,116,739. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,681,280 (Division's share \$54,172).

During the measurement year, there was an assumption change loss of \$1,425,345 with \$475,115 of that recognized in the current year and each of the next two years, resulting in a deferred outflow of \$950,230. Net unrecognized assumption change losses from prior periods were \$2,634,336, of which \$1,317,168 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$1,317,168. The combination of unrecognized assumption change losses this year, along with unrecognized assumption change losses from prior periods, results in a deferred outflow of \$2,267,398 (Division's share \$45,811).

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 \$11,091,799, of which \$2,218,360 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$22,505,337, of which \$4,001,667 was recognized as an increase in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with net unrecognized investment losses from prior periods, results in a deferred outflow of \$9,630,231 (Division's share \$194,569).

The impact of the change in proportionate share for the Fiber Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is three years. This change resulted in a deferred outflow of \$24,686, with \$8,229 of that recognized in the current year and the remaining amount recognized over the next two years, resulting in a deferred outflow of resources of \$16,457. Net proportionate share changes from the prior period were \$398,385, of which \$132,795 was recognized in the current year, resulting in a deferred inflow of resources of \$265,590. In addition, KUB's Fiber Division recorded a deferred outflow of resources of \$22,328 for employer contributions made between December 31, 2024 and June 30, 2025.

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The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Fiber Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 54,172	\$ -
Changes in assumptions	45,811	-
Net difference between projected and actual earnings on pension plan investments	194,569	-
Change in proportionate share	16,457	265,590
Contributions subsequent to measurement date	22,328	-
Total	<u>\$ 333,337</u>	<u>\$ 265,590</u>

\$22,328 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, 2026. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:		
2026	\$	86,169
2027		130,107
2028		(126,037)
2029		(44,820)
2030		-
Thereafter		-

For the year ended June 30, 2024, KUB recognized pension expense of \$6,394,757 and the Fiber Division's share was \$4,193.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2022, this average was four years. During the measurement year, there was a liability experience loss of \$2,092,475, with \$523,119 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$1,569,356. Unrecognized liability experience losses from prior periods were \$1,951,216, of which \$940,357 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,010,859. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,580,215 (Division's share \$55,274). Unrecognized liability gains from prior periods were \$210,825, of which \$210,825 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$0.

During the measurement year, there were no benefit changes or assumption changes. Net unrecognized assumption change losses from prior periods were \$5,646,136, of which \$3,011,800 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$2,634,336 (Division's share \$56,433).

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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 \$20,099,370, of which \$4,019,874 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 \$39,628,509, of which \$1,043,676 was recognized as an increase in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with net unrecognized investment losses from prior periods, results in a deferred outflow of \$22,505,337 (Division's share \$482,109).

The impact of the change in proportionate share for the Fiber Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is four years. This change resulted in a deferred inflow of \$531,180, with \$132,795 of that recognized in the current year and the remaining amount recognized over the next three years, resulting in a deferred inflow of resources of \$398,385. In addition, KUB's Fiber Division recorded a deferred outflow of resources of \$11,869 for employer contributions made between December 31, 2023, and June 30, 2024.

The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Fiber Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 55,274	\$ -
Changes in assumptions	56,433	-
Net difference between projected and actual earnings on pension plan investments	482,109	-
Change in proportionate share	-	398,385
Contributions subsequent to measurement date	11,869	-
Total	<u>\$ 605,685</u>	<u>\$ 398,385</u>

13. Qualified Excess Benefit Arrangement

Description

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

As of June 30, 2025, there are 341 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As

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required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis. There are no assets accumulated in a trust that meets the GASB's criteria.

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, 2025, and 2024, are based on a December 31, 2024, and 2023, measurement date, respectively. The total pension liability of the QEBA is \$21,226 (Division's share \$637) as of June 30, 2025, and \$0 as of June 30, 2024. KUB's Fiber Division did not share in the allocation prior to June 30, 2025.

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

	2024	2023
Total pension liability	\$21,226	\$0
Deferred outflows	(14,151)	(2,051)
Deferred inflows	-	1,704
Net impact on Statement of Net Position	<u>\$7,075</u>	<u>(\$347)</u>
Covered payroll	\$34,776,504	\$35,604,464
Total pension liability as a % of covered payroll	0.06%	0.00%

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

	Increase (Decrease)
	Total Pension Liability
Balances at December 31, 2023	\$ -
Changes for the year:	
Service cost	-
Interest	-
Changes of Benefits	-
Differences between Expected and Actual Experience	21,226
Changes of Assumptions	-
Benefit payments	-
Net changes	<u>21,226</u>
Balances at December 31, 2024	<u>\$ 21,226</u>

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, 2024, rolled forward to December 31, 2024
Actuarial cost method	Individual entry age

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Discount rate	4.08% at January 1, 2024
Salary increases	From 2.50% to 8.50%, based on years of service
Mortality	115% and 110% of the PubG-2010 table for males and females, respectively, using the benefits-weighted Public Sector General Healthy Annuitant Mortality Table for ages 50 and older and the benefits-weighted Public Sector General Employee Table for ages under 50, both projected from the 2010 base rates using scale MP-2021, fully generational as of December 31, 2024
Inflation	2.50%

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 4.08% at December 31, 2024.

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, 2024, calculated using the discount rate of 4.08 percent, as well as what the QEBA's liability would be if it were calculated using a discount rate that is one percent lower (3.08 percent) or one percent higher (5.08 percent) than the current rate.

	1% Decrease (3.08%)	Current Discount Rate (4.08%)	1% Increase (5.08%)
QEBA's total pension liability	\$ 24,131	\$ 21,226	\$ 18,639

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

For the year ended June 30, 2025, KUB recognized pension expense of \$7,422 (Division's share \$212) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [\$7,075 – (\$347)+ \$-].

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, 2023, this average was three years.

During the measurement year, there was an experience loss of \$21,226 with \$7,075 recognized in the current year and the remaining deferred outflow of \$14,151 (Division's share \$424) to be recognized over the next two years. Unrecognized experience losses from prior periods were \$2,033, with the full amount recognized as an increase in pension expense in the current year. Unrecognized experience gains from prior periods were \$1,704, with the full amount recognized as a decrease in pension expense in the current year.

Unrecognized assumption change losses from prior periods were \$19, with the full amount recognized as an increase in pension expense in the current year.

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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	\$ 14,151	\$ -
Changes in assumptions	-	-
Total	<u>\$ 14,151</u>	<u>\$ -</u>
Division's share	<u>\$ 424</u>	<u>\$ -</u>

Year ended June 30:

2026	\$ 7,075
2027	7,076
2028	-
2029	-
2030	-
Thereafter	-

14. Defined Contribution Plan

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

KUB funded 401(k) matching contributions and non-elective contributions of \$4,799,996 (Division's share \$144,000) and \$3,909,598 (Division's share \$78,192), respectively, for the years ended June 30, 2025, and 2024.

Vesting

Participants are immediately vested in their own contributions to the Plan, plus actual earnings on these contributions. Participants become 100% vested and entitled to the full value of their account, less any loans outstanding, upon death or disability or upon retirement after attaining their normal retirement age (first of the month coinciding with or following attainment of age 62).

Otherwise, vesting in the KUB matching contribution and non-elective contribution (as applicable) portion of their account plus related earnings are based on years of service and date of hire, as follows:

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Participants hired prior to January 1, 2011 are 100% vested in the KUB matching contribution portion of their account.

Participants hired by KUB after December 31, 2010 are vested in the KUB matching and non-elective contribution portion of their account as follows:

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 2 years	0%
2	20%
3	40%
4	60%
5	80%
6 or more	100%

Forfeitures

Forfeitures are created when participants terminate employment before becoming entitled to their full benefits under the Plan. Upon forfeiture, the match and non-elective funds become available to offset Plan expenses. The Plan experienced forfeitures of \$243,630 during calendar year 2024 and \$306,016 during calendar year 2023. Forfeitures of \$271,595 and \$295,955 were used to reduce employer contributions in 2024 and 2023, respectively. The ending balance of forfeited assets in the Plan, including contributions and dividends, totaled \$10,862 and \$37,985 as of December 31, 2024 and 2023, respectively.

15. Other Post-Employment Benefits (OPEB)

Description of Trust

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

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

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

	HRA		Retiree Medical Benefit	
	2025	2024	2025	2024
Retirees	16	9	707	722
Dependents of retirees	16	7	385	401
Eligible active employees	1,109	1,127	128	144
Total	1,141	1,143	1,220	1,267

Benefits

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

Contributions and Funding

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

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

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

Based on the date of retirement, certain retired members are required to contribute specified amounts monthly to maintain health insurance. Those who retired prior to July 1983 have no required monthly premiums for themselves or dependents. The retirees, or their surviving dependents, who retired between August 1983 and January 1998 are required to pay \$275 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 \$275 for single coverage and \$550 for family coverage. There is currently no premium for Medicare eligible retirees or dependents. KUB is responsible for determining the level of retired plan member contributions on an annual basis as part of its review of healthcare cost sharing.

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

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Investments

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

The following was the Trust's adopted investment target allocations as set forth in the Trust's Investment Policy as of June 30, 2025:

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%

Actuarially determined contributions for the Fiber Division of \$43,993 and \$38,700 were made to the OPEB Trust in fiscal years ended June 30, 2025 and June 30, 2024. These were based on the OPEB actuarial valuations as of January 1, 2023, and 2022.

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, 2025, and 2024, and the Total OPEB Liability as of the valuation date, January 1, 2024, updated to June 30, 2025, and January 1, 2023, updated to June 30, 2024, respectively. The Division's share of the total net OPEB liability was \$182,704 as of June 30, 2025, and \$305,393 as of June 30, 2024.

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

	2025	2024
Total OPEB liability	\$ 60,675,101	\$ 61,042,928
Plan fiduciary net position	55,359,297	51,669,855
Net OPEB liability	\$ 5,315,804	\$ 9,373,073
Plan fiduciary net position as a percentage of total OPEB liability	91.24%	84.65%

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Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2024	\$ 61,042,928	\$ 51,669,855	\$ 9,373,073
Changes for the year:			
Service cost	506,802	-	506,802
Interest	4,176,096	-	4,176,096
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	(154,501)	-	(154,501)
Changes of Assumptions	(1,302,021)	-	(1,302,021)
Contributions - employer	-	1,279,985	(1,279,985)
Contributions - member	-	-	-
Net investment income	-	6,084,906	(6,084,906)
Benefit payments	(3,594,203)	(3,594,203)	-
Administrative expense	-	(81,246)	81,246
Net changes	(367,827)	3,689,442	(4,057,269)
Balances at June 30, 2025	\$ 60,675,101	\$ 55,359,297	\$ 5,315,804

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, 2024, rolled forward to June 30, 2025; January 1, 2023, rolled forward to June 30, 2024
Discount rate:	7.00% as of June 30, 2025 and June 30, 2024
Healthcare cost trend rates:	<i>Pre-Medicare:</i> 8.00% grading down to 3.935% over 20 years as of June 30, 2025; 5.75% grading down to 3.935% over 20 years as of June 30, 2024 <i>Medicare:</i> 6.00% grading down to 3.935% over 20 years as of June 30, 2025; 11.30% grading down to 3.935% over 20 years as of June 30, 2024 <i>Administrative expenses:</i> 3.0% per year
Salary increases:	From 2.50% to 8.50%
Mortality:	115% and 110% of the benefits-weighted Public Sector General Healthy Annuitant Mortality Table (PubG-2010) respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Healthy Annuitant Mortality Table, both projected using scale MP-2021 fully generational
Inflation:	2.50%

The actuarial assumptions used in the January 1, 2024 valuation were based on the results of an actuarial experience study for the period January 1, 2019 through December 31, 2023. The January

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1, 2023 valuation assumptions were based on the results of actuarial experience study for the periods January 1, 2014, through December 31, 2018.

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

Asset Class	Long Term Expected Real Rate of Return	
	2025	2024
Domestic equity	6.0%	5.4%
International equity	6.4%	6.1%
Emerging Market equity	7.3%	7.8%
Real estate equity	6.3%	5.5%
Debt securities	2.4%	2.3%
Cash and deposits	0.9%	0.9%

Discount rate

The discount rate used to measure the total OPEB liability was 7.00 percent as of June 30, 2025 and June 30, 2024. 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, 2025, calculated using the discount rate of 7.00 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is one percent lower (6.00 percent) or one percent higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB liability	\$10,974,569	\$5,315,804	\$512,532

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, 2025, as well as what the Trust's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percent lower or one percent higher than the current rate:

Knoxville Utilities Board Fiber Division
Notes to Financial Statements
June 30, 2025 and 2024

	1% Decrease	Baseline Trends	1% Increase
Net OPEB liability	\$435,302	\$5,315,804	\$10,948,243

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

For the year ended June 30, 2025, KUB's Fiber Division recognized OPEB expense of \$55,106.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience gain of \$154,501, with \$22,072 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$132,429 (Division's share \$4,551). Unrecognized experience losses from prior periods were \$587,407, of which \$100,703 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of resources of \$486,704 (Division's share \$16,728).

During the measurement year, there were no benefit changes.

During the measurement year, there was an assumption change gain of \$1,302,021, with \$186,003 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$1,116,018. Unrecognized assumption change gains from prior period were \$1,801,872, of which \$300,312 was recognized as a decrease in OPEB expense in the current year and resulted in a deferred inflow of resources of \$1,501,560. The combination of unrecognized assumption change gains this year, along with unrecognized assumption change gains from prior periods, results in a deferred inflow of resources of \$2,617,578 (Division's share \$89,966). Unrecognized assumption losses from prior periods were \$1,805,588, of which \$361,118 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of \$1,444,470 (Division's share \$49,646).

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 \$2,550,439, of which \$510,088 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$2,040,351. Net unrecognized investment losses from prior periods were \$496,150, of which \$140,457 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$636,607. The combination of unrecognized gains and losses from the current year and prior periods results in a deferred inflow of resources of \$1,403,744 (Division's share \$48,247).

The impact of the change in proportionate share for the Fiber Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is seven years. This change resulted in a deferred outflow of \$14,815, with \$2,116 of that recognized in the current year and the remaining amount recognized over the next six years, resulting in a deferred outflow of resources of \$12,699. Net proportionate share changes from prior periods were \$208,115, with \$34,686 of that recognized in the current year resulting in a deferred outflow of resources of \$173,429. The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Fiber Division.

Knoxville Utilities Board Fiber Division
Notes to Financial Statements
June 30, 2025 and 2024

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 16,728	\$ 4,551
Changes in assumptions	49,646	89,966
Net difference between projected and actual earnings on OPEB plan investments	-	48,247
Change in proportionate share	186,128	-
Total	<u>\$ 252,502</u>	<u>\$ 142,764</u>

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

Year ended June 30:		
2026	\$	78,639
2027		(5,337)
2028		1,587
2029		17,670
2030		22,211
Thereafter		(5,032)

For the year ended June 30, 2024, KUB's Fiber Division recognized OPEB expense of \$100,553.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience loss of \$587,252, with \$83,893 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$503,359. Unrecognized experience losses from prior periods were \$100,858, of which \$16,810 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of resources of \$84,048. The combination of unrecognized experience gains or losses results in a deferred outflow of resources of \$587,407 (Division's share \$19,140).

During the measurement year, there was a benefit change gain of \$164,746. The entire amount was recognized as a decrease in OPEB expense in the current year.

During the measurement year, there was an assumption change gain of \$2,102,184, with \$300,312 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$1,801,872 (Division's share \$58,709). Unrecognized assumption losses from prior periods were \$2,166,706, of which \$361,118 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of \$1,805,588 (Division's share \$58,830).

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 \$2,339,599, of which \$467,920 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$1,871,679. Net unrecognized investment losses from prior periods were \$3,211,114, of which \$843,284 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$2,367,829. The combination of unrecognized gains and losses from the current year and prior periods results in a deferred outflow of resources of \$496,150 (Division's share \$16,164).

Knoxville Utilities Board Fiber Division

Notes to Financial Statements

June 30, 2025 and 2024

The impact of the change in proportionate share for the Fiber Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is seven years. This change resulted in a deferred outflow of \$242,801, with \$34,686 of that recognized in the current year and the remaining amount recognized over the next six years, resulting in a deferred outflow of resources of \$208,115. The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Fiber Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 19,140	\$ -
Changes in assumptions	58,830	58,709
Net difference between projected and actual earnings on OPEB plan investments	16,164	-
Change in proportionate share	208,115	-
Total	<u>\$ 302,249</u>	<u>\$ 58,709</u>

16. 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, 2025, and 2024, are summarized as follows:

	2025	2024
City of Knoxville		
Payments by the Division in lieu of property tax	\$ 8,920	\$ 6,556
Payments by the Division for services provided	19,693	7,228
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	129,575	89,374
Interdivisional rental expense	55,167	82,293
Amounts billed to the Division by other divisions for utilities services provided	40,437	63,874
Interdivisional interest expense	1,516,244	1,172,928
Interdivisional access and utilization expense	6,634,534	3,044,523

Broadband services are provided by a high-speed fiber optic network that is owned and maintained by the Electric Division. The Fiber Division shares in the cost to build and operate the Fiber network by paying the Electric Division an annual access fee based on the year-end value of those assets and the related expenses. The Fiber Division also pays the Electric Division an annual utilization fee based on attachments to the network.

In October 2021, the Division was issued an interdivisional loan of \$10 million from the Electric Division at an interest rate of 3.89 percent. In August 2022, the Division was issued an interdivisional loan of \$7 million from the Electric Division at an interest rate of 3.93 percent. In February 2023, the Division was issued an interdivisional loan of \$13 million from the Electric Division at an interest rate of 4.02 percent. In May 2024, the Division was issued an interdivisional loan of \$7 million from the Electric Division at an interest rate of 4.13 percent. In December 2024, the Division was issued an

Knoxville Utilities Board Fiber Division

Notes to Financial Statements

June 30, 2025 and 2024

interdivisional loan of \$7 million from the Electric Division at an interest rate of 4.19 percent. The Division paid interest expense of \$1,516,244 for the year ended June 30, 2025, and \$1,172,928 for the year ended June 30, 2024.

17. Other Commitments and Contingencies

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

Knoxville Utilities Board Fiber Division

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

June 30, 2025

	Year ended December 31									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability										
Service cost	\$ 7,764,986	\$ 8,221,181	\$ 6,349,402	\$ 6,647,220	\$ 5,227,657	\$ 6,142,213	\$ 5,095,488	\$ 4,607,486	\$ 4,226,985	\$ 4,157,062
Interest	18,573,527	17,868,490	17,430,465	16,982,226	16,393,202	16,030,626	15,344,193	15,015,282	14,966,559	14,812,784
Changes of benefit terms	-	-	-	-	-	163,199	-	-	-	-
Differences between expected and actual experience	2,346,811	2,092,475	282,014	1,935,276	1,930,170	(1,054,117)	(605,649)	(1,087,161)	(2,233,762)	(1,890,334)
Changes of assumptions	1,425,345	-	5,268,672	-	-	8,473,160	-	(357,633)	(2,932,883)	-
Benefit payments, including refunds of member contributions	(19,432,811)	(19,237,834)	(17,125,610)	(17,725,963)	(16,006,565)	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)
Net change in total pension liability	10,677,858	8,944,312	12,204,943	7,838,759	7,544,464	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586
Total pension liability - beginning	263,351,035	254,406,723	242,201,780	234,363,021	226,818,557	212,157,951	207,598,733	204,390,738	204,502,350	202,773,764
Total pension liability - ending (a)	\$ 274,028,893	\$ 263,351,035	\$ 254,406,723	\$ 242,201,780	\$ 234,363,021	\$ 226,818,557	\$ 212,157,951	\$ 207,598,733	\$ 204,390,738	\$ 204,502,350
Plan fiduciary net position										
Contributions - employer	\$ 1,659,187	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887
Contributions - participants	4,971,148	5,752,609	3,812,595	3,939,687	2,284,727	3,170,825	2,081,125	1,488,632	555,075	487,546
Net investment income	28,540,651	35,927,438	(63,493,985)	37,575,566	44,814,914	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)
Other additions	738	4,568	9,415	112,484	7,740	13,579	62,616	82,239	45,848	30,879
Benefit payments, including refunds of member contributions	(19,400,811)	(19,193,834)	(17,065,610)	(17,653,963)	(15,962,565)	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)
Administrative expense	(662,847)	(602,078)	(498,988)	(441,017)	(455,191)	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)
Death benefits	(32,000)	(44,000)	(60,000)	(72,000)	(44,000)	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)
Net change in plan fiduciary net position**	15,076,066	23,710,964	(74,151,803)	26,877,185	33,522,377	40,431,737	(21,868,910)	22,862,426	5,052,489	(9,333,204)
Plan fiduciary net position - beginning**	255,898,655	232,187,691	306,339,494	279,462,309	245,939,932	205,508,195	227,377,105	204,514,679	199,462,190	208,795,394
Plan fiduciary net position - ending (b)**	\$ 270,974,721	\$ 255,898,655	\$ 232,187,691	\$ 306,339,494	\$ 279,462,309	\$ 245,939,932	\$ 205,508,195	\$ 227,377,105	\$ 204,514,679	\$ 199,462,190
Plan's net pension liability - ending (a) - (b)	\$ 3,054,172	\$ 7,452,380	\$ 22,219,032	\$ (64,137,714)	\$ (45,099,288)	\$ (19,121,375)	\$ 6,649,756	\$ (19,778,372)	\$ (123,941)	\$ 5,040,160
Plan fiduciary net position as a percentage of the total pension liability	98.89%	97.17%	91.27%	126.48%	119.24%	108.43%	96.87%	109.53%	100.06%	97.54%
Covered payroll	\$ 34,776,504	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743
Plan's net pension liability as a percentage of covered payroll	8.78%	20.93%	59.39%	(168.45%)	(108.61%)	(47.48%)	15.78%	(45.67%)	(0.28%)	11.34%

Notes to Schedule:

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

Knoxville Utilities Board Fiber Division

Required Supplementary Information – Schedule of Employer Pension Contributions

June 30, 2025

	Year ended December 31																			
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015										
Actuarially determined contribution	\$	1,659,187	\$	1,866,261	\$	3,144,770	\$	3,416,428	\$	2,876,752	\$	2,871,241	\$	3,456,475	\$	4,286,597	\$	5,243,146	\$	5,991,887
Contribution in relation to the actuarially determined contribution		1,659,187		1,866,261		3,144,770		3,416,428		2,876,752		2,871,241		3,456,475		4,286,597		5,243,146		5,991,887
Contribution deficiency	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
Covered payroll	\$	34,776,504	\$	35,604,464	\$	37,412,132	\$	38,074,863	\$	41,524,273	\$	40,276,197	\$	42,150,040	\$	43,309,374	\$	44,437,747	\$	44,446,743
Contributions as a percentage of covered payroll		4.77%		5.24%		8.41%		8.97%		6.93%		7.13%		8.20%		9.90%		11.80%		13.48%

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, 2023 and January 1, 2022

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age

Asset valuation method: 5-year smoothed market, adjusted to remain within 20% of the market value

Amortization method: As of January 1, 2023: Level dollar, 30-year closed period with 18 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
As of January 1, 2022: Level dollar, 30-year closed period with 19 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
As of January 1, 2023 and 2022, the unfunded liability was negative.

Discount rate: 7.00% as of January 1, 2023; 7.25% as of January 1, 2022

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

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

Inflation: 2.5%

Please refer to prior year's audited financial statements for prior methods and assumptions.

Knoxville Utilities Board Fiber Division

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

June 30, 2025

	2025	2024	2023	*Year ended June 30 2022	2021	2020	2019	2018
Total OPEB liability								
Service cost	\$ 506,802	\$ 615,753	\$ 595,392	\$ 416,277	\$ 283,786	\$ 256,270	\$ 270,515	\$ 202,603
Interest	4,176,096	4,256,122	4,133,008	3,858,276	3,861,304	3,672,291	3,624,737	3,295,240
Change of benefit terms	-	(164,746)	-	6,594,293	-	(202,408)	-	-
Differences between expected and actual experience	(154,501)	587,252	117,668	60,951	42,802	43,902	999,098	1,324,769
Changes of assumptions	(1,302,021)	(2,102,184)	2,527,824	-	(4,105,835)	3,604,843	3,231,601	(397,180)
Benefit payments	(3,594,203)	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	(367,827)	(594,174)	3,100,822	7,021,162	(3,029,122)	4,346,302	4,593,507	1,126,693
Total OPEB liability - beginning	61,042,928	61,637,102	58,536,280	51,515,118	54,544,240	50,197,938	45,604,431	44,477,738
Total OPEB liability - ending (a)	\$ 60,675,101	\$ 61,042,928	\$ 61,637,102	\$ 58,536,280	\$ 51,515,118	\$ 54,544,240	\$ 50,197,938	\$ 45,604,431
Plan fiduciary net position								
Contributions - employer	\$ 1,279,985	\$ 1,187,768	\$ 1,413,392	\$ 1,989,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Net investment income	6,084,906	5,656,390	4,333,538	(8,122,417)	12,890,602	975,155	2,981,928	3,705,473
Benefit payments	(3,594,203)	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(81,246)	(94,379)	(101,186)	(71,187)	(44,496)	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	3,689,442	2,963,408	1,372,674	(10,113,173)	10,492,153	(1,795,403)	(605,303)	355,066
Plan fiduciary net position - beginning	51,669,855	48,706,447	47,333,773	57,446,946	46,954,793	48,750,196	49,355,499	49,000,433
Plan fiduciary net position - ending (b)	\$ 55,359,297	\$ 51,669,855	\$ 48,706,447	\$ 47,333,773	\$ 57,446,946	\$ 46,954,793	\$ 48,750,196	\$ 49,355,499
Net OPEB liability (asset) - ending (a) - (b)	\$ 5,315,804	\$ 9,373,073	\$ 12,930,655	\$ 11,202,507	\$ (5,931,828)	\$ 7,589,447	\$ 1,447,742	\$ (3,751,068)
Plan fiduciary net position as a percentage of the total OPEB liability	91.24%	84.65%	79.02%	80.86%	111.51%	86.09%	97.12%	108.23%
Covered employee payroll**	\$ 89,939,256	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	5.91%	11.21%	18.44%	15.15%	(27.49%)	32.48%	5.95%	(15.84%)

Notes to Schedule:

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

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

Knoxville Utilities Board Fiber Division

Required Supplementary Information – Schedule of Employer OPEB Contributions

June 30, 2025

	2025	2024	2023	*Year ended June 30 2022	2021	2020	2019	2018
Actuarially determined contribution	\$ 1,279,985	\$ 1,187,768	\$ 1,413,392	\$ 489,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Contribution in relation to the annual required contribution	1,279,985	1,187,768	1,413,392	1,989,066	757,226	311,324	-	-
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,500,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll*	\$ 89,939,256	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Contributions as a percentage of covered employee payroll	1.42%	1.42%	2.02%	2.69%	3.51%	1.33%	0.00%	0.00%

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

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

Notes to Schedule:

Valuation Date: January 1, 2023 and January 1, 2022
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: 15-year layered amortization bases for annual changes in the unfunded liabilities as of January 1, 2022 and 2023; 30-year rolling amortization for a funding surplus; As of January 1, 2022 and 2023, there was an unfunded liability
Discount rate: 7.25% and 7.00% as of January 1, 2022 and 2023, respectively
Healthcare cost trend rate: Pre-Medicare: 5.75% in 2022 and 5.70% in 2023 grading down to 3.935% in 2042 and beyond using the Getzen trend model
Medicare: 11.30% in 2022 and 7.40% in 2023 grading down to 3.935% in 2042 and beyond using the Getzen trend model
Administrative expenses: 3.0% per year
Salary increases: From 2.50% to 5.65%, based on years of service
Mortality: 115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational
Inflation: 2.5%
Investment rate of return: 7.25% and 7.00% as of January 1, 2022 and 2023, respectively
Retirement age: 2% at ages 50-57, grading up to 100% at age 70

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

Knoxville Utilities Board Fiber Division
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2025

	*Year ended December 31								
	2024	2023	2022	2021	2020	2019	2018	2017	2016
Total pension liability									
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 941	\$ 584	\$ -
Interest (includes interest on service cost)	-	-	-	268	388	9,181	9,676	7,535	-
Changes of benefit terms	-	-	-	-	-	(218,272)	-	-	185,077
Differences between expected and actual experience	21,226	-	-	(6,816)	10,165	34	(36,125)	13,684	-
Changes of assumptions	-	-	-	-	91	13,342	(22,950)	73,461	-
Benefit payments, including refunds of member contributions	-	-	-	(12,166)	(12,166)	(15,932)	-	-	-
Net change in total pension liability	<u>21,226</u>	<u>-</u>	<u>-</u>	<u>(18,714)</u>	<u>(1,522)</u>	<u>(211,647)</u>	<u>(48,458)</u>	<u>95,264</u>	<u>185,077</u>
Total pension liability - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,714</u>	<u>20,236</u>	<u>231,883</u>	<u>280,341</u>	<u>185,077</u>	<u>-</u>
Total pension liability - ending	<u>\$ 21,226</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,714</u>	<u>\$ 20,236</u>	<u>\$ 231,883</u>	<u>\$ 280,341</u>	<u>\$ 185,077</u>
Covered payroll	\$ 34,776,504	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747
Total pension liability as a percentage of covered payroll	0.06%	0.00%	0.00%	0.00%	0.05%	0.05%	0.55%	0.65%	0.42%

Notes to Schedule:

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

Knoxville Utilities Board Fiber Division
Supplemental Information – Schedule of Debt Maturities by Fiscal Year
June 30, 2025

FY	Electric Division Loan 1		Electric Division Loan 2		Electric Division Loan 3		Electric Division Loan 4A		Electric Division Loan 4B		Electric Division Loan 5		Totals		Grand Total (P + I)
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
25-26	\$ 500,000	\$ 328,219	\$ 350,000	\$ 230,969	\$ 650,000	\$ 451,831	\$ 250,000	\$ 191,443	\$ 100,000	\$ 76,577	\$ 350,000	\$ 280,468	\$ 2,200,000	\$ 1,559,507	\$ 3,759,507
26-27	500,000	308,769	350,000	217,214	650,000	425,701	250,000	181,118	100,000	72,447	350,000	265,803	2,200,000	1,471,052	3,671,052
27-28	2,381,375	289,319	1,647,500	203,459	3,059,643	399,571	250,000	170,793	100,000	68,317	350,000	251,138	7,788,518	1,382,597	9,171,115
28-29	4,342,500	202,782	3,000,000	142,962	5,571,428	284,646	1,176,786	147,709	100,000	64,187	350,000	236,473	14,540,714	1,078,759	15,619,473
29-30	901,125	40,216	660,834	29,493	1,552,262	69,089	2,802,380	85,808	400,000	60,057	847,250	214,862	7,163,851	499,525	7,663,376
30-31	-	-	-	-	-	-	-	-	400,000	44,569	1,715,000	167,245	2,115,000	211,814	2,326,814
31-32	-	-	-	-	-	-	-	-	691,667	23,920	2,862,750	95,385	3,554,417	119,305	3,673,722
Total	<u>\$ 8,625,000</u>	<u>\$ 1,169,305</u>	<u>\$ 6,008,334</u>	<u>\$ 824,097</u>	<u>\$ 11,483,333</u>	<u>\$ 1,630,838</u>	<u>\$ 4,729,166</u>	<u>\$ 776,871</u>	<u>\$ 1,891,667</u>	<u>\$ 410,074</u>	<u>\$ 6,825,000</u>	<u>\$ 1,511,374</u>	<u>\$ 39,562,500</u>	<u>\$ 6,322,559</u>	<u>\$ 45,885,059</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Fiber Division
Supplemental Information – Schedule of Changes in Long-term Debt by Individual Issue
June 30, 2025

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding Balance 7/1/2024	Issued During Period	Paid/Matured During Period	Refunded During Period	Outstanding Balance 6/30/2025
Business-Type Activities									
<u>LOAN PAYABLE</u>									
Electric Division Loan 1	\$ 10,000,000	3.89	10/01/21	06/01/30	\$ 9,125,000	\$ -	\$ 500,000	\$ -	\$ 8,625,000
Electric Division Loan 2	\$ 7,000,000	3.93	08/01/22	06/01/30	6,358,334	-	350,000	-	6,008,334
Electric Division Loan 3	\$ 13,000,000	4.02	02/01/23	06/01/30	12,133,333	-	650,000	-	11,483,333
Electric Division Loan 4A	\$ 5,000,000	4.13	05/01/24	06/01/30	4,979,166	-	250,000	-	4,729,166
Electric Division Loan 4B	\$ 2,000,000	4.13	05/01/24	06/01/32	1,991,667	-	100,000	-	1,891,667
Electric Division Loan 5	\$ 7,000,000	4.19	12/01/24	06/01/32	-	7,000,000	175,000	-	6,825,000
					<u>\$ 34,587,500</u>	<u>\$ 7,000,000</u>	<u>\$ 2,025,000</u>	<u>\$ -</u>	<u>\$ 39,562,500</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Fiber Division
Supplemental Information – Schedule of Changes in Lease Liabilities
June 30, 2025

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Maturity Date	Outstanding 6/30/2024	Issued During Period	Paid and/or Matured During Period	Remeasure- ments	Outstanding 6/30/2025
<u>Lease Liabilities</u>									
<u>Payable through Fiber Fund</u>									
R&S Logistics (Sublease)	\$ 1,835,035	3.88%	7/1/2020	3/31/2027	\$ 1,051,935	\$ -	\$ (359,826)	\$ (1,027)	\$ 691,082
Ricoh Americas	746	3.88%	7/1/2020	7/31/2025	301	-	(385)	127	43
RJ Young Company	1,015	3.88%	7/1/2020	6/30/2026	269	-	(403)	134	-
Total Lease Liabilities					\$ 1,052,505	\$ -	\$ (360,614)	\$ (766)	\$ 691,125

See accompanying Independent Auditor's Report

Knoxville Utilities Board Fiber Division
Statistical Information – Schedule of Insurance in Force
June 30, 2025
(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.

Environmental and Pollution Legal Liability

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

Property Insurance

This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - \$250,000,000 per occurrence (subject to certain sub limits); \$3,500,000 deductible per occurrence.

Travel Accident

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

Excess Insurance for General Liability

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

Excess Insurance for Workers' Compensation

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

Employee Health Plan Stop Loss Coverage

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses for more than \$700,000 per individual participant.

Cyber Security Liability

Liability coverage resulting from losses related to a covered event such as data breaches, ransomware, regulatory fines, cyber extortion, business interruption and other cyber-related events. Limits of coverage - \$5,000,000; \$500,000 deductible.

Drone

Liability coverage resulting from losses related to bodily injury or damaged property arising out of the ownership, maintenance, or use of a drone aircraft. Limits of coverage - \$2,000,000.

See accompanying Independent Auditor's Report

Rate Class	Product	Base Charge	Number of Customers
Residential	The Gig (1 Gigabit symmetrical internet service)	\$65.00	20,841
	The Gig 2.5 (2.5 Gigabit symmetrical internet service)	\$150.00	467
	The Gig 10 (10 Gigabit symmetrical internet service)	\$300.00	5
	Smart Gig Managed WiFi Service	\$15.00	10,792
	Residential Phone Unlimited (unlimited long distance continental US)	\$35.00	747
	Bronze TV (~38 Channels with 6 concurrent streams)	\$53.00	194
	Silver TV (~108 Channels with 6 concurrent streams)	\$137.00	453
	Gold TV (~211 Channels with 6 concurrent streams)	\$147.00	327
	Spanish Language TV (~13 Channels)	\$5.00	2
	HBO (~14 Channels)	\$17.00	40
	Starz (~29 Channels)	\$10.00	29
	Showtime (~20 Channels)	\$10.00	22
	Cinemax (~12 Channels)	\$12.00	12
	Additional 4 Concurrent Video Streams	\$5.00	3
	Static IP Address	\$10.00	64
Non-Residential	Business Connect (500 Megabit symmetrical internet service)	\$85.00	738
	The Gig at Work (1 Gigabit symmetrical internet service)	\$150.00	314
	The Gig 2.5 at Work (2.5 Gigabit symmetrical internet service)	\$225.00	20
	Custom Connect Pro	*	31
	Business Phone Unlimited – First Line	\$40.00	329
	Business Phone Unlimited – Second Line	\$35.00	181
	Smart Gig at Work Router Service	\$20.00	339
	Smart Gig for Work Plus	*	22
	Commercial Static IP Address	\$5.00	367

*Custom Pricing

See accompanying Independent Auditor's Report

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Commissioners
Fiber Division of the Knoxville Utilities Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the Fiber 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, 2025, 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 17, 2025, which references, that the financial statements, are only that portion of Knoxville Utilities Board that resulted from the transactions of the Fiber Division.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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.

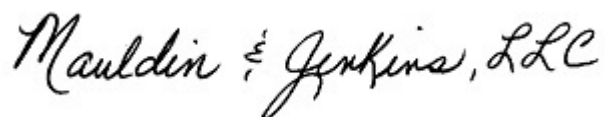
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any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

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Chattanooga, Tennessee
October 17, 2025



Gas Division

Financial Statements and Supplemental Information June 30, 2025 and 2024

KUB Board of Commissioners

Cynthia Gibson, Chair

Ron Feinbaum

Celeste Herbert

Dr. Craig Pickett, Jr.

Claudia Caballero, Vice Chair

Kathy Hamilton

Phyllis Nichols

Management

Gabriel Bolas II

President and Chief Executive Officer

Mark Walker

Senior Vice President and Chief Financial Officer

Jamie Davis

Senior Vice President Fiber and Chief Technology Officer

John Gresham

Senior Vice President and Chief Engineering and
Operations Officer

John Williams

Senior Vice President and Chief Infrastructure and
Compliance Officer

Tiffany Martin

Senior Vice President and Chief Customer and Talent Officer

Erin Gill

Vice President Communications and External Relations

Knoxville Utilities Board Gas Division

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June 30, 2025 and 2024

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Gas Division of the Knoxville Utilities Board

Report on the Audit of the Financial Statements

Opinion

We have audited 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 years ended June 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Division as of June 30, 2025 and 2024, and the changes in financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

-
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Division's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-26, the schedule of changes in net pension liability and related ratios, the schedule of employer pension contributions, the schedule of changes in net OPEB liability and related ratios, the schedule of employer OPEB contributions and the schedule of changes in total pension liability and related ratios - qualified governmental excess benefit arrangement on pages 67-71 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's basic financial statements. The schedule of debt maturities by fiscal year, the schedule of changes in long-term debt by individual issue, and the schedule of changes in lease liability are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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.

The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of debt maturities by fiscal year, the schedule of changes in long-term debt by individual issue, and schedule of changes in lease liabilities are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the statistical information but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Emphasis of Matter

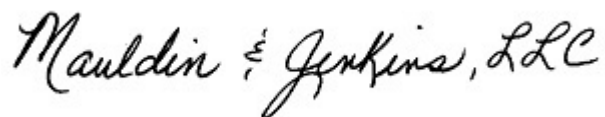
As discussed in Note 1, the financial statements present only the Gas Division and do not purport to, and do not, present fairly the financial position of the Knoxville Utilities Board, as of June 30, 2025 and 2024, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

The financial statements of the Division as of June 30, 2024, were audited by other auditors whose report dated October 23, 2024, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2025, 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 the Division's 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.



Chattanooga, Tennessee
October 17, 2025

Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Knoxville Utilities Board (KUB), comprised of Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. 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 as of June 30, 2025, and 2024, 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, 2025, 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 111,101 customers across a 298 square miles service territory. KUB maintains 2,609 miles of service mains to provide 14.2 million dekatherms of natural gas to its customers annually.

Although KUB's natural gas system service territory experienced warmer than normal temperatures this winter, Heating Degree Days increased 4.7 percent compared to the prior fiscal year. Billed natural gas sales increased 6 percent when compared to fiscal year 2024. Gas Division margin (operating revenue less purchased gas cost) was \$6 million higher in fiscal year 2025.

The natural gas system's record peak demand remains 169,458 dekatherms, set in December 2022.

The natural gas system has added 3,712 customers over the past three years, representing annual growth of one percent. In fiscal year 2025, 1,129 customers were added.

The typical residential gas customer's average monthly gas bill was \$61.05 as of June 30, 2025. The average monthly bill increased \$4.30 compared to the prior fiscal year, the result of the October 2024 rate increase and a 7.2 percent increase in residential billed volumes.

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 commitment to system integrity, continuous improvement, safety, and employee development. As a Gold Level designee, the company remains a member of the program through 2027. In recognition of safety performance, KUB was named a 2025 APGA Safety Contest Winner. KUB also received the 2025 APGA Safety Management Excellence Award and the 2025 Community Service Award for excellence in operating its natural gas utility.

Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Century II Infrastructure Program

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

In June 2024, as part of KUB's Inflation Response Plan, the Board approved the next phase of gas rate increases to support the Century II program. The first of three approved 3 percent gas rate increases took effect in October 2024, generating additional annual Gas Division revenue of \$4.1 million. The remaining rate increases, effective October 2025 and October 2026, are expected to provide \$4.5 million in additional annual Gas Division revenue each.

During the fiscal year, KUB replaced 8.4 miles of steel gas main.

Financial Highlights

Fiscal Year 2025 Compared to Fiscal Year 2024

The Division's net position increased \$20.9 million in fiscal year 2025 compared to a \$16 million increase in fiscal year 2024.

Operating revenue increased \$14.8 million, or 12.9 percent. The increase is attributable to a 6 percent increase in billed volumes and additional revenue from the October 2024 rate increase. KUB flows changes to wholesale gas costs directly through to its retail gas rates via the Purchased Gas Adjustment.

Purchased gas expense was \$8.8 million or 17.8 percent higher due to increased storage injection, higher natural gas prices, and higher customer demand. Margin on gas sales (operating revenue less purchased gas expense) increased \$6 million or 9.2 percent, reflecting higher sales volumes.

Operating expenses (excluding purchased gas expense) increased \$1.1 million, or 2.2 percent. Operating and maintenance (O&M) expenses were \$1.6 million higher than the prior fiscal year. Depreciation and amortization expense increased \$0.7 million. Taxes and tax equivalents were \$1.2 million lower than the prior year.

Wholesale purchased gas expense represented 46 percent of natural gas sales revenue for the fiscal year ended June 30, 2025.

Interest income decreased \$0.1 million. Interest expense decreased \$0.3 million.

Total plant assets (net) increased \$5.5 million, or 1.6 percent, reflecting capital investment associated with the replacement of key gas system assets and other major system projects.

Long-term debt represented 16.2 percent of the Division's capital structure as of June 30, 2025, as compared to 18.5 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. Debt coverage for the current fiscal year was 4.86. Maximum debt service coverage for future fiscal years is 5.04.

Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's net position increased \$16 million in fiscal year 2024 compared to a \$13.5 million increase in fiscal year 2023.

Operating revenue decreased \$31.8 million or 21.7 percent. The decrease is attributable to lower natural gas prices compared to the prior year. KUB flows changes to wholesale gas costs directly through to its retail gas rates via the Purchased Gas Adjustment.

Purchased gas expense was \$33.7 million or 40.4 percent lower due to lower natural gas prices. Margin on gas sales (operating revenue less purchased gas expense) increased \$1.8 million or 2.9 percent, reflecting higher sales volumes.

Operating expenses (excluding purchased gas expense) increased \$0.5 million or 1.1 percent. Operating and maintenance (O&M) expenses were \$0.2 million lower than the prior fiscal year. Depreciation and amortization expense increased \$0.6 million. Taxes and tax equivalents were \$0.2 million higher than the prior year.

Wholesale purchased gas expense represented 43 percent of natural gas sales revenue for the fiscal year ended June 30, 2024.

Interest income increased \$0.8 million due to higher interest rates throughout the year. Interest expense decreased \$0.3 million.

Total plant assets (net) increased \$12.6 million or 3.7 percent, reflecting capital investment associated with the replacement of key gas system assets and other major system projects.

Long-term debt represented 18.5 percent of the Division's capital structure as of June 30, 2024, as compared to 20.8 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. Debt coverage for the current fiscal year was 4.26.

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Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

June 30, 2025 and 2024

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, intangible, or other assets.

Liabilities are classified as current, other, or long-term debt. Net position is classified as net investment in capital assets, restricted, or unrestricted. Net position 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 reflects the book value of all capital assets and intangible assets, less lease and subscription liabilities and the outstanding balances of debt used to acquire, construct, or improve those assets.

Restricted net position includes assets that have been limited to specific uses by 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 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 Divisions reports its cash flows from operating activities, capital and related financing activities, non-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.

Knoxville Utilities Board Gas Division
Management's Discussion and Analysis
June 30, 2025 and 2024

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

<i>(in thousands of dollars)</i>	2025	2024	2023
Current, restricted, intangible, and other assets	\$ 70,978	\$ 60,804	\$ 67,112
Capital assets, net	353,072	347,605	335,050
Total assets	424,050	408,409	402,162
Deferred outflows of resources	3,099	5,506	9,944
Total assets and deferred outflows of resources	427,149	413,915	412,106
Current and other liabilities	25,743	25,962	33,711
Long-term debt outstanding	64,354	71,872	79,414
Total liabilities	90,097	97,834	113,125
Deferred inflows of resources	2,160	2,086	993
Total liabilities and deferred inflows of resources	92,257	99,920	114,118
Net position			
Net investment in capital assets	281,381	268,290	247,959
Restricted	2,199	2,207	2,224
Unrestricted	51,312	43,498	47,805
Total net position	\$ 334,892	\$ 313,995	\$ 297,988

Normal Impacts on Statement of Net Position

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

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

Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Impacts and Analysis

Current, Restricted, Intangible, and Other Assets

Fiscal Year 2025 Compared to Fiscal Year 2024

Current, restricted, intangible, and other assets increased \$10.2 million, or 16.7 percent, primarily due to a \$7.2 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments), \$1.7 million increase in under recovered purchased gas costs and \$1.4 million increase in accounts receivable.

KUB under recovered \$2.8 million in wholesale gas costs from its customers in fiscal year 2025, as compared to an under recovery of \$1.1 million in fiscal year 2024. 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 2024 Compared to Fiscal Year 2023

Current, restricted, intangible, and other assets decreased \$6.3 million, or 9.4 percent, primarily due to a \$5.9 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) and a \$2.2 million decrease in gas storage offset by a \$1.1 million increase in under recovered purchased gas costs.

KUB under recovered \$1.1 million in wholesale gas costs from its customers in fiscal year 2024, as compared to an over recovery of \$4.4 million in fiscal year 2023. 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 2025 Compared to Fiscal Year 2024

Capital assets increased by \$5.5 million, or 1.6 percent. Major capital expenditures during the year included \$8.4 million for the construction of service extensions, \$6.5 million for gas main improvements, \$2.8 million for steel mains and services, \$1.2 million for auto and truck purchases, and \$0.9 million for the replacement and relocation of gas system assets to accommodate Tennessee Department of Transportation (TDOT) highway improvement projects. The Gas Division retired \$4.1 million of natural gas system assets during the fiscal year.

Fiscal Year 2024 Compared to Fiscal Year 2023

Capital assets increased \$12.6 million, or 3.7 percent. Major capital expenditures during the year included \$7.7 million for the construction of service extensions, \$7.2 million for gas main improvements, \$5.1 million for steel mains and services, and \$2.7 million for the replacement and relocation of gas system assets to accommodate Tennessee Department of Transportation (TDOT) highway improvement projects. The Gas Division retired \$5.6 million of natural gas system assets during the fiscal year.

Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

June 30, 2025 and 2024

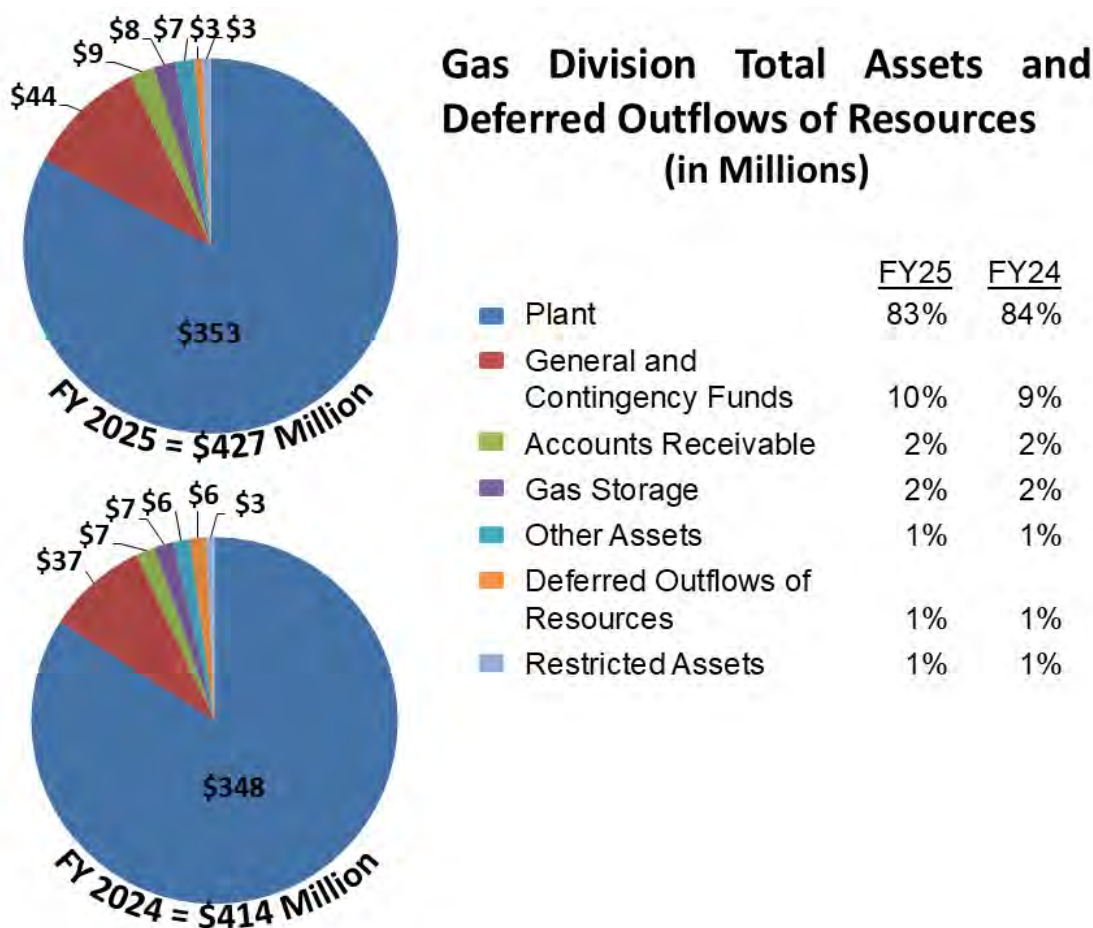
Deferred Outflows of Resources

Fiscal Year 2025 Compared to Fiscal Year 2024

Deferred outflows of resources decreased \$2.4 million compared to the prior fiscal year. The decrease is attributable to a \$2.2 million decrease in pension outflow and a \$0.2 million decrease in OPEB outflow.

Fiscal Year 2024 Compared to Fiscal Year 2023

Deferred outflows of resources decreased \$4.4 million compared to the prior fiscal year. The decrease is attributable to a \$3.8 million decrease in pension outflow and a \$0.6 million decrease in OPEB outflow.



Current and Other Liabilities

Fiscal Year 2025 Compared to Fiscal Year 2024

Current and other liabilities decreased \$0.2 million compared to the prior fiscal year, the result of a \$0.9 million increase in accounts payable offset by a \$0.7 million decrease in the actuarially determined net pension liability and a \$0.7 million decrease in the actuarially determined net OPEB liability.

Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Fiscal Year 2024 Compared to Fiscal Year 2023

Current and other liabilities decreased \$7.7 million compared to the prior fiscal year, the result of a \$4.4 million decrease in over recovered purchased gas costs and a \$2.7 million decrease in the actuarially determined net pension liability.

Long-Term Debt

Fiscal Year 2025 Compared to Fiscal Year 2024

Long-term debt was \$7.5 million lower than the prior year. The decrease is due to the impact of the scheduled repayment of debt.

Fiscal Year 2024 Compared to Fiscal Year 2023

Long-term debt was \$7.5 million lower than the prior year. The decrease is due to the impact of the scheduled repayment of debt.

Deferred Inflows of Resources

Fiscal Year 2025 Compared to Fiscal Year 2024

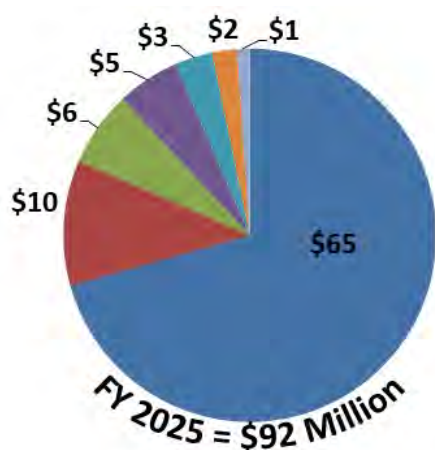
Deferred inflows of resources increased \$0.1 million compared to the prior fiscal year due to a \$0.4 million increase in OPEB inflow offset by a \$0.2 million decrease in lease inflow and a \$0.1 million decrease in pension inflow.

Fiscal Year 2024 Compared to Fiscal Year 2023

Deferred inflows of resources increased \$1.1 million compared to the prior fiscal year due to a \$0.7 million increase in lease inflow and a \$0.5 million increase in OPEB inflow offset by a \$0.1 million decrease in pension inflow.

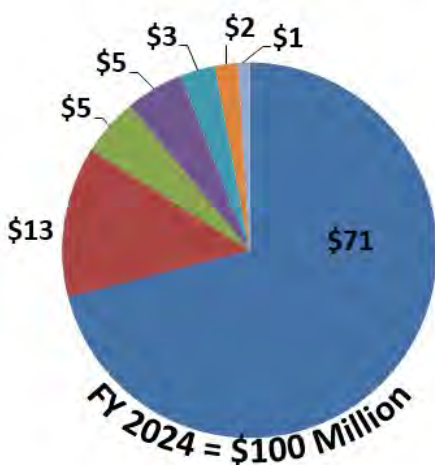
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Knoxville Utilities Board Gas Division
Management's Discussion and Analysis
June 30, 2025 and 2024



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

	<u>FY25</u>	<u>FY24</u>
Bond Debt	71%	71%
Other Liabilities	11%	13%
Payables	7%	5%
Customer Deposits	5%	5%
Misc Current	3%	3%
Deferred Inflows of Resources	2%	2%
Interest Accrued	1%	1%



Net Position

Fiscal Year 2025 Compared to Fiscal Year 2024

Net position increased \$20.9 million in fiscal year 2025. Net investment in capital assets increased \$13.1 million, primarily due to an increase in net plant in service of \$5.5 million and a decrease in the current and long-term portions of revenue bonds of \$6.6 million. Restricted net position was consistent with the prior fiscal year. Unrestricted net position increased \$7.8 million, primarily due to a \$7.2 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments).

Fiscal Year 2024 Compared to Fiscal Year 2023

Net position increased \$16 million in fiscal year 2024. Net investment in capital assets increased \$20.3 million, primarily due to an increase in net plant in service of \$12.6 million and a decrease in the current and long-term portions of revenue bonds of \$6.7 million. Restricted net position was consistent with the prior fiscal year. Unrestricted net position decreased \$4.3 million, primarily due to a \$5.9 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments).

Knoxville Utilities Board Gas Division
Management's Discussion and Analysis
June 30, 2025 and 2024

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

<i>(in thousands of dollars)</i>	2025	2024	2023
Operating revenues	\$ 129,653	\$ 114,859	\$ 146,699
Less: Purchased gas expense	<u>58,545</u>	<u>49,712</u>	<u>83,362</u>
Margin from sales	<u>71,108</u>	<u>65,147</u>	<u>63,337</u>
Operating expenses			
Distribution	12,741	11,696	11,238
Customer service	1,383	1,328	2,245
Administrative and general	12,302	11,834	11,618
Depreciation and amortization	17,013	16,316	15,720
Taxes and tax equivalents	<u>6,992</u>	<u>8,172</u>	<u>8,003</u>
Total operating expenses	<u>50,431</u>	<u>49,346</u>	<u>48,824</u>
Operating income	<u>20,677</u>	<u>15,801</u>	<u>14,513</u>
Interest income	1,997	2,077	1,262
Interest expense	(2,762)	(3,095)	(3,351)
Other income/(expense)	<u>929</u>	<u>1,199</u>	<u>773</u>
Change in net position before capital contributions	<u>20,841</u>	<u>15,982</u>	<u>13,197</u>
Capital contributions	<u>56</u>	<u>25</u>	<u>324</u>
Change in net position	\$ <u>20,897</u>	\$ <u>16,007</u>	\$ <u>13,521</u>

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

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

- Operating revenue is largely determined by volume of 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 and amortization expense is impacted by intangible assets, plant additions, and retirements during the fiscal year.

Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

June 30, 2025 and 2024

- 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 2025 Compared to Fiscal Year 2024

The Division's Change in Net Position increased \$20.9 million in fiscal year 2025. Comparatively, net position increased by \$16 million in fiscal year 2024.

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's Change in Net Position increased \$16 million in fiscal year 2024. Comparatively, net position increased by \$13.5 million in fiscal year 2023.

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Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Margin from Sales

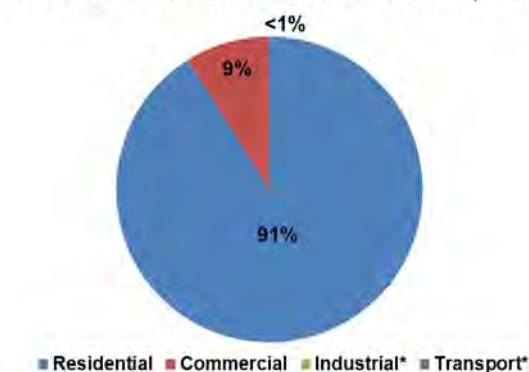
Fiscal Year 2025 Compared to Fiscal Year 2024

Margin on gas sales (operating revenue less purchased gas expense) increased \$6 million, or 9.2 percent, due to higher sales volumes.

Operating revenue increased \$14.8 million, or 12.9 percent, for the fiscal year ended June 30, 2025. This was driven by a 6 percent increase in billed volumes and additional revenue from the October 2024 rate increase. Although the gas system service territory experienced a warmer than normal winter, Heating Degree Days increased 4.7 percent compared to the prior fiscal year.

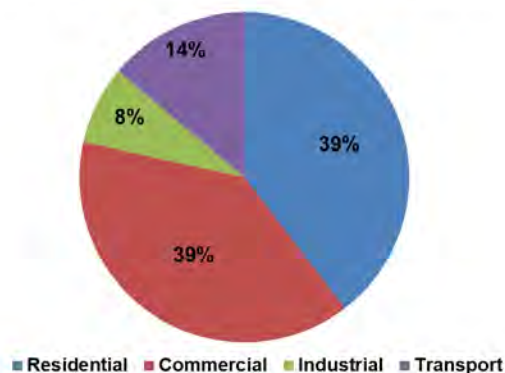
Purchased gas expense increased \$8.8 million, or 17.8 percent, due to increased storage injection, higher natural gas prices, and higher customer demand. Total volumes delivered to KUB's gas distribution system increased less than one percent and storage volumes increased 20 percent this fiscal year. The Division's weighted average cost of gas purchased for fiscal year 2025 was \$3.12 per dekatherm, as compared to \$2.51 per dekatherm the prior fiscal year.

FY 2025 Total Gas Customers = 111,101



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

FY 2025 Gas Sales = 14.2 million Dekatherms



Residential customers, whose natural gas is primarily used as a heating source during winter months, accounted for 91 percent of customers billed and 39 percent of total volumes sold during the year.

Residential sales volumes increased 7.2 percent, commercial sales volumes increased 2.9 percent, industrial sales volumes increased 43.3 percent, and transport sales volumes decreased 2.8 percent. Industrial sales volumes increased significantly due to one customer's shift to natural gas for the fiscal year, instead of using a mix of their two fuel sources.

KUB's ten largest gas customers accounted for 26 percent of billed gas volumes. These customers include five commercial and five industrial customers, including three governmental customers and one hospital.

KUB has added 3,712 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 and KUB reaching new customers through its gas growth programs.

KUB has 12 transport customers who purchase gas directly from a supplier other than KUB. KUB provides transportation service on its gas distribution system to those customers.

Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

June 30, 2025 and 2024

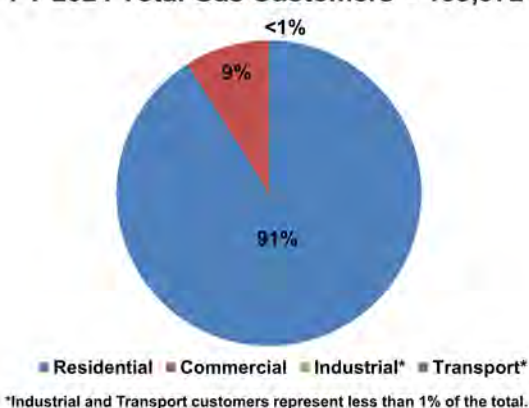
Fiscal Year 2024 Compared to Fiscal Year 2023

Margin on gas sales (operating revenue less purchased gas expense) increased \$1.8 million or 2.9 percent, due to higher sales volumes.

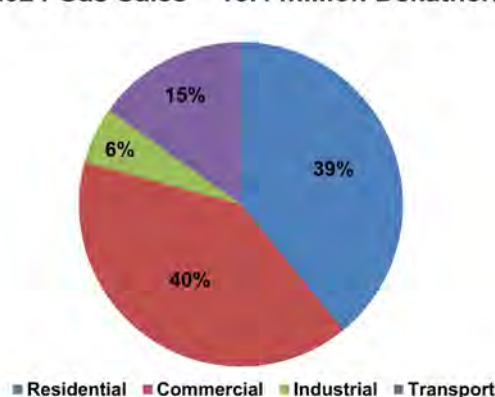
Operating revenue decreased \$31.8 million or 21.7 percent for the fiscal year ended June 30, 2024, due to lower natural gas prices. The gas system service territory experienced a warmer than normal winter.

Purchased gas expense decreased \$33.7 million or 40.4 percent, due to lower natural gas prices. Total volumes delivered to KUB's gas distribution system increased 1.1 percent this fiscal year. The Division's weighted average cost of gas purchased for fiscal year 2024 was \$2.51 per dekatherm, as compared to \$5.20 per dekatherm the prior fiscal year.

FY 2024 Total Gas Customers = 109,972



FY 2024 Gas Sales = 13.4 million Dekatherms



Residential customers, whose natural gas is primarily used as a heating source during winter months, accounted for 91 percent of customers billed and 39 percent of total volumes sold during the year.

Residential sales volumes increased 2.2 percent, commercial sales volumes increased 1.8 percent, industrial sales volumes increased 4.5 percent, and transport sales volumes decreased 0.6 percent.

KUB's ten largest gas customers accounted for 27 percent of KUB's billed gas volumes. Those ten customers represent six commercial and four industrial customers, including three governmental and two hospitals.

KUB has added 3,962 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 and KUB reaching new customers through its gas growth programs.

KUB has 13 transport customers who purchase gas directly from a supplier other than KUB. KUB provides transportation service on its gas distribution system to those customers.

Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

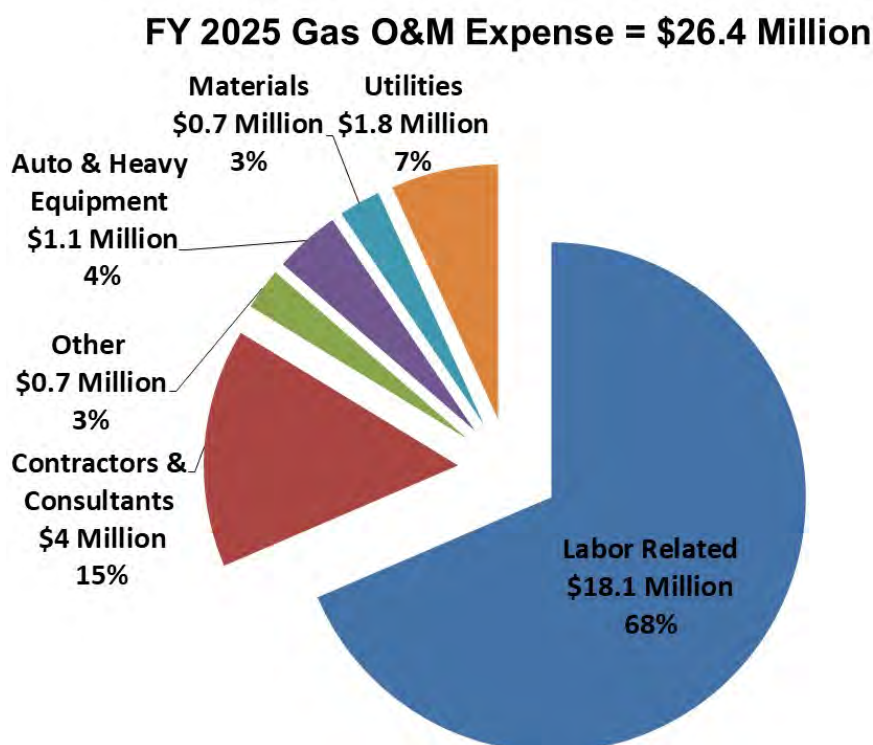
June 30, 2025 and 2024

Operating Expenses

Fiscal Year 2025 Compared to Fiscal Year 2024

Operating expenses (excluding purchased gas expense) increased \$1.1 million, or 2.2 percent, compared to fiscal year 2024. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, 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 million higher than the prior fiscal year, primarily due to increased labor-related expenses as well as expenses for outside contractors and consultants.
- Customer service expenses were \$0.1 million higher, primarily due to increased labor-related expenses.
- Administrative and general expenses increased \$0.5 million, primarily due to labor-related expenses that includes \$0.6 million in pension expense.



- Depreciation and amortization expense increased \$0.7 million. KUB added \$19.5 million in assets during fiscal year 2025. A partial year of depreciation was recorded on these capital improvements and a full year of depreciation expense was incurred on \$29.3 million in gas system assets placed in service during fiscal year 2024. In addition, \$4.1 million of assets were retired during the fiscal year.
- Taxes and tax equivalents were \$1.2 million lower than the prior fiscal year, primarily due to the City of Knoxville's reduction in equalization rates.

Knoxville Utilities Board Gas Division

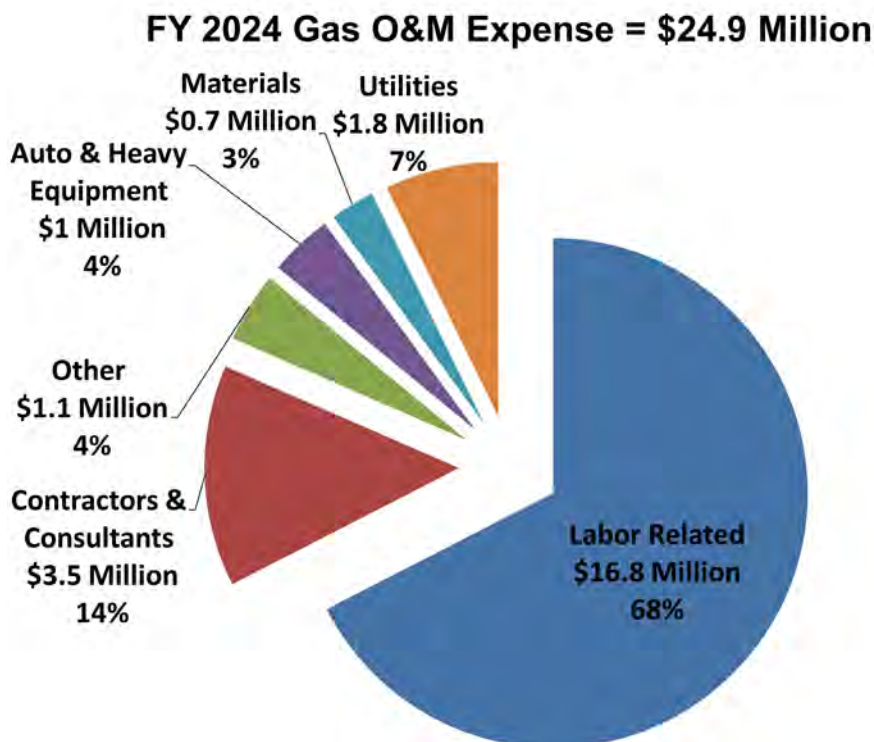
Management's Discussion and Analysis

June 30, 2025 and 2024

Fiscal Year 2024 Compared to Fiscal Year 2023

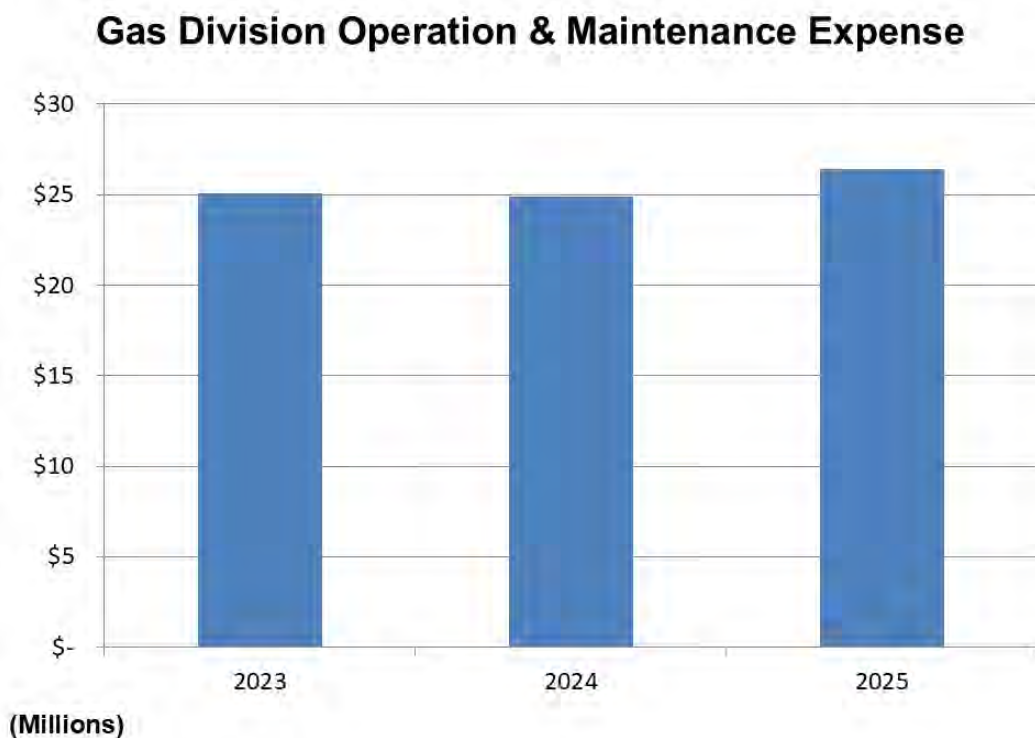
Operating expenses (excluding purchased gas expense) increased \$0.5 million, or 1.1 percent, compared to fiscal year 2023. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as distribution, customer service, and administrative and general.

- Distribution system O&M expenses were \$0.5 million higher than the prior fiscal year, primarily due higher outside contractor and consultant costs.
- Customer service expenses were \$0.9 million lower, primarily due to a change in methodology for technology-related costs that resulted in an offsetting increase in administration and general expenses.
- Administrative and general expenses increased \$0.2 million, primarily due to a change in methodology for technology-related costs that resulted in an offsetting decrease in customer service expenses.



- Depreciation and amortization expense increased \$0.6 million. KUB added \$29.3 million in assets during fiscal year 2024. A partial year of depreciation was recorded on these capital improvements and a full year of depreciation expense was incurred on \$22.6 million in gas system assets placed in service during fiscal year 2023. In addition, \$5.6 million of assets were retired during the fiscal year.
- Taxes and tax equivalents were \$0.2 million higher than the prior fiscal year.

**Knoxville Utilities Board Gas Division
Management's Discussion and Analysis
June 30, 2025 and 2024**



Other Income and Expense

Fiscal Year 2025 Compared to Fiscal Year 2024

Interest income decreased \$0.1 million compared with the prior year.

Interest expense decreased \$0.3 million compared with the prior year, reflecting a lower amount of outstanding bonds.

Other income (net) was \$0.3 million lower than the prior fiscal year, due to mark-to-market adjustments on investments.

Fiscal Year 2024 Compared to Fiscal Year 2023

Interest income was \$0.8 million higher than the prior fiscal year due to higher interest rates throughout the year.

Interest expense decreased \$0.3 million compared with the prior year, reflecting a lower amount of outstanding bonds.

Other income (net) was \$0.4 million higher than the prior fiscal year, partially due to mark-to-market adjustments on investments.

Knoxville Utilities Board Gas Division
Management's Discussion and Analysis
June 30, 2025 and 2024

Capital Assets

	Capital Assets As of June 30 (Net of Depreciation)		
<i>(in thousands of dollars)</i>	2025	2024	2023
Distribution Plant			
Mains	\$ 214,415	\$ 212,547	\$ 202,723
Services and Meters/Regulators	85,152	85,137	83,048
Other Accounts	1,061	988	1,022
Total Distribution Plant	<u>300,628</u>	<u>298,672</u>	<u>286,793</u>
Total General Plant	\$ 15,084	\$ 14,687	\$ 13,723
Total Plant Assets	<u>315,712</u>	<u>313,359</u>	<u>300,516</u>
Work In Progress	37,360	34,246	34,534
Total Net Plant	<u>\$ 353,072</u>	<u>\$ 347,605</u>	<u>\$ 335,050</u>

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Knoxville Utilities Board Gas Division

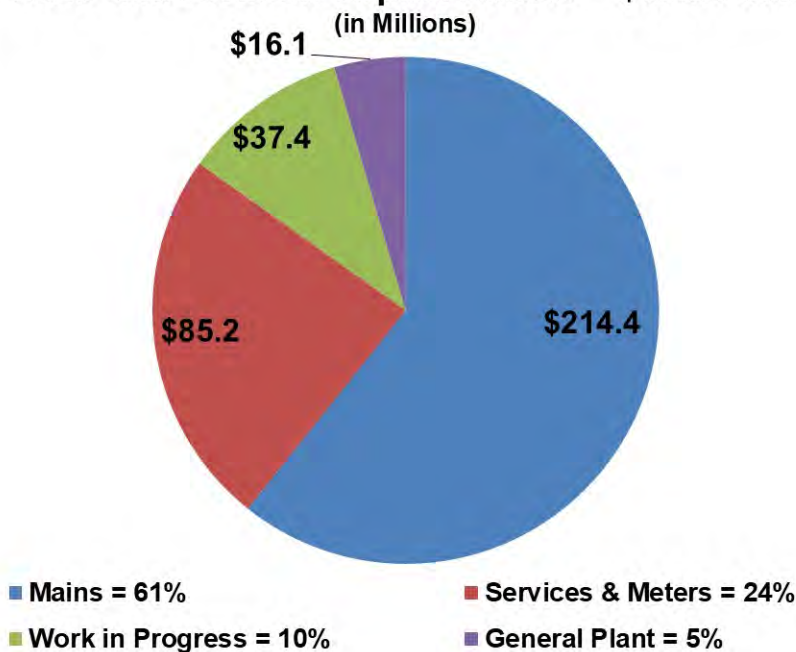
Management's Discussion and Analysis

June 30, 2025 and 2024

Fiscal Year 2025 Compared to Fiscal Year 2024

As of June 30, 2025, the Division had \$353.1 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 \$5.5 million, or 1.6 percent, over the end of last fiscal year.

FY 2025 Gas Division Capital Assets = \$353.1 Million



Major capital asset expenditures during the year were as follows:

- \$8.4 million for service extensions
- \$6.5 million for main improvements
- \$2.8 million for steel mains and services
- \$1.2 million for auto and truck purchases
- \$0.9 million for replacement and relocation of gas system assets to accommodate TDOT highway improvement projects

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Knoxville Utilities Board Gas Division

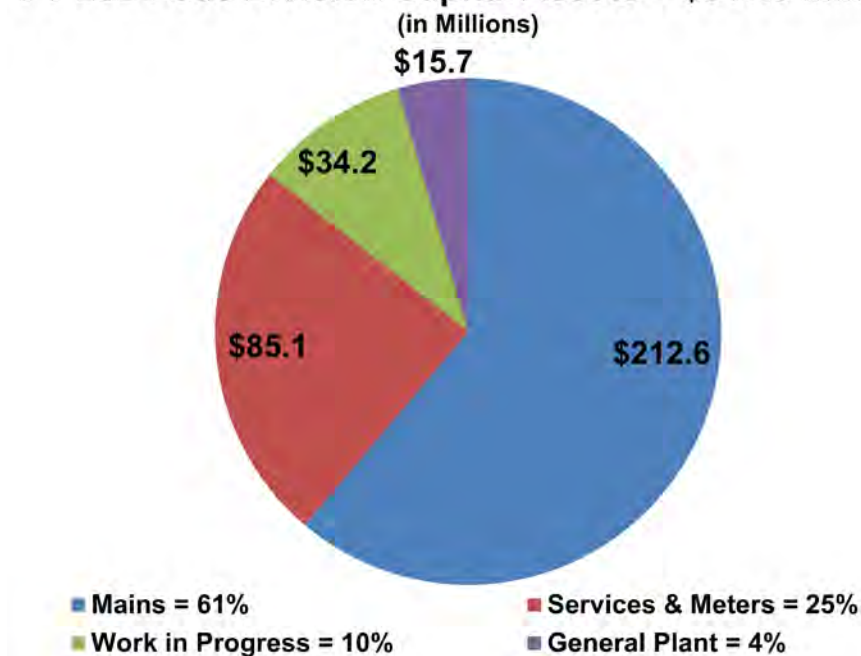
Management's Discussion and Analysis

June 30, 2025 and 2024

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$347.6 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 \$12.6 million, or 3.7 percent, over the end of last fiscal year.

FY 2024 Gas Division Capital Assets = \$347.6 Million



Major capital asset expenditures during the year were as follows:

- \$7.7 million for service extensions
- \$7.2 million for main improvements
- \$5.1 million for steel mains and services
- \$2.7 million for replacement and relocation of gas system assets to accommodate TDOT highway improvement projects
- \$0.8 million for heavy equipment
- \$0.5 million for tools and equipment.

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Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

June 30, 2025 and 2024

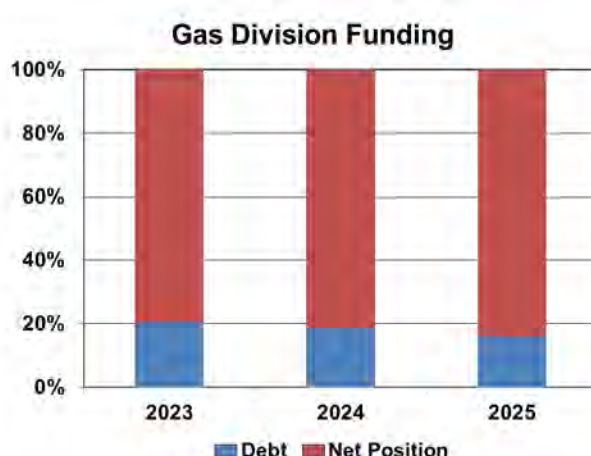
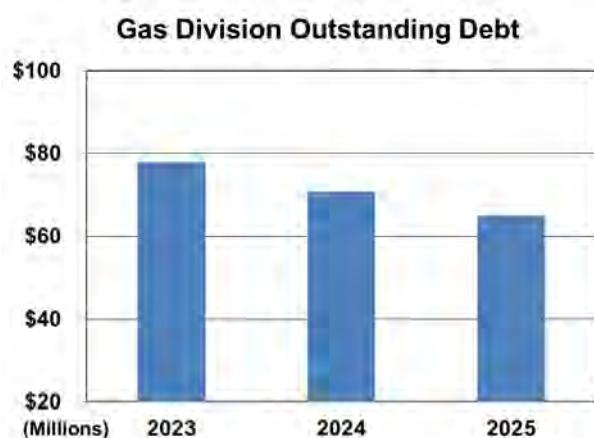
Debt Administration

As of June 30, 2025, the Gas Division had \$64.8 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 16.2 percent in 2025, 18.5 percent in 2024 and 20.8 percent in 2023. KUB's Debt Management Policy limits the Division's debt ratio to 50 percent or less.

Outstanding Debt As of June 30

(in thousands of dollars)

	2025	2024	2023
Revenue bonds	\$ 64,815	\$ 71,435	\$ 78,105
Total outstanding debt	\$ 64,815	\$ 71,435	\$ 78,105



The Division will pay \$48.5 million in principal payments over the next ten years, representing 74.9 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 2025 Compared to Fiscal Year 2024

As of June 30, 2025, the Division had \$64.8 million in outstanding debt (including current portions of revenue bonds), representing a decrease of \$6.6 million, or 9.3 percent. The Division's weighted average cost of debt as of June 30, 2025, was 3.76 percent.

The Division's outstanding debt is rated by S&P Global Ratings and Moody's Investors Service. As of June 30, 2025, the Division's revenue bonds were rated AA by S&P Global Ratings and Aa2 by Moody's Investors Service.

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$71.4 million in outstanding debt (including current portions of revenue bonds), representing a decrease of \$6.7 million, or 8.5 percent. The Division's weighted average cost of debt as of June 30, 2024, was 3.85 percent.

Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

June 30, 2025 and 2024

The Division's outstanding debt is rated by S&P Global Ratings and Moody's Investors Service. As of June 30, 2024, the Division's revenue bonds were rated AA by S&P Global Ratings and Aa2 by Moody's Investors Service.

Impacts on Future Financial Position

KUB anticipates adding 1,100 additional gas customers during fiscal year 2026.

The Pension Plan actuarial valuation resulted in an actuarially determined contribution of \$2,793,313 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Gas Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2025, measurement date. Subsequent to June 30, 2025, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$2,939,593 for the fiscal year ending June 30, 2027, based on the Plan's current funding policy. The Gas Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2026, measurement date. For the Plan year beginning January 1, 2025, the Plan's actuarial funded ratio is 103.9 percent, and the market value funded ratio is 100.3 percent.

The OPEB Plan actuarial valuation resulted in an actuarially determined contribution of \$1,217,234 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Gas Division's portion of this contribution will be determined as part of the actuarial analysis for the June 30, 2026, measurement date. Subsequent to June 30, 2025, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$968,538 for the fiscal year ending June 30, 2027, based on the Plan's current funding policy. The Gas Division's portion of this contribution will be determined as part of the actuarial analysis for the June 30, 2027, measurement date. For the Plan year beginning January 1, 2025, the Plan's actuarial funded ratio is 96.3 percent, and the market value funded ratio is 93.8 percent.

GASB Statement No. 103, *Financial Reporting Model Improvements*, is effective for fiscal years beginning after June 15, 2025. GASB Statement No. 104, *Disclosure of Certain Capital Assets*, is effective for fiscal years beginning after June 15, 2025. 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 2025.

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, 2025, and 2024. 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, 2025 and 2024

	2025	2024
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 26,655,283	\$ 19,731,406
Short-term contingency fund investments	17,079,495	9,555,016
Other current assets	669,753	679,772
Accrued interest receivable	11,396	14,327
Accounts receivable, less allowance of uncollectible accounts of \$63,895 in 2025 and \$49,087 in 2024	8,555,973	7,125,826
Current portion of lease receivable	121,213	128,301
Inventories	1,609,486	1,497,474
Gas storage	7,703,575	7,442,708
Prepaid expenses	88,193	88,617
Total current assets	<u>62,494,367</u>	<u>46,263,447</u>
Restricted assets:		
Gas bond fund	3,011,563	3,122,863
Other funds	259	259
Total restricted assets	<u>3,011,822</u>	<u>3,123,122</u>
Gas plant in service	532,094,560	516,643,403
Less accumulated depreciation	<u>(216,382,233)</u>	<u>(203,284,001)</u>
	315,712,327	313,359,402
Retirement in progress	495,220	432,988
Construction in progress	<u>36,864,558</u>	<u>33,812,774</u>
Net plant in service	<u>353,072,105</u>	<u>347,605,164</u>
Intangible assets:		
Intangible right of use asset	425,877	425,877
Intangible subscription asset	1,157,480	1,190,979
Less accumulated amortization	<u>(881,917)</u>	<u>(679,739)</u>
Net intangible assets	<u>701,440</u>	<u>937,117</u>
Other assets:		
Long-term contingency fund investments	-	7,199,912
Long-term lease receivable	1,222,449	1,343,662
Under recovered purchased gas costs	2,744,926	1,050,732
Other	803,251	885,817
Total other assets	<u>4,770,626</u>	<u>10,480,123</u>
Total assets	<u>424,050,360</u>	<u>408,408,973</u>
Deferred outflows of resources:		
Pension outflow	2,805,178	5,049,306
OPEB outflow	<u>293,349</u>	<u>457,165</u>
Total deferred outflows of resources	<u>3,098,527</u>	<u>5,506,471</u>
Total assets and deferred outflows of resources	<u>\$ 427,148,887</u>	<u>\$ 413,915,444</u>

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

Knoxville Utilities Board Gas Division
Statements of Net Position
June 30, 2025 and 2024

	2025	2024
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	\$ 6,595,000	\$ 6,620,000
Current portion of accrued compensated absences	1,218,159	1,076,932
Current portion of lease liability	80,495	77,302
Current portion of subscription liability	172,219	164,947
Sales tax collections payable	125,480	98,181
Accounts payable	5,924,497	5,064,229
Accrued expenses	1,471,074	1,199,157
Customer deposits plus accrued interest	5,599,490	5,289,810
Accrued interest on revenue bonds	813,130	916,097
Total current liabilities	<u>21,999,544</u>	<u>20,506,655</u>
Other liabilities:		
Accrued compensated absences	599,989	554,783
Customer advances for construction	1,370,261	1,484,084
Lease liability	111,075	191,569
Subscription liability	370,372	542,590
Net pension liability	459,411	1,177,238
Net OPEB liability	800,879	1,473,428
Other	30,796	31,841
Total other liabilities	<u>3,742,783</u>	<u>5,455,533</u>
Long-term debt:		
Gas revenue bonds	58,220,000	64,815,000
Unamortized premiums/discounts	6,134,159	7,056,536
Total long-term debt	<u>64,354,159</u>	<u>71,871,536</u>
Total liabilities	<u>90,096,486</u>	<u>97,833,724</u>
Deferred inflows of resources:		
Pension inflow	-	87,303
Unamortized bond refunding costs	53,560	89,910
OPEB inflow	851,095	497,880
Lease inflow	1,255,738	1,411,033
Total deferred inflows of resources	<u>2,160,393</u>	<u>2,086,126</u>
Total liabilities and deferred inflows of resources	<u>92,256,879</u>	<u>99,919,850</u>
Net position		
Net investment in capital assets	281,381,356	268,290,027
Restricted for:		
Debt service	2,198,433	2,206,766
Other	259	259
Unrestricted	51,311,960	43,498,542
Total net position	<u>334,892,008</u>	<u>313,995,594</u>
Total liabilities, deferred inflows, and net position	<u>\$ 427,148,887</u>	<u>\$ 413,915,444</u>

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, 2025 and 2024

	2025	2024
Operating revenues	\$ 129,653,139	\$ 114,858,667
Operating expenses		
Purchased gas	58,544,812	49,712,265
Distribution	12,740,787	11,696,332
Customer service	1,382,949	1,327,344
Administrative and general	12,302,329	11,833,345
Depreciation and amortization	17,013,045	16,316,365
Taxes and tax equivalents	6,991,963	8,171,705
Total operating expenses	108,975,885	99,057,356
Operating income	20,677,254	15,801,311
Non-operating revenues (expenses)		
Contributions in aid of construction	1,135,504	890,038
Interest income	1,997,240	2,077,398
Interest expense	(2,761,741)	(3,094,803)
Amortization of debt costs	883,995	859,462
Write-down of plant for costs recovered through contributions	(1,135,504)	(890,038)
Other	43,324	338,916
Total non-operating revenues (expenses)	162,818	180,973
Change in net position before capital contributions	20,840,072	15,982,284
Capital contributions	56,342	25,106
Change in net position	20,896,414	16,007,390
Net position, beginning of year	313,995,594	297,988,204
Net position, end of year	\$ 334,892,008	\$ 313,995,594

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

Knoxville Utilities Board Gas Division

Statements of Cash Flows

Years Ended June 30, 2025 and 2024

	2025	2024
Cash flows from operating activities:		
Cash receipts from customers	\$ 127,824,371	\$ 113,821,758
Cash receipts from other operations	1,115,704	1,376,524
Cash payments to suppliers of goods or services	(72,535,601)	(64,735,557)
Cash payments to employees for services	(12,631,275)	(12,240,457)
Payment in lieu of taxes	(6,044,143)	(7,259,131)
Net cash provided by operating activities	<u>37,729,056</u>	<u>30,963,137</u>
Cash flows from capital and related financing activities:		
Principal paid on revenue bonds	(6,620,000)	(6,670,000)
Interest paid on revenue bonds	(2,748,294)	(3,060,594)
Acquisition and construction of gas plant	(24,019,351)	(30,202,020)
Changes in gas bond fund, restricted	111,300	120,767
Customer advances for construction	(16,905)	(90,179)
Proceeds received on disposal of plant	1,194	-
Principal paid on lease liabilities	(77,301)	(73,627)
Principal paid on subscription liabilities	(164,946)	(167,600)
Interest paid on lease and subscription liabilities	(34,197)	(43,153)
Cash received from developers and individuals for capital purposes	1,135,504	890,038
Net cash used in capital and related financing activities	<u>(32,432,996)</u>	<u>(39,296,368)</u>
Cash flows from investing activities:		
Purchase of investment securities	(300,000)	(16,600,000)
Maturities of investment securities	-	16,600,000
Interest received	2,000,171	2,034,401
Other property and investments	(72,354)	(63,578)
Net cash provided by investing activities	<u>1,627,817</u>	<u>1,970,823</u>
Net increase (decrease) in cash and cash equivalents	6,923,877	(6,362,408)
Cash and cash equivalents, beginning of year	<u>19,731,406</u>	<u>26,093,814</u>
Cash and cash equivalents, end of year	<u>\$ 26,655,283</u>	<u>\$ 19,731,406</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 20,677,254	\$ 15,801,311
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	17,622,542	16,832,257
Changes in operating assets and liabilities:		
Accounts receivable	(1,430,147)	(502,958)
Lease receivable	128,301	(761,845)
Inventories	(112,012)	(50,873)
Prepaid expenses and gas storage	(260,443)	2,220,914
Other assets	17,855	213,188
Sales tax collections payable	27,299	(5,072)
Accounts payable and other accrued expenses	2,446,804	2,409,786
Underrecovered gas costs	(1,694,194)	(5,422,440)
Customer deposits plus accrued interest	306,844	240,262
Other liabilities	(1,047)	(11,393)
Net cash provided by operating activities	<u>\$ 37,729,056</u>	<u>\$ 30,963,137</u>
Noncash capital activities:		
Acquisition of plant assets through developer contributions	\$ 56,342	\$ 25,106
Record intangible right of use asset and lease liability	\$ -	\$ 2,340
Record intangible subscription asset and subscription liability	\$ -	\$ 118,360

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

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2025 and 2024

1. Description of Business

Knoxville Utilities Board (KUB), comprised of Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. 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 as of June 30, 2025, and 2024, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

2. Significant Accounting Policies

Basis of Accounting

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

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

Recently Adopted New Accounting Pronouncements

In June 2022, the GASB issued GASB Statement No. 101 (Statement No. 101), *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. Statement No. 101 is effective for fiscal years beginning after December 15, 2023. Adoption of this Statement did not result in a restatement of prior periods due to immateriality.

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2025 and 2024

In December 2023, the GASB issued GASB Statement No. 102 (Statement No. 102), *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. Statement No. 102 is effective for fiscal years beginning after June 15, 2024. Adoption of this Statement did not have a significant impact on KUB's financial statements.

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 "Depreciation and amortization" in the Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment. Depreciation for transportation equipment of \$609,496 in fiscal year 2025 and \$515,892 in fiscal year 2024 is included in operation and maintenance expense.

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 \$202,150 in fiscal year 2025 and \$167,273 in fiscal year 2024.

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

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2025 and 2024

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

OPEB Trust

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

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, 2025, and 2024, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, are based on a June 30, 2025, and 2024, measurement date, respectively. The net OPEB liability is \$5,315,804 (Division's share \$800,879) as of June 30, 2025, and \$9,373,073 (Division's share \$1,473,428) as of June 30, 2024.

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, 2025, and 2024, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, are based on a December 31, 2024, and 2023, measurement date, respectively. The pension liability is \$3,054,172

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2025 and 2024

(Division's share \$456,015) as of June 30, 2025, and \$7,452,380 (Division's share \$1,177,238) as of June 30, 2024.

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 12). As required by GASB Statement No. 73, KUB measures the total pension liability of the QEBA. The amounts reported as of June 30, 2025, and 2024, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, are based on a December 31, 2024, and 2023, measurement date, respectively. The total pension liability of the QEBA is \$21,226 (Division's share \$3,396) as of June 30, 2025, and \$0 as of June 30, 2024.

For presentation purposes, the Pension Plan net pension liability and the QEBA total pension liability are disclosed in the Statement of Net Position as Net pension liability of \$459,411 as of June 30, 2025 and \$1,177,238 as of June 30, 2024. The Pension Plan deferred outflows and QEBA deferred outflows are disclosed as Pension outflow of \$2,805,178 as of June 30, 2025 and \$5,049,306 as of June 30, 2024. The Pension Plan deferred inflows and QEBA deferred inflows are disclosed as Pension inflow of \$0 as of June 30, 2025 and \$87,303 as of June 30, 2024.

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, over/under purchased gas costs, lease liabilities, subscription liabilities, developer contributions, compensated absences, 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.

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2025 and 2024

Cash Equivalents

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

Leases

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

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

Subscription-Based Information Technology Arrangements

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

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

Deferred Outflows and Inflows of Resources

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

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.

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2025 and 2024

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. During fiscal year 2025, KUB adopted GASB Statement No. 101, *Compensated Absences* (GASB 101). GASB 101 requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash items. The accompanying financial statements, as of and for the year ended June 30, 2024, have not been restated due to immaterial impact on the net position.

Subsequent Events

KUB has evaluated events and transactions through October 23, 2025, the date these financial statements were available to be 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 (\$2,744,926) as of June 30, 2025, and (\$1,050,732) as of June 30, 2024.

Recently Issued Accounting Pronouncements

In April 2024, the GASB issued GASB Statement No. 103 (Statement No. 103), *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. Statement No. 103 is effective for fiscal years beginning after June 15, 2025.

In September 2024, the GASB issued GASB Statement No. 104 (Statement No. 104), *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. Statement No. 104 is effective for fiscal years beginning after June 15, 2025.

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2025 and 2024

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

3. Deposits and Investments

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

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

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

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

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

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Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2025 and 2024

Classification of deposits and investments per Statement of Net Position:

	2025	2024
Current assets		
Cash and cash equivalents	\$ 26,655,283	\$ 19,731,406
Short-term contingency fund investments	16,980,190	9,448,682
Other assets		
Long-term contingency fund investments	-	7,199,912
Restricted assets		
Gas bond fund	3,011,563	3,122,863
Other funds	259	259
	<u>\$ 46,647,295</u>	<u>\$ 39,503,122</u>

The above amounts do not include accrued interest of \$99,305 in fiscal year 2025 and \$106,334 in fiscal year 2024 . Interest income is recorded on an accrual basis.

Investments and maturities of KUB's cash equivalents and investments as held by financial institutions as of June 30, 2025:

	Cash Equivalents and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	\$ 28,027,224	\$ 28,027,224	\$ -
State Treasurer's Investment Pool	12,760,146	12,760,146	-
Agency Bonds	7,231,508	7,231,508	-
	<u>\$ 48,018,878</u>	<u>\$ 48,018,878</u>	<u>\$ -</u>

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

The Division has no recurring fair value measurements as of June 30, 2025.

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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Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2025 and 2024

4. Accounts Receivable

Accounts receivable consists of the following:

	2025	2024
Wholesale and retail customers		
Billed services	\$ 6,651,184	\$ 5,392,315
Unbilled services	1,680,669	1,484,322
Other	288,015	298,276
Allowance for uncollectible accounts	(63,895)	(49,087)
	<u>\$ 8,555,973</u>	<u>\$ 7,125,826</u>

5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	2025	2024
Trade accounts	\$ 5,924,497	\$ 5,064,229
Current portion of accrued compensated absences	1,218,159	1,076,932
Salaries and wages	377,946	333,569
Self-insurance liabilities	486,970	437,867
Other current liabilities	606,158	427,721
	<u>\$ 8,613,730</u>	<u>\$ 7,340,318</u>

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2024	Additions	Payments	Defeased	Balance June 30, 2025	Amounts Due Within One Year
Gas						
U-2015 - 2.0 - 5.0%	\$ 6,575,000	\$ -	\$ 845,000	\$ -	\$ 5,730,000	\$ 880,000
V-2016 - 2.125 - 5.0%	9,900,000	-	325,000	-	9,575,000	350,000
W-2017 - 5.0%	2,835,000	-	900,000	-	1,935,000	940,000
X-2017 - 2.0 - 5.0%	10,205,000	-	315,000	-	9,890,000	330,000
Y-2018 - 3.0 - 5.0%	6,940,000	-	195,000	-	6,745,000	200,000
Z-2020 - 4.0 - 5.0%	4,385,000	-	645,000	-	3,740,000	675,000
AA-2021 - 4.0 - 5.0%	30,595,000	-	3,395,000	-	27,200,000	3,220,000
Total bonds	<u>\$ 71,435,000</u>	<u>\$ -</u>	<u>\$ 6,620,000</u>	<u>\$ -</u>	<u>\$ 64,815,000</u>	<u>\$ 6,595,000</u>
Unamortized Premium	7,056,536	-	922,377	-	6,134,159	-
Total long term debt	<u>\$ 78,491,536</u>	<u>\$ -</u>	<u>\$ 7,542,377</u>	<u>\$ -</u>	<u>\$ 70,949,159</u>	<u>\$ 6,595,000</u>

Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2025 and 2024

	Balance June 30, 2023	Additions	Payments	Defeased	Balance June 30, 2024	Amounts Due Within One Year
Gas						
U-2015 - 2.0 - 5.0%	\$ 7,380,000	\$ -	\$ 805,000	\$ -	\$ 6,575,000	\$ 845,000
V-2016 - 2.125 - 5.0%	10,225,000	-	325,000	-	9,900,000	325,000
W-2017 - 5.0%	3,685,000	-	850,000	-	2,835,000	900,000
X-2017 - 2.0 - 5.0%	10,505,000	-	300,000	-	10,205,000	315,000
Y-2018 - 3.0 - 5.0%	7,125,000	-	185,000	-	6,940,000	195,000
Z-2020 - 4.0 - 5.0%	5,000,000	-	615,000	-	4,385,000	645,000
AA-2021 - 4.0 - 5.0%	34,185,000	-	3,590,000	-	30,595,000	3,395,000
Total bonds	<u>\$ 78,105,000</u>	<u>\$ -</u>	<u>\$ 6,670,000</u>	<u>\$ -</u>	<u>\$ 71,435,000</u>	<u>\$ 6,620,000</u>
Unamortized Premium	7,978,913	-	922,377	-	7,056,536	-
Total long term debt	<u>\$ 86,083,913</u>	<u>\$ -</u>	<u>\$ 7,592,377</u>	<u>\$ -</u>	<u>\$ 78,491,536</u>	<u>\$ 6,620,000</u>

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

Fiscal Year	Principal	Total Interest	Grand Total
2026	\$ 6,595,000	\$ 2,439,393	\$ 9,034,393
2027	6,630,000	2,137,143	8,767,143
2028	6,290,000	1,840,467	8,130,467
2029	6,160,000	1,562,463	7,722,463
2030	5,975,000	1,329,681	7,304,681
2031 - 2035	16,895,000	3,894,111	20,789,111
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	<u>\$ 64,815,000</u>	<u>\$ 16,763,404</u>	<u>\$ 81,578,404</u>

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, 2025, these bond covenant requirements had been satisfied.

The Division's outstanding bonds payable contain provisions that in an event of default, outstanding amounts are to become immediately due if the Division is unable to make payment.

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Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2025 and 2024

Other liabilities consist of the following:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
Accrued compensated absences	\$ 554,783	\$ 1,870,193	(1,824,987)	\$ 599,989
Customer advances for construction	1,484,084	318,881	(432,704)	1,370,261
Other	31,841	32,175	(33,220)	30,796
	<u>\$ 2,070,708</u>	<u>\$ 2,221,249</u>	<u>\$ (2,290,911)</u>	<u>\$ 2,001,046</u>
	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Accrued compensated absences	\$ 558,538	\$ 1,065,698	(1,069,453)	\$ 554,783
Customer advances for construction	1,739,503	395,190	(650,609)	1,484,084
Other	43,236	54,714	(66,109)	31,841
	<u>\$ 2,341,277</u>	<u>\$ 1,515,602</u>	<u>\$ (1,786,171)</u>	<u>\$ 2,070,708</u>

7. Lease Receivables

KUB, as lessor, leases office space under non-cancelable lease arrangements. Terms of the leases range from one to fourteen years and contain fixed payment terms. Certain leases contain an option to renew that has been considered in the lease receivable when the lessee is reasonably certain to exercise the renewal option. KUB recognized lease revenue, which is included in other operating revenues, of \$152,579 in 2025 and \$151,107 in 2024. KUB also recognized interest income from leases, which is included in non-operating revenues, totaling \$48,509 in 2025 and \$49,373 in 2024. Total lease receivables were \$1,343,662 (\$121,213 current) and \$1,471,963 (\$128,301 current) as of June 30, 2025, and 2024, respectively, and are included in other assets on the Statement of Net Position.

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Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2025 and 2024

8. Lease Liabilities

Changes in lease liabilities are summarized as follows:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
Total lease liabilities	\$ 268,871	\$ -	\$ (77,301)	\$ 191,570
Less current portion	<u>(77,302)</u>			<u>(80,495)</u>
Long-term portion	<u>\$ 191,569</u>			<u>\$ 111,075</u>

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Total lease liabilities	\$ 340,762	\$ 2,340	\$ (74,231)	\$ 268,871
Less current portion	<u>(73,420)</u>			<u>(77,302)</u>
Long-term portion	<u>\$ 267,342</u>			<u>\$ 191,569</u>

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

Maturities and future interest requirements related to the balances of lease liabilities outstanding as of June 30, 2025, are summarized as follows:

	Lease Maturities	Interest Requirements
2026	\$ 80,495	\$ 7,136
2027	66,709	4,104
2028	8,467	2,014
2029	1,471	1,598
2030	1,575	1,586
2031-2035	9,718	7,566
2036-2040	13,687	6,350
2041-2043	<u>9,448</u>	<u>2,500</u>
	<u>\$ 191,570</u>	<u>\$ 32,854</u>

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Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2025 and 2024

9. Subscription-Based Information Technology Agreement Liabilities

Changes in SBITA liabilities are summarized as follows:

	Balance June 30, 2024		Increase		Decrease		Balance June 30, 2025
Total SBITA liabilities	\$ 707,537	\$	-	\$	(164,946)	\$	542,591
Less current portion	<u>(164,947)</u>						<u>(172,219)</u>
Long-term portion	<u>\$ 542,590</u>					\$	<u>370,372</u>

	Balance June 30, 2023		Increase		Decrease		Balance June 30, 2024
Total SBITA liabilities	\$ 756,777	\$	118,360	\$	(167,600)	\$	707,537
Less current portion	<u>(147,130)</u>						<u>(164,947)</u>
Long-term portion	<u>\$ 609,647</u>					\$	<u>542,590</u>

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

Maturities and future interest requirements related to the balances of SBITA liabilities outstanding as of June 30, 2025, are summarized as follows:

	Subscription Maturities		Interest Requirements
2026	\$ 172,219	\$	17,748
2027	180,252		10,919
2028	<u>190,120</u>		<u>3,728</u>
	<u>\$ 542,591</u>	\$	<u>32,395</u>

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Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2025 and 2024

10. Capital and Intangible Assets

Capital and intangible asset activity was as follows:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
Production Plant	\$ 14,640	\$ -	\$ -	\$ 14,640
Distribution Plant				
Mains	343,233,063	12,352,980	(752,263)	354,833,780
Services and Meters/Regulators	126,685,483	4,461,515	(108,388)	131,038,610
Other Accounts	1,818,069	112,502	-	1,930,571
Total Distribution Plant	\$ 471,736,615	\$ 16,926,997	\$ (860,651)	\$ 487,802,961
Total General Plant	44,892,148	2,591,305	(3,206,494)	44,276,959
Total Plant Assets	\$ 516,643,403	\$ 19,518,302	\$ (4,067,145)	\$ 532,094,560
Less Accumulated Depreciation	(203,284,001)	(17,386,864)	4,288,632	(216,382,233)
Net Plant Assets	\$ 313,359,402	\$ 2,131,438	\$ 221,487	\$ 315,712,327
Work In Progress	34,245,762	22,892,054	(19,778,038)	37,359,778
Total Net Plant	\$ 347,605,164	\$ 25,023,492	\$ (19,556,551)	\$ 353,072,105
Intangible Right of Use Assets				
Office space	\$ 285,451	\$ -	\$ -	\$ 285,451
Equipment	14,087	-	-	14,087
Other	126,339	-	-	126,339
Total Intangible Right of Use Assets	\$ 425,877	\$ -	\$ -	\$ 425,877
Less Accumulated Amortization	(176,961)	(76,392)	-	(253,353)
Net Intangible Right of Use Assets	\$ 248,916	\$ (76,392)	\$ -	\$ 172,524
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 1,190,979	\$ -	\$ (33,499)	\$ 1,157,480
Less Accumulated Amortization	(502,778)	(159,285)	33,499	(628,564)
Net Intangible Subscription Assets	\$ 688,201	\$ (159,285)	\$ -	\$ 528,916

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Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2025 and 2024

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Production Plant	\$ 14,640	\$ -	\$ -	\$ 14,640
Distribution Plant				
Mains	324,278,190	19,804,162	(849,289)	343,233,063
Services and Meters/Regulators	120,665,992	6,381,899	(362,408)	126,685,483
Other Accounts	1,818,069	-	-	1,818,069
Total Distribution Plant	\$ 446,762,251	\$ 26,186,061	\$ (1,211,697)	\$ 471,736,615
Total General Plant	46,089,431	3,154,656	(4,351,939)	44,892,148
Total Plant Assets	\$ 492,866,322	\$ 29,340,717	\$ (5,563,636)	\$ 516,643,403
Less Accumulated Depreciation	(192,350,028)	(16,588,226)	5,654,253	(203,284,001)
Net Plant Assets	\$ 300,516,294	\$ 12,752,491	\$ 90,617	\$ 313,359,402
Work In Progress	34,533,562	29,350,248	(29,638,048)	34,245,762
Total Net Plant	\$ 335,049,856	\$ 42,102,739	\$ (29,547,431)	\$ 347,605,164
Intangible Right of Use Assets				
Office space	\$ 282,619	\$ 2,832	\$ -	\$ 285,451
Equipment	22,611	-	(8,524)	14,087
Other	126,339	-	-	126,339
Total Intangible Right of Use Assets	\$ 431,569	\$ 2,832	\$ (8,524)	\$ 425,877
Less Accumulated Amortization	(106,607)	(78,878)	8,524	(176,961)
Net Intangible Right of Use Assets	\$ 324,962	\$ (76,046)	\$ -	\$ 248,916
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 1,034,403	\$ 156,576	\$ -	\$ 1,190,979
Less Accumulated Amortization	(292,043)	(210,735)	-	(502,778)
Net Intangible Subscription Assets	\$ 742,360	\$ (54,159)	\$ -	\$ 688,201

11. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. As of June 30, 2025, and June 30, 2024, the amount of these liabilities was \$486,970 and \$437,867, respectively, resulting from the following changes:

	2025	2024
Balance, beginning of year	\$ 437,867	\$ 432,919
Current year claims and changes in estimates	3,182,379	3,219,043
Claims payments	(3,133,276)	(3,214,095)
Balance, end of year	<u>\$ 486,970</u>	<u>\$ 437,867</u>

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2025 and 2024

12. Pension Plan

Description of Plan

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

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

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

	2024	2023
Inactive plan members:		
Terminated vested participants	10	9
Retirees and beneficiaries	589	602
Active plan members	<u>359</u>	<u>389</u>
Total	<u>958</u>	<u>1,000</u>

Retirement Benefits

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

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

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

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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, 2024:

Asset Class	Target Allocation
Domestic equity – large cap	20% - 50%
Domestic equity – small/mid cap	0% - 30%
Multi-asset credit	0% - 20%
Non-U.S. equity	0% - 20%
U.S. core real estate	0% - 10%
Fixed income	20% - 40%
Cash and deposits	0% - 5%

Contributions of \$2,210,234 and \$1,108,147 for 2023 and 2022, respectively, were made during the Plan sponsor’s fiscal years ended June 30, 2025, and 2024, respectively. Of these amounts, \$330,008 and \$175,052 are attributable to the Gas Division. The fiscal year 2025 contribution was determined as part of the January 1, 2023, valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant’s benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability, or death.

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Net Pension Liability

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, 2025, and 2024, will be based on the December 31, 2024, and 2023, measurement date, respectively. The net pension liability is \$3,054,172 (Division's share \$456,015) as of June 30, 2025, and \$7,452,380 (Division's share \$1,177,238) as of June 30, 2024.

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

	2024	2023
Total pension liability	\$ 274,028,893	\$ 263,351,035
Plan fiduciary net position	(270,974,721)	(255,898,655)
Plan's net pension liability	<u>\$ 3,054,172</u>	<u>\$ 7,452,380</u>

Plan fiduciary net position as a percentage of the total pension liability	98.89%	97.17%
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Changes in Net Pension Liability (Asset) are as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2023	\$ 263,351,035	\$ 255,898,655	\$ 7,452,380
Changes for the year:			
Service cost	7,764,986	-	7,764,986
Interest	18,573,527	-	18,573,527
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	2,346,811	-	2,346,811
Changes of Assumptions	1,425,345	-	1,425,345
Contributions - employer	-	1,659,187	(1,659,187)
Contributions - rollovers	-	75	(75)
Contributions - member	-	4,971,073	(4,971,073)
Net investment income	-	28,541,389	(28,541,389)
Benefit payments	(19,432,811)	(19,432,811)	-
Administrative expense	-	(662,847)	662,847
Net changes	10,677,858	15,076,066	(4,398,208)
Balances at December 31, 2024	<u>\$ 274,028,893</u>	<u>\$ 270,974,721</u>	<u>\$ 3,054,172</u>

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Actuarial Assumptions

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

Valuation dates	January 1, 2024, rolled forward to December 31, 2024; January 1, 2023, rolled forward to December 31, 2023
Discount rate	7.00% as of December 31, 2024 and 2023
Salary increases	From 2.50% to 8.50%, based on years of service as of December 31, 2024 and from 2.50% to 5.65% as of December 31, 2023
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 MP-2021, fully generational as of December 31, 2024; Scale MP-2018 was used as of December 31, 2023
Inflation	2.5% as of December 31, 2024 and 2023

The actuarial assumptions used in the January 1, 2024, valuation was based on an actuarial experience study covering January 1, 2019 through December 31, 2023, and the assumptions used in the January 1, 2023 valuation were based on an actuarial experience study covering the period January 1, 2014 through December 31, 2018.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2024, and 2023, are summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. Prior to February 22, 2024, the Plan had both aggregate and long duration fixed income. As of December 31, 2024, the Plan has only aggregate fixed income. Effective September 30, 2024 the REIT fund was transferred to a U.S. core real estate fund.

Asset Class	Long Term Expected Real Rate of Return	
	2024	2023
Domestic equity	6.0%	5.6%
Non-U.S. equity	6.5%	6.5%
Real estate equity	n/a	5.8%
Real estate U.S. core	5.1%	n/a
Debt securities	2.5%	1.9%
Cash and deposits	1.2%	0.7%

Discount rate

The discount rate used to measure the total pension liability was 7.00 percent as of December 31, 2024, and December 31, 2023. 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

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make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability of the Plan as of December 31, 2024, calculated using the discount rate of 7.00 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 (6.00 percent) or one percent higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Plan's net pension liability	\$ 29,141,576	\$ 3,054,172	\$ (19,335,531)

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

For the year ended June 30, 2025, KUB recognized pension expense of \$10,401,958, and the Gas Division's share was \$1,763,029.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2023, this average was three years. During the measurement year, there was a liability experience loss of \$2,346,811, with \$782,270 of that recognized in the current year and each of the next two years, resulting in a deferred outflow of \$1,564,541. Unrecognized liability experience losses from prior periods were \$2,580,215, of which \$1,463,476 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,116,739. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,681,280 (Division's share \$400,339).

During the measurement year, there was an assumption change loss of \$1,425,345 with \$475,115 of that recognized in the current year and each of the next two years, resulting in a deferred outflow of \$950,230. Net unrecognized assumption change losses from prior periods were \$2,634,336, of which \$1,317,168 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$1,317,168. The combination of unrecognized assumption change losses this year, along with unrecognized assumption change losses from prior periods, results in a deferred outflow of \$2,267,398 (Division's share \$338,543).

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 \$11,091,799, of which \$2,218,360 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$22,505,337, of which \$4,001,667 was recognized as an increase in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with net unrecognized investment losses from prior periods, results in a deferred outflow of \$9,630,231 (Division's share \$1,437,880).

The impact of the change in proportionate share for the Gas Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is three years. This change resulted in a deferred outflow of \$175,497, with \$58,499 of that recognized in the current year and the remaining amount recognized over the next two years,

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resulting in a deferred outflow of resources of \$116,998. Net proportionate share changes from the prior period were \$582,577, of which \$238,427 was recognized in the current year, resulting in a deferred outflow of resources of \$344,150. Unrecognized proportionate share changes from prior periods of \$87,013, of which \$87,013 was recognized in the current year, resulted in a deferred inflow of \$0. In addition, KUB's Gas Division recorded a deferred outflow of resources of \$165,004 for employer contributions made between December 31, 2024 and June 30, 2025.

The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Gas Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 400,339	\$ -
Changes in assumptions	338,543	-
Net difference between projected and actual earnings on pension plan investments	1,437,880	-
Change in proportionate share	461,148	-
Contributions subsequent to measurement date	165,004	-
Total	<u>\$ 2,802,914</u>	<u>\$ -</u>

\$165,004 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, 2026. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2026	\$ 1,854,272
2027	2,046,283
2028	(931,424)
2029	(331,221)
2030	-
Thereafter	-

For the year ended June 30, 2024, KUB recognized pension expense of \$6,394,757, and the Gas Division's share was \$1,161,580.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2022, this average was four years. During the measurement year, there was a liability experience loss of \$2,092,475, with \$523,119 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$1,569,356. Unrecognized liability experience losses from prior periods were \$1,951,216, of which \$940,357 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,010,859. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,580,215 (Division's share \$407,591). Unrecognized liability gains from prior periods were \$210,825, of which \$210,825 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$0.

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During the measurement year, there were no benefit changes or assumption changes. Net unrecognized assumption change losses from prior periods were \$5,646,136, of which \$3,011,800 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$2,634,336 (Division's share \$416,141).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$20,099,370, of which \$4,019,874 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 \$39,628,509, of which \$1,043,676 was recognized as an increase in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with net unrecognized investment losses from prior periods, results in a deferred outflow of \$22,505,337 (Division's share \$3,555,123).

The impact of the change in proportionate share for the Gas Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is four years. This change resulted in a deferred outflow of \$422,910, with \$105,729 of that recognized in the current year and the remaining amount recognized over the next three years, resulting in a deferred outflow of resources of \$317,181. Net proportionate share changes from the prior period were \$398,094, of which \$132,698 was recognized in the current year, resulting in a deferred outflow of resources of \$265,396. Unrecognized proportionate share changes from prior periods of \$174,027, of which \$87,014 was recognized in the current year, resulted in a deferred inflow of \$87,013. In addition, KUB's Gas Division recorded a deferred outflow of resources of \$87,525 for employer contributions made between December 31, 2023, and June 30, 2024.

The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Gas Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 407,591	\$ -
Changes in assumptions	416,141	-
Net difference between projected and actual earnings on pension plan investments	3,555,123	-
Change in proportionate share	582,577	87,013
Contributions subsequent to measurement date	87,525	-
Total	<u>\$ 5,048,957</u>	<u>\$ 87,013</u>

13. Qualified Excess Benefit Arrangement

Description

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

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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, 2025, there are 341 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis. There are no assets accumulated in a trust that meets the GASB's criteria.

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, 2025, and 2024, are based on a December 31, 2024, and 2023, measurement date, respectively. The total pension liability of the QEBA is \$21,226 (Division's share \$3,396) as of June 30, 2025, and \$0 as of June 30, 2024.

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

	2024	2023
Total pension liability	\$21,226	\$0
Deferred outflows	(14,151)	(2,051)
Deferred inflows	-	1,704
Net impact on Statement of Net Position	<u>\$7,075</u>	<u>(\$347)</u>
Covered payroll	\$34,776,504	\$35,604,464
Total pension liability as a % of covered payroll	0.06%	0.00%

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

	<u>Increase (Decrease)</u>
	<u>Total Pension Liability</u>
Balances at December 31, 2023	\$ -
Changes for the year:	
Service cost	-
Interest	-
Changes of Benefits	-
Differences between Expected and Actual Experience	21,226
Changes of Assumptions	-
Benefit payments	-
Net changes	<u>21,226</u>
Balances at December 31, 2024	<u>\$ 21,226</u>

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, 2024, rolled forward to December 31, 2024
Actuarial cost method	Individual entry age
Discount rate	4.08% at January 1, 2024
Salary increases	From 2.50% to 8.50%, based on years of service
Mortality	115% and 110% of the PubG-2010 table for males and females, respectively, using the benefits-weighted Public Sector General Healthy Annuitant Mortality Table for ages 50 and older and the benefits-weighted Public Sector General Employee Table for ages under 50, both projected from the 2010 base rates using scale MP-2021, fully generational as of December 31, 2024
Inflation	2.50%

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 4.08% at December 31, 2024.

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, 2024, calculated using the discount rate of 4.08 percent, as well as what the QEBA's liability would be if it were calculated using a discount rate that is one percent lower (3.08 percent) or one percent higher (5.08 percent) than the current rate.

	1% Decrease (3.08%)	Current Discount Rate (4.08%)	1% Increase (5.08%)
QEBA's total pension liability	\$ 24,131	\$ 21,226	\$ 18,639

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

For the year ended June 30, 2025, KUB recognized pension expense of \$7,422 (Division's share \$1,191) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [\$7,075 – (\$347) + \$-].

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, 2023, this average was three years.

During the measurement year, there was an experience loss of \$21,226 with \$7,075 recognized in the current year and the remaining deferred outflow of \$14,151 (Division's share \$2,264) to be recognized over the next two years. Unrecognized experience losses from prior periods were \$2,033, with the full amount recognized as an increase in pension expense in the current year. Unrecognized experience gains from prior periods were \$1,704, with the full amount recognized as a decrease in pension expense in the current year.

Unrecognized assumption change losses from prior periods were \$19, with the full amount recognized as an increase in pension expense in the current year.

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	\$ 14,151	\$ -
Changes in assumptions	-	-
Total	<u>\$ 14,151</u>	<u>\$ -</u>
Division's share	<u>\$ 2,264</u>	<u>\$ -</u>

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

Year ended June 30:

2026	\$ 7,075
2027	7,076
2028	-
2029	-
2030	-
Thereafter	-

For the year ended June 30, 2024, KUB recognized pension expense of \$3,024 (Division's share \$514) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [(\$347) – (\$3,371) + \$-].

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The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2020, this average was four years. There was a deferred inflow at the end of the measurement year of \$1,717 (Division's share \$290) from experience gains in prior years and a deferred outflow of \$2,033 (Division's share \$346) from experience losses in prior years.

There was a deferred outflow of \$18 (Division's share \$3) from assumption changes in prior years.

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	\$ 2,033	\$ 1,717
Changes in assumptions	18	-
Total	<u>\$ 2,051</u>	<u>\$ 1,717</u>
Division's share	<u>\$ 349</u>	<u>\$ 290</u>

14. Defined Contribution Plan

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

KUB funded 401(k) matching contributions and non-elective contributions of \$4,799,996 (Division's share \$767,999) and \$3,909,598 (Division's share \$628,689), respectively, for the years ended June 30, 2025, and 2024.

Vesting

Participants are immediately vested in their own contributions to the Plan, plus actual earnings on these contributions. Participants become 100% vested and entitled to the full value of their account, less any loans outstanding, upon death or disability or upon retirement after attaining their normal retirement age (first of the month coinciding with or following attainment of age 62).

Otherwise, vesting in the KUB matching contribution and non-elective contribution (as applicable) portion of their account plus related earnings are based on years of service and date of hire, as follows:

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Participants hired prior to January 1, 2011 are 100% vested in the KUB matching contribution portion of their account.

Participants hired by KUB after December 31, 2010 are vested in the KUB matching and non-elective contribution portion of their account as follows:

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 2 years	0%
2	20%
3	40%
4	60%
5	80%
6 or more	100%

Forfeitures

Forfeitures are created when participants terminate employment before becoming entitled to their full benefits under the Plan. Upon forfeiture, the match and non-elective funds become available to offset Plan expenses. The Plan experienced forfeitures of \$243,630 during calendar year 2024 and \$306,016 during calendar year 2023. Forfeitures of \$271,595 and \$295,955 were used to reduce employer contributions in 2024 and 2023, respectively. The ending balance of forfeited assets in the Plan, including contributions and dividends, totaled \$10,862 and \$37,985 as of December 31, 2024 and 2023, respectively.

15. Other Post-Employment Benefits (OPEB)

Description of Trust

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

Effective January 1, 2022, the Plan was expanded to two benefit offerings. Employees with a benefit service date prior to July 1, 1999, will continue to be eligible for the Retiree Medical Benefit, while those with a later benefit service date will participate in a new Retiree Health Reimbursement

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Arrangement (HRA), given that each eligible employee meets the "Rule of 80", the sum of age and at least 20 years of qualified service equal to or exceeding 80, at retirement.

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

	HRA		Retiree Medical Benefit	
	2025	2024	2025	2024
Retirees	16	9	707	722
Dependents of retirees	16	7	385	401
Eligible active employees	1,109	1,127	128	144
Total	1,141	1,143	1,220	1,267

Benefits

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

Contributions and Funding

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

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

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

Based on the date of retirement, certain retired members are required to contribute specified amounts monthly to maintain health insurance. Those who retired prior to July 1983 have no required monthly premiums for themselves or dependents. The retirees, or their surviving dependents, who retired between August 1983 and January 1998 are required to pay \$275 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 \$275 for single coverage and \$550 for family coverage. There is currently no premium for Medicare eligible retirees or dependents. KUB is responsible for determining the level of retired plan member contributions on an annual basis as part of its review of healthcare cost sharing.

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

Investments

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

The following was the Trust's adopted investment target allocations as set forth in the Trust's Investment Policy as of June 30, 2025:

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%

Actuarially determined contributions for the Gas Division of \$192,843 and \$186,715 were made to the OPEB Trust in fiscal years ended June 30, 2025 and 2024, respectively. These were based on the OPEB actuarial valuations as of January 1, 2023, and 2022.

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, 2025, and 2024, and the Total OPEB Liability as of the valuation date, January 1, 2024, updated to June 30, 2025, and January 1, 2023, updated to June 30, 2024, respectively. The Division's share of the total net OPEB liability was \$800,879 as of June 30, 2025, and \$1,473,428 as of June 30, 2024.

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

	2025	2024
Total OPEB liability	\$ 60,675,101	\$ 61,042,928
Plan fiduciary net position	55,359,297	51,669,855
Net OPEB liability	\$ 5,315,804	\$ 9,373,073
Plan fiduciary net position as a percentage of the total OPEB liability	91.24%	84.65%

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Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2024	\$ 61,042,928	\$ 51,669,855	\$ 9,373,073
Changes for the year:			
Service cost	506,802	-	506,802
Interest	4,176,096	-	4,176,096
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	(154,501)	-	(154,501)
Changes of Assumptions	(1,302,021)	-	(1,302,021)
Contributions - employer	-	1,279,985	(1,279,985)
Contributions - member	-	-	-
Net investment income	-	6,084,906	(6,084,906)
Benefit payments	(3,594,203)	(3,594,203)	-
Administrative expense	-	(81,246)	81,246
Net changes	(367,827)	3,689,442	(4,057,269)
Balances at June 30, 2025	\$ 60,675,101	\$ 55,359,297	\$ 5,315,804

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, 2024, rolled forward to June 30, 2025; January 1, 2023, rolled forward to June 30, 2024
Discount rate:	7.00% as of June 30, 2025 and June 30, 2024
Healthcare cost trend rates:	<i>Pre-Medicare:</i> 8.00% grading down to 3.935% over 20 years as of June 30, 2025; 5.75% grading down to 3.935% over 20 years as of June 30, 2024 <i>Medicare:</i> 6.00% grading down to 3.935% over 20 years as of June 30, 2025; 11.30% grading down to 3.935% over 20 years as of June 30, 2024 <i>Administrative expenses:</i> 3.0% per year
Salary increases:	From 2.50% to 8.50%
Mortality:	115% and 110% of the benefits-weighted Public Sector General Healthy Annuitant Mortality Table (PubG-2010) respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Healthy Annuitant Mortality Table, both projected using scale MP-2021 fully generational
Inflation:	2.50%

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The actuarial assumptions used in the January 1, 2024 valuation were based on the results of an actuarial experience study for the period January 1, 2019 through December 31, 2023. The January 1, 2023 valuation assumptions were based on the results of actuarial experience study for the periods January 1, 2014, through December 31, 2018.

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

Asset Class	Long Term Expected Real Rate of Return	
	2025	2024
Domestic equity	6.0%	5.4%
International equity	6.4%	6.1%
Emerging Market equity	7.3%	7.8%
Real estate equity	6.3%	5.5%
Debt securities	2.4%	2.3%
Cash and deposits	0.9%	0.9%

Discount rate

The discount rate used to measure the total OPEB liability was 7.00 percent as of June 30, 2025 and June 30, 2024. 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, 2025, calculated using the discount rate of 7.00 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is one percent lower (6.00 percent) or one percent higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB liability	\$10,974,569	\$5,315,804	\$512,532

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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, 2025, as well as what the Trust's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percent lower or one percent higher than the current rate:

	1% Decrease	Baseline Trends	1% Increase
Net OPEB liability	\$435,302	\$5,315,804	\$10,948,243

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

For the year ended June 30, 2025, KUB's Gas Division recognized OPEB expense of \$37,324.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience gain of \$154,501, with \$22,072 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$132,429 (Division's share \$19,952). Unrecognized experience losses from prior periods were \$587,407, of which \$100,703 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of resources of \$486,704 (Division's share \$73,327).

During the measurement year, there were no benefit changes.

During the measurement year, there was an assumption change gain of \$1,302,021, with \$186,003 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$1,116,018. Unrecognized assumption change gains from prior period were \$1,801,872, of which \$300,312 was recognized as a decrease in OPEB expense in the current year and resulted in a deferred inflow of resources of \$1,501,560. The combination of unrecognized assumption change gains this year, along with unrecognized assumption change gains from prior periods, results in a deferred inflow of resources of \$2,617,578 (Division's share \$394,364). Unrecognized assumption losses from prior periods were \$1,805,588, of which \$361,118 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of \$1,444,470 (Division's share \$217,624).

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 \$2,550,439, of which \$510,088 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$2,040,351. Net unrecognized investment losses from prior periods were \$496,150, of which \$140,457 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$636,607. The combination of unrecognized gains and losses from the current year and prior periods results in a deferred inflow of resources of \$1,403,744 (Division's share \$211,488).

The impact of the change in proportionate share for the Gas Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is seven years. This change resulted in a deferred inflow of \$54,173, with \$7,739 of that recognized in the current year and the remaining amount recognized over the next six years, resulting in a deferred inflow of resources of \$46,434. Net proportionate share changes from prior periods were \$214,629, with \$35,772 of that recognized in the current year resulting in a deferred

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inflow of resources of \$178,857. Net proportionate share changes from prior periods were \$2,997, with \$599 of that recognized in the current year resulting in a deferred outflow of resources of \$2,398. The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Gas Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 73,327	\$ 19,952
Changes in assumptions	217,624	394,364
Net difference between projected and actual earnings on OPEB plan investments	-	211,488
Change in proportionate share	2,398	225,291
Total	<u>\$ 293,349</u>	<u>\$ 851,095</u>

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

Year ended June 30:	
2026	\$ 140,479
2027	(227,626)
2028	(197,274)
2029	(126,776)
2030	(107,462)
Thereafter	(39,087)

For the year ended June 30, 2024, KUB's Gas Division recognized OPEB expense of \$282,617.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience loss of \$587,252, with \$83,893 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$503,359. Unrecognized experience losses from prior periods were \$100,858, of which \$16,810 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of resources of \$84,048. The combination of unrecognized experience gains or losses results in a deferred outflow of resources of \$587,407 (Division's share \$92,339).

During the measurement year, there was a benefit change gain of \$164,746. The entire amount was recognized as a decrease in OPEB expense in the current year.

During the measurement year, there was an assumption change gain of \$2,102,184, with \$300,312 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$1,801,872 (Division's share \$283,251). Unrecognized assumption losses from prior periods were \$2,166,706, of which \$361,118 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of \$1,805,588 (Division's share \$283,835).

Knoxville Utilities Board Gas Division

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June 30, 2025 and 2024

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 \$2,339,599, of which \$467,920 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$1,871,679. Net unrecognized investment losses from prior periods were \$3,211,114, of which \$843,284 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$2,367,829. The combination of unrecognized gains and losses from the current year and prior periods results in a deferred outflow of resources of \$496,150 (Division's share \$77,994).

The impact of the change in proportionate share for the Gas Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is seven years. This change resulted in a deferred inflow of \$250,401, with \$35,772 of that recognized in the current year and the remaining amount recognized over the next six years, resulting in a deferred inflow of resources of \$214,629. Net proportionate share changes from prior periods were \$3,596, with \$599 of that recognized in the current year resulting in a deferred outflow of resources of \$2,997. The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Gas Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 92,339	\$ -
Changes in assumptions	283,835	283,251
Net difference between projected and actual earnings on OPEB plan investments	77,994	
Change in proportionate share	2,997	214,629
Total	<u>\$ 457,165</u>	<u>\$ 497,880</u>

16. 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, 2025, and 2024, are summarized as follows:

	2025	2024
City of Knoxville		
Amounts billed by the Division for utilities and related services	\$ 786,601	\$ 712,774
Payments by the Division in lieu of property tax	3,904,990	4,383,231
Payments by the Division for services provided	2,219	101
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	647,367	545,617
Interdivisional rental expense	1,106,221	1,080,419
Interdivisional rental income	131,276	134,058
Amounts billed to the Division by other divisions for utilities services provided	471,585	376,613

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

	2025	2024
Accounts receivable	\$ 9,688	\$ 13,034

17. Natural Gas Supply Contract Commitments

For fiscal year 2025, the Gas Division hedged 19 percent of its total gas purchases via gas supply contracts. As of June 30, 2025, the Gas Division had hedged the price on six percent of its anticipated gas purchases for fiscal year 2026.

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

Firm obligations related to purchased gas - demand

	2026	2027	2028	2029	2030	2031
Transportation						
Tennessee Gas Pipeline	\$ 4,739,008	\$ 5,408,484	\$ 5,408,484	\$ 5,408,484	\$ 5,408,484	\$ 1,802,828
East Tennessee Natural Gas*	23,896,270	28,145,374	28,145,374	28,145,374	28,145,374	7,684,728
Texas Eastern	469,500	540,000	540,000	540,000	540,000	109,500
Storage						
Tennessee Gas Pipeline	1,452,708	1,452,708	1,452,708	1,452,708	1,452,708	484,236
East Tennessee Natural Gas*	3,010,280	3,010,280	3,010,280	3,010,280	3,010,280	-
Saltville Natural Gas	2,695,752	2,695,752	2,230,830	836,064	627,048	-
Bobcat	318,000	378,000	378,000	378,000	378,000	126,000
Demand Total	<u>\$ 36,581,518</u>	<u>\$ 41,630,598</u>	<u>\$ 41,165,676</u>	<u>\$ 39,770,910</u>	<u>\$ 39,561,894</u>	<u>\$ 10,207,292</u>

*The amounts reflect firm transportation and LNG storage rates filed by ETNG, but have not been approved by FERC. Shippers have intervened on the rate case at FERC and negotiations and/or a FERC trial may occur before resolution is reached and final rates are determined. Such process could take from one to two years to complete. To the extent that rates paid during this time are higher than the final approved rates, pipeline must provide rebates to shippers.

Firm obligations related to purchased gas - commodity

	2026	2027	2028	2029	2030	2031-2054
Baseload						
ConocoPhillips	\$ 1,123,320	\$ -	\$ -	\$ -	\$ -	\$ -
NextEra Energy	2,089,800	-	-	-	-	-
Enervest Operating LLC	3,675,642	3,796,772	2,830,572	-	-	-
CNX	4,098,390	-	-	-	-	-
Tennergy Corporation (2021A)	3,492,687	3,579,022	3,240,000	3,083,720	2,993,830	59,335,817
Tennergy Corporation (2022)	3,696,605	3,811,993	3,464,989	3,311,851	3,286,244	71,199,380
Commodity Total	<u>\$ 18,176,444</u>	<u>\$ 11,187,787</u>	<u>\$ 9,535,561</u>	<u>\$ 6,395,571</u>	<u>\$ 6,280,074</u>	<u>\$ 130,535,197</u>

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 NextEra Energy are based upon firm supply obligations and locked prices with those suppliers. The firm obligations value for Enervest Operating LLC and CNX are based upon firm supply obligations and the applicable NYMEX strip prices on June 30, 2025. The firm obligations values for Tennergy Corporation are based upon 30-year prepay gas contracts valued at the applicable Tennessee Zone 0 and Tennessee 800L strip prices on June 30, 2025.

Knoxville Utilities Board Gas Division
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18. Other Commitments and Contingencies

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

Knoxville Utilities Board Gas Division

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

June 30, 2025

	Year ended December 31									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability										
Service cost	\$ 7,764,986	\$ 8,221,181	\$ 6,349,402	\$ 6,647,220	\$ 5,227,657	\$ 6,142,213	\$ 5,095,488	\$ 4,607,486	\$ 4,226,985	\$ 4,157,062
Interest	18,573,527	17,868,490	17,430,465	16,982,226	16,393,202	16,030,626	15,344,193	15,015,282	14,966,559	14,812,784
Changes of benefit terms	-	-	-	-	-	163,199	-	-	-	-
Differences between expected and actual experience	2,346,811	2,092,475	282,014	1,935,276	1,930,170	(1,054,117)	(605,649)	(1,087,161)	(2,233,762)	(1,890,334)
Changes of assumptions	1,425,345	-	5,268,672	-	-	8,473,160	-	(357,633)	(2,932,883)	-
Benefit payments, including refunds of member contributions	(19,432,811)	(19,237,834)	(17,125,610)	(17,725,963)	(16,006,565)	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)
Net change in total pension liability	10,677,858	8,944,312	12,204,943	7,838,759	7,544,464	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586
Total pension liability - beginning	263,351,035	254,406,723	242,201,780	234,363,021	226,818,557	212,157,951	207,598,733	204,390,738	204,502,350	202,773,764
Total pension liability - ending (a)	\$ 274,028,893	\$ 263,351,035	\$ 254,406,723	\$ 242,201,780	\$ 234,363,021	\$ 226,818,557	\$ 212,157,951	\$ 207,598,733	\$ 204,390,738	\$ 204,502,350
Plan fiduciary net position										
Contributions - employer	\$ 1,659,187	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887
Contributions - participants	4,971,148	5,752,609	3,812,595	3,939,687	2,284,727	3,170,825	2,081,125	1,488,632	555,075	487,546
Net investment income	28,540,651	35,927,438	(63,493,985)	37,575,566	44,814,914	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)
Other additions	738	4,568	9,415	112,484	7,740	13,579	62,616	82,239	45,848	30,879
Benefit payments, including refunds of member contributions	(19,400,811)	(19,193,834)	(17,065,610)	(17,653,963)	(15,962,565)	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)
Administrative expense	(662,847)	(602,078)	(498,988)	(441,017)	(455,191)	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)
Death benefits	(32,000)	(44,000)	(60,000)	(72,000)	(44,000)	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)
Net change in plan fiduciary net position**	15,076,066	23,710,964	(74,151,803)	26,877,185	33,522,377	40,431,737	(21,868,910)	22,862,426	5,052,489	(9,333,204)
Plan fiduciary net position - beginning**	255,898,655	232,187,691	306,339,494	279,462,309	245,939,932	205,508,195	227,377,105	204,514,679	199,462,190	208,795,394
Plan fiduciary net position - ending (b)**	\$ 270,974,721	\$ 255,898,655	\$ 232,187,691	\$ 306,339,494	\$ 279,462,309	\$ 245,939,932	\$ 205,508,195	\$ 227,377,105	\$ 204,514,679	\$ 199,462,190
Plan's net pension liability - ending (a) - (b)	\$ 3,054,172	\$ 7,452,380	\$ 22,219,032	\$ (64,137,714)	\$ (45,099,288)	\$ (19,121,375)	\$ 6,649,756	\$ (19,778,372)	\$ (123,941)	\$ 5,040,160
Plan fiduciary net position as a percentage of the total pension liability	98.89%	97.17%	91.27%	126.48%	119.24%	108.43%	96.87%	109.53%	100.06%	97.54%
Covered payroll	\$ 34,776,504	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743
Plan's net pension liability as a percentage of covered payroll	8.78%	20.93%	59.39%	(168.45%)	(108.61%)	(47.48%)	15.78%	(45.67%)	(0.28%)	11.34%

Notes to Schedule:

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division

Required Supplementary Information – Schedule of Employer Pension Contributions

June 30, 2025

	Year ended December 31									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 1,659,187	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887
Contribution in relation to the actuarially determined contribution	1,659,187	1,866,261	3,144,770	3,416,428	2,876,752	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 34,776,504	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743
Contributions as a percentage of covered payroll	4.77%	5.24%	8.41%	8.97%	6.93%	7.13%	8.20%	9.90%	11.80%	13.48%

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, 2023 and January 1, 2022

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age

Asset valuation method: 5-year smoothed market, adjusted to remain within 20% of the market value

Amortization method: As of January 1, 2023: Level dollar, 30-year closed period with 18 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
As of January 1, 2022: Level dollar, 30-year closed period with 19 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
As of January 1, 2023 and 2022, the unfunded liability was negative.

Discount rate: 7.00% as of January 1, 2023; 7.25% as of January 1, 2022

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

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

Inflation: 2.5%

Please refer to prior year's audited financial statements for prior methods and assumptions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division

Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios June 30, 2025

	2025	2024	2023	*Year ended June 30 2022	2021	2020	2019	2018
Total OPEB liability								
Service cost	\$ 506,802	\$ 615,753	\$ 595,392	\$ 416,277	\$ 283,786	\$ 256,270	\$ 270,515	\$ 202,603
Interest	4,176,096	4,256,122	4,133,008	3,858,276	3,861,304	3,672,291	3,624,737	3,295,240
Change of benefit terms	-	(164,746)	-	6,594,293	-	(202,408)	-	-
Differences between expected and actual experience	(154,501)	587,252	117,668	60,951	42,802	43,902	999,098	1,324,769
Changes of assumptions	(1,302,021)	(2,102,184)	2,527,824	-	(4,105,835)	3,604,843	3,231,601	(397,180)
Benefit payments	(3,594,203)	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	(367,827)	(594,174)	3,100,822	7,021,162	(3,029,122)	4,346,302	4,593,507	1,126,693
Total OPEB liability - beginning	61,042,928	61,637,102	58,536,280	51,515,118	54,544,240	50,197,938	45,604,431	44,477,738
Total OPEB liability - ending (a)	\$ 60,675,101	\$ 61,042,928	\$ 61,637,102	\$ 58,536,280	\$ 51,515,118	\$ 54,544,240	\$ 50,197,938	\$ 45,604,431
Plan fiduciary net position								
Contributions - employer	\$ 1,279,985	\$ 1,187,768	\$ 1,413,392	\$ 1,989,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Net investment income	6,084,906	5,656,390	4,333,538	(8,122,417)	12,890,602	975,155	2,981,928	3,705,473
Benefit payments	(3,594,203)	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(81,246)	(94,379)	(101,186)	(71,187)	(44,496)	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	3,689,442	2,963,408	1,372,674	(10,113,173)	10,492,153	(1,795,403)	(605,303)	355,066
Plan fiduciary net position - beginning	51,669,855	48,706,447	47,333,773	57,446,946	46,954,793	48,750,196	49,355,499	49,000,433
Plan fiduciary net position - ending (b)	\$ 55,359,297	\$ 51,669,855	\$ 48,706,447	\$ 47,333,773	\$ 57,446,946	\$ 46,954,793	\$ 48,750,196	\$ 49,355,499
Net OPEB liability (asset) - ending (a) - (b)	\$ 5,315,804	\$ 9,373,073	\$ 12,930,655	\$ 11,202,507	\$ (5,931,828)	\$ 7,589,447	\$ 1,447,742	\$ (3,751,068)
Plan fiduciary net position as a percentage of the total OPEB liability	91.24%	84.65%	79.02%	80.86%	111.51%	86.09%	97.12%	108.23%
Covered employee payroll**	\$ 89,939,256	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	5.91%	11.21%	18.44%	15.15%	(27.49%)	32.48%	5.95%	(15.84%)

Notes to Schedule:

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

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division

Required Supplementary Information – Schedule of Employer OPEB Contributions

June 30, 2025

	2025	2024	2023	*Year ended June 30 2022	2021	2020	2019	2018
Actuarially determined contribution	\$ 1,279,985	\$ 1,187,768	\$ 1,413,392	\$ 489,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Contribution in relation to the annual required contribution	1,279,985	1,187,768	1,413,392	1,989,066	757,226	311,324	-	-
Contribution deficiency/(excess)	\$ -	\$ -	\$ -	\$ (1,500,000)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll*	\$ 89,939,256	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Contributions as a percentage of covered employee payroll	1.42%	1.42%	2.02%	2.69%	3.51%	1.33%	0.00%	0.00%

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

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

Notes to Schedule:

Valuation Date: January 1, 2023 and January 1, 2022
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: 15-year layered amortization bases for annual changes in the unfunded liabilities as of January 1, 2022 and 2023; 30-year rolling amortization for a funding surplus; As of January 1, 2022 and 2023, there was an unfunded liability
Discount rate: 7.25% and 7.00% as of January 1, 2022 and 2023, respectively
Healthcare cost trend rate: Pre-Medicare: 5.75% in 2022 and 5.70% in 2023 grading down to 3.935% in 2042 and beyond using the Getzen trend model
Medicare: 11.30% in 2022 and 7.40% in 2023 grading down to 3.935% in 2042 and beyond using the Getzen trend model
Administrative expenses: 3.0% per year
Salary increases: From 2.50% to 5.65%, based on years of service
Mortality: 115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational
Inflation: 2.5%
Investment rate of return: 7.25% and 7.00% as of January 1, 2022 and 2023, respectively
Retirement age: 2% at ages 50-57, grading up to 100% at age 70

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2025

	*Year ended December 31								
	2024	2023	2022	2021	2020	2019	2018	2017	2016
Total pension liability									
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 941	\$ 584	\$ -
Interest (includes interest on service cost)	-	-	-	268	388	9,181	9,676	7,535	-
Changes of benefit terms	-	-	-	-	-	(218,272)	-	-	185,077
Differences between expected and actual experience	21,226	-	-	(6,816)	10,165	34	(36,125)	13,684	-
Changes of assumptions	-	-	-	-	91	13,342	(22,950)	73,461	-
Benefit payments, including refunds of member contributions	-	-	-	(12,166)	(12,166)	(15,932)	-	-	-
Net change in total pension liability	<u>21,226</u>	<u>-</u>	<u>-</u>	<u>(18,714)</u>	<u>(1,522)</u>	<u>(211,647)</u>	<u>(48,458)</u>	<u>95,264</u>	<u>185,077</u>
Total pension liability - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,714</u>	<u>20,236</u>	<u>231,883</u>	<u>280,341</u>	<u>185,077</u>	<u>-</u>
Total pension liability - ending	<u>\$ 21,226</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,714</u>	<u>\$ 20,236</u>	<u>\$ 231,883</u>	<u>\$ 280,341</u>	<u>\$ 185,077</u>
Covered payroll	\$ 34,776,504	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747
Total pension liability as a percentage of covered payroll	0.06%	0.00%	0.00%	0.00%	0.05%	0.05%	0.55%	0.65%	0.42%

Notes to Schedule:

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2025

FY	U-2015		V-2016		W-2017		X-2017		Y-2018		Z-2020		AA-2021		Totals		Grand Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	(P + I)
25-26	\$ 880,000	\$ 183,500	\$ 350,000	\$ 267,844	\$ 940,000	\$ 96,750	\$ 330,000	\$ 296,168	\$ 200,000	\$ 228,631	\$ 675,000	\$ 178,750	\$ 3,220,000	\$ 1,187,750	\$ 6,595,000	\$ 2,439,393	\$ 9,034,393
26-27	895,000	154,900	350,000	253,844	995,000	49,750	340,000	286,268	210,000	220,631	710,000	145,000	3,130,000	1,026,750	6,630,000	2,137,143	8,767,143
27-28	985,000	123,573	375,000	243,344			345,000	279,469	215,000	214,331	745,000	109,500	3,625,000	870,250	6,290,000	1,840,467	8,130,467
28-29	975,000	89,100	375,000	232,094			355,000	272,138	220,000	207,881	785,000	72,250	3,450,000	689,000	6,160,000	1,562,463	7,722,463
29-30	955,000	59,850	375,000	220,844			360,000	263,706	230,000	201,281	825,000	33,000	3,230,000	551,000	5,975,000	1,329,681	7,304,681
30-31	1,040,000	31,200	400,000	212,875			375,000	252,906	235,000	194,381			3,285,000	421,800	5,335,000	1,113,162	6,448,162
31-32			400,000	203,875			385,000	241,656	240,000	187,331			3,865,000	290,400	4,890,000	923,262	5,813,262
32-33			425,000	194,375			395,000	230,106	250,000	180,131			3,395,000	135,800	4,465,000	740,412	5,205,412
33-34			425,000	183,750			410,000	218,256	260,000	172,319					1,095,000	574,325	1,669,325
34-35			425,000	173,125			420,000	205,956	265,000	163,869					1,110,000	542,950	1,652,950
35-36			450,000	162,500			435,000	193,356	275,000	155,256					1,160,000	511,112	1,671,112
36-37			450,000	150,686			445,000	180,306	285,000	146,319					1,180,000	477,311	1,657,311
37-38			475,000	138,312			460,000	166,956	295,000	136,700					1,230,000	441,968	1,671,968
38-39			475,000	125,250			475,000	152,582	305,000	126,744					1,255,000	404,576	1,659,576
39-40			500,000	112,188			490,000	137,738	315,000	116,069					1,305,000	365,995	1,670,995
40-41			525,000	98,438			505,000	122,425	325,000	105,044					1,355,000	325,907	1,680,907
41-42			525,000	84,000			520,000	106,644	335,000	93,669					1,380,000	284,313	1,664,313
42-43			550,000	68,250			535,000	90,394	350,000	81,944					1,435,000	240,588	1,675,588
43-44			550,000	51,750			550,000	73,675	360,000	69,694					1,460,000	195,119	1,655,119
44-45			575,000	35,250			570,000	56,488	375,000	57,094					1,520,000	148,832	1,668,832
45-46			600,000	18,000			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	\$ 5,730,000	\$ 642,123	\$ 9,575,000	\$ 3,230,594	\$ 1,935,000	\$ 146,500	\$ 9,890,000	\$ 3,885,530	\$ 6,745,000	\$ 3,147,407	\$ 3,740,000	\$ 538,500	\$ 27,200,000	\$ 5,172,750	\$ 64,815,000	\$ 16,763,404	\$ 81,578,404

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Changes in Long-term Debt by Individual Issue
June 30, 2025

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding Balance 7/1/2024	Issued During Period	Paid/Matured During Period	Refunded During Period	Outstanding Balance 6/30/2025
Business-Type Activities									
BONDS PAYABLE									
<u>Payable through Gas Fund</u>									
Revenue Bond Refunding, Series U-2015	\$ 11,780,000	2.0-5.0	05/01/15	03/01/31	\$ 6,575,000	\$ -	\$ 845,000	\$ -	\$ 5,730,000
Revenue Bond, Series V-2016	\$ 12,000,000	2.125-5.0	08/05/16	03/01/46	9,900,000	-	325,000	-	9,575,000
Revenue Bond Refunding, Series W-2017	\$ 8,065,000	5.0	04/07/17	03/01/27	2,835,000	-	900,000	-	1,935,000
Revenue Bond, Series X-2017	\$ 12,000,000	2.0-5.0	09/15/17	03/01/47	10,205,000	-	315,000	-	9,890,000
Revenue Bond, Series Y-2018	\$ 8,000,000	3.0-5.0	09/14/18	03/01/48	6,940,000	-	195,000	-	6,745,000
Revenue Bond Refunding, Series Z-2020	\$ 6,755,000	4.0-5.0	05/22/20	03/01/30	4,385,000	-	645,000	-	3,740,000
Revenue Bond Refunding, Series AA-2021	\$ 41,920,000	4.0-5.0	04/19/21	03/01/33	30,595,000	-	3,395,000	-	27,200,000
					<u>\$ 71,435,000</u>	<u>\$ -</u>	<u>\$ 6,620,000</u>	<u>\$ -</u>	<u>\$ 64,815,000</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Changes in Lease Liabilities
June 30, 2025

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Maturity Date	Outstanding 6/30/2024	Issued During Period	Paid and/or Matured During Period	Remeasure- ments	Outstanding 6/30/2025
<u>Lease Liabilities</u>									
<u>Payable through Natural Gas Fund</u>									
American Towers - Rocky Hill	\$ 34,545	3.90%	11/1/2022	10/31/2027	\$ 24,445	\$ -	\$ (6,765)	\$ -	\$ 17,680
American Towers - Tillery/Bluegrass	34,759	3.90%	11/1/2022	10/31/2027	24,445	-	(6,765)	-	17,680
Crown Castle	42,250	3.90%	3/1/2023	2/1/2043	40,870	-	(1,118)	-	39,752
Manki 1 Investments	48,360	3.88%	7/1/2020	5/31/2027	29,341	-	(9,689)	-	19,652
R&S Logistics (Sublease)	234,260	3.88%	7/1/2020	3/31/2027	134,291	-	(45,934)	-	88,357
Ricoh Americas	5,969	3.88%	7/1/2020	7/31/2025	2,404	-	(2,054)	-	350
RJ Young Company	8,117	3.88%	7/1/2020	6/30/2026	2,149	-	(2,149)	-	-
SBA Properties	14,786	3.90%	1/1/2023	12/31/2027	10,926	-	(2,827)	-	8,099
Total Lease Liabilities					\$ 268,871	\$ -	\$ (77,301)	\$ -	\$ 191,570

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Insurance in Force
June 30, 2025
(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.

Environmental and Pollution Legal Liability

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

Property Insurance

This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - \$250,000,000 per occurrence (subject to certain sub limits); \$3,500,000 deductible per occurrence.

Travel Accident

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

Excess Insurance for General Liability

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

Excess Insurance for Workers' Compensation

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

Employee Health Plan Stop Loss Coverage

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses for more than \$700,000 per individual participant.

Cyber Security Liability

Liability coverage resulting from losses related to a covered event such as data breaches, ransomware, regulatory fines, cyber extortion, business interruption and other cyber-related events. Limits of coverage - \$5,000,000; \$500,000 deductible.

Drone

Liability coverage resulting from losses related to bodily injury or damaged property arising out of the ownership, maintenance, or use of a drone aircraft. Limits of coverage - \$2,000,000.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(Unaudited)

Rate Class	Base Charge	Number of Customers
Residential (G-2)	<p>For the regular monthly billing period for the months of November to March:</p> <p>Customer charge per month \$10.90</p> <p>First 30 therms per month at \$1.1744 per therm</p> <p>Excess over 30 therms per month at \$0.9545 per therm</p> <p>For the regular monthly billing periods for the months of April to October:</p> <p>Customer charge per month \$10.90</p> <p>First 50 therms per month \$0.9892 per therm</p> <p>Excess over 50 therms per month at \$0.8663 per therm</p>	101,144
Commercial (G-4)	<p>Available to any commercial or industrial customer:</p> <p>Customer charge per month \$36.00</p> <p>First 250 therms per month at \$1.1201 per therm</p> <p>Excess over 250 therms per month at \$0.9995 per therm</p>	9,746
Commercial (G-6)	<p>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.</p> <p>The net rate is the sum of the following demand and commodity charges:</p> <p>Customer charge: \$215.00 per month</p> <p>Demand charge: \$2.10 per therm of demand</p> <p>Commodity charge: First 30,000 therms per month at \$0.7614 per therm</p> <p>Excess over 30,000 therms per month at \$0.6612 per therm</p>	193
Industrial (G-7)	<p>Service under Rate Schedule G-7 shall be available to any customer who meets the following conditions:</p> <p>(a) Customer's annual Interruptible Gas use, on an actual or projected basis, shall not be less than 25,000 dekatherms;</p> <p>(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;</p> <p>(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</p> <p>(d) KUB must determine that its existing distribution system facilities are adequate and available for the requested service.</p>	6

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(Unaudited)

Rate Class	Base Charge	Number of Customers
	The net rate is the sum of the following demand and commodity charges:	
	Customer charge:	\$775.00 per month
	Demand charge:	\$21.00 per month per dekatherm of demand
	Commodity charge:	(a) Firm Gas - \$6.612 per dekatherm
		(b) Interruptible Gas - (i) First 3,000 dekatherms per month at \$5.988 per dekatherm; excess of 3,000 to 20,000 dekatherms per month at \$5.347 per dekatherm; plus excess over 20,000 to 50,000 dekatherms per month at \$4.493 per dekatherm; excess over 50,000 dekatherms per month at \$4.116 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:	\$2.636 per dekatherm for the first 3,000 dekatherms of gas Redelivered plus Unauthorized Gas; plus \$1.995 per dekatherm for each dekatherm from 3,000 to and including 20,000 dekatherms of gas Redelivered plus Unauthorized Gas; plus \$1.141 per dekatherm for each dekatherm from 20,000 to and including 50,000 dekatherms of gas Redelivered plus Unauthorized Gas; plus \$0.764 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, plus the total of the cost per dekatherm of obtaining such gas on the open market as determined by the applicable Gulf Coast Price Index for the applicable day as published in Gas Daily, Natural Gas Intelligence, Intercontinental Exchange, or other index as deemed reasonable for use by the gas industry. KUB will select an industry recognized index at its sole discretion.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(Unaudited)

Rate Class	Base Charge	Number of Customers
G-11	<p>Service under Rate Schedule G-11 shall be available to any customer who meets the following conditions:</p> <ul style="list-style-type: none"> (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. <p>The net rate is the sum of the following charges:</p> <ul style="list-style-type: none"> Customer charge: \$1,050.00 per month Demand charge: \$21.00 per dekatherm of demand Firm Gas charge: \$6.612 per dekatherm Transportation charge: \$2.636 per dekatherm for the first 3,000 dekatherms of non-Firm gas delivered to Customer; plus \$1.995 per dekatherm for each dekatherm from 3,000 to and including 20,000 dekatherms of non-Firm gas delivered to Customer; plus \$1.141 per dekatherm for each dekatherm from 20,000 to and including 50,000 dekatherms of non-Firm gas delivered to Customer; plus \$0.764 per dekatherm for the excess over 50,000 dekatherms of non-Firm gas delivered to Customer. 	12

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(Unaudited)

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, Natural Gas Intelligence, Intercontinental Exchange, or other index as deemed reasonable for use by the gas industry. 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.

See accompanying Independent Auditor's Report

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Commissioners
Gas Division of the Knoxville Utilities Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the 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, 2025, 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 17, 2025, which references, that the financial statements, are only that portion of Knoxville Utilities Board that resulted from the transactions of the Gas Division.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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.

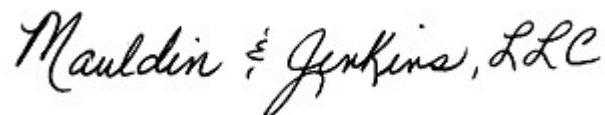
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any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

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Chattanooga, Tennessee
October 17, 2025



Water Division

Financial Statements and Supplemental Information June 30, 2025 and 2024

KUB Board of Commissioners

Cynthia Gibson, Chair

Ron Feinbaum

Celeste Herbert

Dr. Craig Pickett, Jr.

Claudia Caballero, Vice Chair

Kathy Hamilton

Phyllis Nichols

Management

Gabriel Bolas II

President and Chief Executive Officer

Mark Walker

Senior Vice President and Chief Financial Officer

Jamie Davis

Senior Vice President Fiber and Chief Technology Officer

John Gresham

Senior Vice President and Chief Engineering and
Operations Officer

John Williams

Senior Vice President and Chief Infrastructure and
Compliance Officer

Tiffany Martin

Senior Vice President and Chief Customer and Talent Officer

Erin Gill

Vice President Communications and External Relations

Knoxville Utilities Board Water Division

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June 30, 2025 and 2024

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Water Division of the Knoxville Utilities Board

Report on the Audit of the Financial Statements

Opinion

We have audited 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 years ended June 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Division as of June 30, 2025 and 2024, and the changes in financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

-
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Division's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-28, the schedule of changes in net pension liability and related ratios, the schedule of employer pension contributions, the schedule of changes in net OPEB liability and related ratios, the schedule of employer OPEB contributions and the schedule of changes in total pension liability and related ratios - qualified governmental excess benefit arrangement on pages 68-72 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's basic financial statements. The schedule of debt maturities by fiscal year, the schedule of changes in long-term debt by individual issue, and the schedule of changes in lease liabilities are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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.

The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of debt maturities by fiscal year, the schedule of changes in long-term debt by individual issue, and schedule of changes in lease liabilities are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the statistical information but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Emphasis of Matter

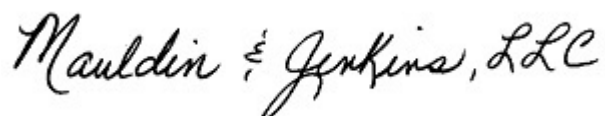
As discussed in Note 1, the financial statements present only the Water Division and do not purport to, and do not, present fairly the financial position of the Knoxville Utilities Board, as of June 30, 2025 and 2024, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

The financial statements of the Division as of June 30, 2024, were audited by other auditors whose report dated October 23, 2024, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2025, 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 the Division's 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.



Chattanooga, Tennessee
October 17, 2025

Knoxville Utilities Board Water Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Knoxville Utilities Board (KUB), comprised of the Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. 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 as of June 30, 2025, and 2024, 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, 2025, 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 84,262 water system customers over a 188 square mile service area. KUB maintains 1,417 miles of service mains, 28 storage facilities, 26 booster pump stations, and one treatment plant, which provided 13.1 billion gallons of water to KUB's water customers in fiscal year 2025. The average daily flow for fiscal year 2025 was 35.9 million gallons.

The water system has added 2,152 customers over the past three years representing annual growth of less than one percent. In fiscal year 2025, 575 customers were added.

The typical residential water customer's average monthly bill was \$33.10 as of June 30, 2025 (based on monthly use of 500 cubic feet or 3,740 gallons). The average monthly bill increased \$1.60 compared to the prior fiscal year, the result of the July 2024 water rate increase.

Century II Infrastructure Program

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

In June 2022, the Board approved three water rate increases of 5 percent each to support the Century II program. The water rate increases took effect in July 2022, July 2023, and July 2024, generating additional annual Water Division revenue of \$3.4 million, \$3.4 million, and \$3.6 million, respectively.

Knoxville Utilities Board Water Division

Management's Discussion and Analysis

June 30, 2025 and 2024

In June 2024, as part of KUB's Inflation Response Plan, the Board approved the next phase of water rate increases to support the Century II program. The three approved 6 percent water rate increases are effective in July 2025, July 2026, and July 2027 and are expected to provide \$4.5 million, \$4.8 million, and \$5.1 million in additional annual Water Division revenue, respectively.

KUB remains on track with its Century II water system infrastructure program. In fiscal year 2025, KUB replaced 2.7 miles of galvanized water main and 9.2 miles of cast iron main.

KUB is currently in the process of implementing a Water Plant Redundancy initiative to ensure that high quality, reliable water service will be provided to customers over the long term. KUB maintains a single water treatment plant for its system. In lieu of building a second treatment facility to ensure capacity will be available to meet the needs of current and future water customers, KUB will invest approximately \$161 million in various redundant facilities at the site of its existing Mark B. Whitaker Water Treatment Plant over a 16-year period that began in fiscal year 2017. Construction of a new generator building with three 2,500 kW diesel generators and associated switchgear was completed in fiscal year 2022 at the Mark B. Whitaker Water Treatment Plant. Construction of the new water filter project commenced in October 2022 and is projected to be completed by November 2025.

Knox County committed \$2.6 million through a Tennessee Department of Environment and Conservation (TDEC) non-competitive grant and an additional \$10 million in direct funding from the American Rescue Plan Act (ARPA). The City of Knoxville contributed \$7.5 million through a TDEC non-competitive grant and \$5 million in direct ARPA funding. In total, \$25.1 million in grant funding was awarded. All funds have been received by KUB and were used to support KUB's new water filter project at its Mark B. Whitaker Water Treatment Plant.

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Knoxville Utilities Board Water Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Financial Highlights

Fiscal Year 2025 Compared to Fiscal Year 2024

The Division's net position increased \$19.3 million in fiscal year 2025. Comparatively, net position increased \$16.1 million in fiscal year 2024.

Operating revenues increased \$4.6 million or 6.3 percent. This reflects an increase in billed sales of \$4.5 million, due to an increase in billed water sales volumes of 0.4 percent and additional revenue from a 5 percent rate increase effective in July 2024.

Operating expenses increased \$0.3 million or 0.6 percent. Operating and maintenance expenses (O&M) increased \$0.4 million compared to the prior year. Depreciation and amortization expense increased \$0.8 million. Taxes and tax equivalents decreased \$0.8 million.

Interest income was \$0.9 million higher than in the prior fiscal year, driven by higher cash balances and the replacement of maturing low-yield investments with new investments at significantly higher rates, despite a modest decline in overall interest rates. Interest expense increased \$0.8 million compared to the prior year.

Other income (net) was \$0.5 million lower than the prior fiscal year, due to mark-to-market adjustments on investments and a reduction in grant reimbursements.

Capital contributions were \$0.6 million lower than the prior fiscal year, the result of a decrease in assets contributed by developers.

Total plant assets (net) increased \$40.1 million or 9.8 percent, due to water main replacements, treatment plant improvements, and system improvements.

KUB sold \$20 million in water system revenue bonds in July 2024 for the purpose of funding water system capital improvements.

Long-term debt represented 43.2 percent of the Division's capital structure as of June 30, 2025, compared to 43.6 percent last 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. Debt coverage for the current fiscal year was 2.70. Maximum debt service coverage for future fiscal years is 2.57.

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's net position increased \$16.1 million in fiscal year 2024. Comparatively, net position increased \$13.1 million in fiscal year 2023.

Operating revenues increased \$4.2 million or 6.1 percent. This reflects an increase in billed sales of \$4 million, due to an increase in billed water sales volumes of 1.8 percent and additional revenue from a 5 percent rate increase effective in July 2023.

Operating expenses increased \$2.2 million or 4.3 percent. Operating and maintenance expenses (O&M) increased \$2.3 million compared to the prior year. Depreciation and amortization expense decreased \$0.2 million. Taxes and tax equivalents were consistent with the prior year.

Knoxville Utilities Board Water Division Management's Discussion and Analysis June 30, 2025 and 2024

Interest income was \$0.5 million higher than the prior fiscal year, due to higher interest rates throughout the year. Interest expense increased \$0.2 million compared to the prior year.

Other income (net) was \$0.7 million higher than the prior fiscal year, due to mark-to-market adjustments on investments and grant reimbursements.

Capital contributions were \$0.1 million lower than the prior fiscal year, the result of a decrease in assets contributed by developers.

Total plant assets (net) increased \$20.4 million or 5.3 percent, due to water main replacements, treatment plant improvements, and system improvements.

KUB sold \$20 million in water system revenue bonds in November 2023 for the purpose of funding water system capital improvements.

Long-term debt represented 43.6 percent of the Division's capital structure as of June 30, 2024, remaining unchanged from last 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. Debt coverage for the current fiscal year was 2.58.

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Knoxville Utilities Board Water Division

Management's Discussion and Analysis

June 30, 2025 and 2024

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, intangible, or other assets.

Liabilities are classified as current, other, or long-term debt. Net position is classified as net investment in capital assets, restricted, or unrestricted. Net position tells the user what 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 and intangible assets, less lease and subscription liabilities and the outstanding balances of debt used to acquire, construct, or improve those assets.

Restricted net position 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, non-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.

Knoxville Utilities Board Water Division
Management's Discussion and Analysis
June 30, 2025 and 2024

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

<i>(in thousands of dollars)</i>	2025	2024	2023
Current, restricted, intangible, and other assets	\$ 60,904	\$ 64,633	\$ 55,307
Capital assets, net	<u>447,967</u>	<u>407,906</u>	<u>387,498</u>
Total assets	<u>508,871</u>	<u>472,539</u>	<u>442,805</u>
Deferred outflows of resources	<u>4,903</u>	<u>7,509</u>	<u>11,529</u>
Total assets and deferred outflows of resources	<u>513,774</u>	<u>480,048</u>	<u>454,334</u>
Current and other liabilities	24,209	21,102	23,377
Long-term debt outstanding	<u>213,576</u>	<u>202,411</u>	<u>191,229</u>
Total liabilities	<u>237,785</u>	<u>223,513</u>	<u>214,606</u>
Deferred inflows of resources	<u>1,958</u>	<u>1,784</u>	<u>1,033</u>
Total liabilities and deferred inflows of resources	<u>239,743</u>	<u>225,297</u>	<u>215,639</u>
Net position			
Net investment in capital assets	229,559	201,448	192,819
Restricted	2,917	2,707	2,492
Unrestricted	<u>41,555</u>	<u>50,596</u>	<u>43,384</u>
Total net position	<u>\$ 274,031</u>	<u>\$ 254,751</u>	<u>\$ 238,695</u>

Normal Impacts on Statement of Net Position

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

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

Knoxville Utilities Board Water Division

Management's Discussion and Analysis

June 30, 2025 and 2024

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

Impacts and Analysis

Current, Restricted, Intangible, and Other Assets

Fiscal Year 2025 Compared to Fiscal Year 2024

Current, restricted, intangible, and other assets decreased \$3.7 million or 5.8 percent. The decrease is due to a \$5.2 million decrease in accounts receivable offset by a \$0.9 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments), and a \$0.3 million increase in inventories.

Fiscal Year 2024 Compared to Fiscal Year 2023

Current, restricted, intangible, and other assets increased \$9.3 million or 16.9 percent. The increase is due to a \$6.9 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments), a \$0.9 million increase in accounts receivable, a \$0.7 million increase in lease receivable, and a \$0.5 million increase in inventories.

Capital Assets

Fiscal Year 2025 Compared to Fiscal Year 2024

Capital assets, net of depreciation, increased \$40.1 million or 9.8 percent. Capital expenditures included \$23.4 million for water plant redundancy, \$15 million for water main replacement, \$3.2 million for system improvements, \$2 million for services and extensions, \$1.6 million for plant improvements, and \$1.1 million for auto and truck purchases. During the fiscal year, \$3.8 million water system assets were retired.

Fiscal Year 2024 Compared to Fiscal Year 2023

Capital assets, net of depreciation, increased \$20.4 million or 5.3 percent. Capital expenditures included \$11.2 million for water plant redundancy, \$9.1 million for water main replacement, \$3.6 million for services and extensions, \$3.3 million for system improvements, \$1.4 million building improvements, and \$1.1 million for heavy equipment. During the fiscal year, \$4.7 million of water system assets were retired.

Deferred Outflows of Resources

Fiscal Year 2025 Compared to Fiscal Year 2024

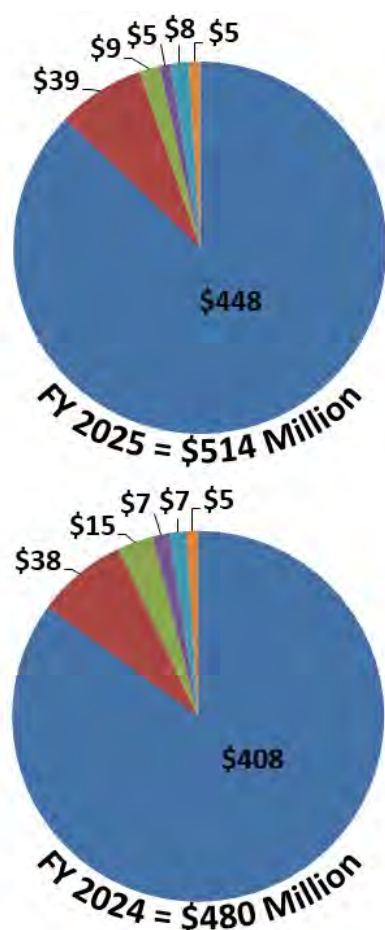
Deferred outflows of resources decreased \$2.6 million compared to the prior fiscal year, primarily due to a \$2.2 million decrease in pension outflow.

Fiscal Year 2024 Compared to Fiscal Year 2023

Deferred outflows of resources decreased \$4 million compared to the prior fiscal year, primarily due to a \$3.5 million decrease in pension outflow.

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Knoxville Utilities Board Water Division
Management's Discussion and Analysis
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Water Division Total Assets and Deferred Outflows of Resources (in Millions)

	<u>FY25</u>	<u>FY24</u>
Plant	87%	85%
General and Contingency Funds	8%	8%
Accounts Receivable	2%	3%
Deferred Outflows of Resources	1%	2%
Other Assets	1%	1%
Restricted Assets	1%	1%

Current and Other Liabilities

Fiscal Year 2025 Compared to Fiscal Year 2024

Current and other liabilities increased \$3.1 million compared to the prior fiscal year. This increase reflects a \$3.5 million increase in accounts payable, a \$0.6 million increase in the current portion of revenue bonds, offset by a \$0.8 million decrease in the actuarially determined net pension liability, and a \$0.7 million decrease in the actuarially determined net OPEB liability.

Fiscal Year 2024 Compared to Fiscal Year 2023

Current and other liabilities decreased \$2.3 million compared to the prior fiscal year. This decrease reflects a \$2.6 million decrease in the actuarially determined net pension liability and a \$0.5 million decrease in the actuarially determined net OPEB liability offset by a \$0.6 million increase in the current portion of revenue bonds.

Knoxville Utilities Board Water Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Long-Term Debt

Fiscal Year 2025 Compared to Fiscal Year 2024

Long-term debt increased \$11.2 million or 5.5 percent. This increase is the net impact of the issuance of \$20 million in water system revenue bonds sold in July 2024 and the scheduled repayment of debt.

Fiscal Year 2024 Compared to Fiscal Year 2023

Long-term debt increased \$11.2 million or 5.8 percent. This increase is the net impact of the issuance of \$20 million in water system revenue bonds sold in November 2023 and the scheduled repayment of debt.

Deferred Inflows of Resources

Fiscal Year 2025 Compared to Fiscal Year 2024

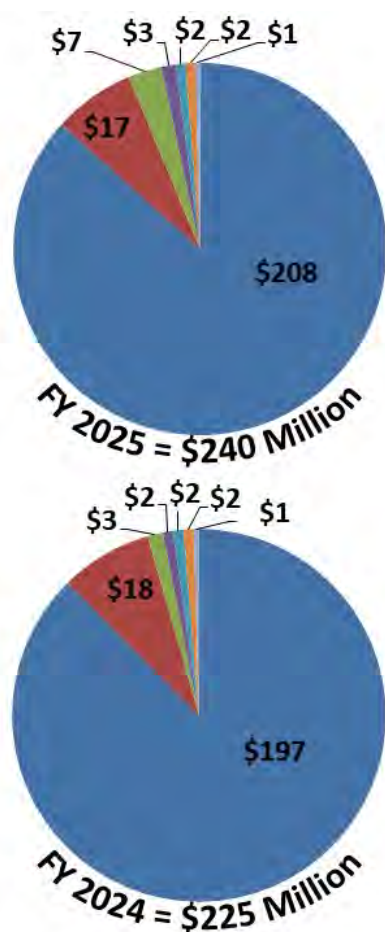
Deferred inflows increased \$0.2 million compared to the prior fiscal year, due to a \$0.4 million increase in OPEB inflow offset by a \$0.2 million decrease in pension inflow.

Fiscal Year 2024 Compared to Fiscal Year 2023

Deferred inflows increased \$0.8 million compared to the prior fiscal year, due to a \$0.6 million increase in lease inflow and a \$0.3 million increase in OPEB inflow offset by a \$0.2 million decrease in pension inflow.

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Knoxville Utilities Board Water Division
Management's Discussion and Analysis
June 30, 2025 and 2024



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

	<u>FY25</u>	<u>FY24</u>
Bond Debt	87%	87%
Other Liabilities	7%	8%
Payables	3%	1%
Interest Accrued	1%	1%
Deferred Inflows of Resources	1%	1%
Misc Current	1%	1%
Customer Deposits	<1%	1%

Net Position

Fiscal Year 2025 Compared to Fiscal Year 2024

Net position increased \$19.3 million in fiscal year 2025. Net investment in capital assets increased \$28.1 million, the result of \$40.1 million in net plant additions and an increase in current and long-term portions of revenue bonds of \$11.9 million. Restricted net position increased \$0.2 million, due to an increase in required bond fund reserves. Unrestricted net position decreased \$9 million, primarily due to a \$5.2 million decrease in accounts receivable and a \$3.5 million increase in accounts payable.

Fiscal Year 2024 Compared to Fiscal Year 2023

Net position increased \$16.1 million in fiscal year 2024. Net investment in capital assets increased \$8.6 million, the result of \$20.4 million in net plant additions and an increase in current and long-term portions of revenue bonds of \$12.3 million. Restricted net position increased \$0.2 million, due to an increase in required bond fund reserves. Unrestricted net position increased \$7.2 million, primarily due to a \$6.9 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments).

Knoxville Utilities Board Water Division
Management's Discussion and Analysis
June 30, 2025 and 2024

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

<i>(in thousands of dollars)</i>	2025	2024	2023
Operating revenues	\$ 77,462	\$ 72,896	\$ 68,703
Operating expenses			
Treatment	6,248	5,744	5,453
Distribution	18,840	18,772	17,466
Customer service	1,073	1,018	1,739
Administrative and general	11,035	11,279	9,807
Depreciation and amortization	13,028	12,268	12,440
Taxes and tax equivalents	3,950	4,745	4,717
Total operating expenses	<u>54,174</u>	<u>53,826</u>	<u>51,622</u>
Operating income	<u>23,288</u>	<u>19,070</u>	<u>17,081</u>
Interest income	2,829	1,905	1,362
Interest expense	(7,599)	(6,808)	(6,644)
Other income/(expense)	599	1,142	447
Change in net position before capital contributions	<u>19,117</u>	<u>15,309</u>	<u>12,246</u>
Capital Contributions	163	747	865
Change in net position	<u>\$ 19,280</u>	<u>\$ 16,056</u>	<u>\$ 13,111</u>

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

The following is a description of activities which will normally impact the comparability of the Statement of Revenues, Expenses and 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 and amortization expense is impacted by intangible assets, 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.

Knoxville Utilities Board Water Division

Management's Discussion and Analysis

June 30, 2025 and 2024

- 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 2025 Compared to Fiscal Year 2024

The Division's Change in Net Position increased \$19.3 million in fiscal year 2025. Comparatively, net position increased by \$16.1 million in fiscal year 2024.

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's Change in Net Position increased \$16.1 million in fiscal year 2024. Comparatively, net position increased by \$13.1 million in fiscal year 2023.

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Knoxville Utilities Board Water Division

Management's Discussion and Analysis

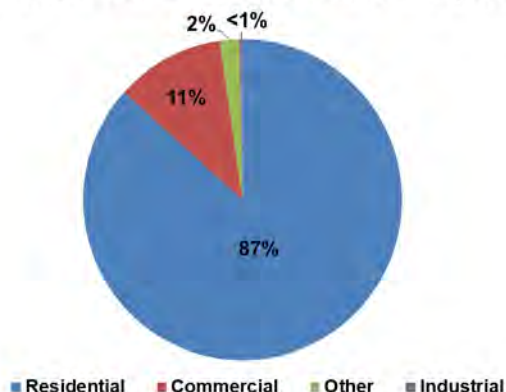
June 30, 2025 and 2024

Margin from Sales

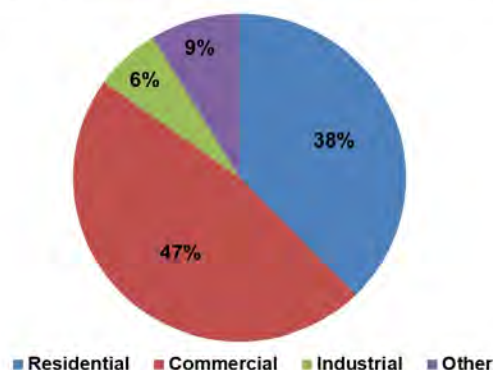
Fiscal Year 2025 Compared to Fiscal Year 2024

Operating revenues increased \$4.6 million or 6.3 percent. This reflects an increase in billed sales of \$4.5 million, due to an increase in additional revenue from a 5 percent rate increase effective in July 2024 and a 0.4 percent increase in water sales volumes.

FY 2025 Total Water Customers = 84,262



FY 2025 Water Sales = 8.6 Billion Gallons



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 (53 percent) of total sales volumes during the year.

KUB's ten largest water customers accounted for 25 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 2,152 water customers over the past three years, representing annual growth of less than one percent. Water system growth is up slightly due to new housing construction.

Residential water sales volumes increased 0.4 percent compared to the prior fiscal year.

Commercial water sales volumes decreased 0.3 percent compared to the prior year. Industrial sales volumes decreased 3.8 percent compared to the prior year.

Other water sales volumes (i.e., utility districts) were 7.7 percent higher than the prior year.

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Knoxville Utilities Board Water Division

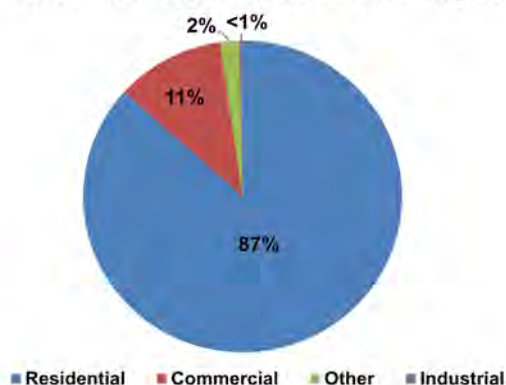
Management's Discussion and Analysis

June 30, 2025 and 2024

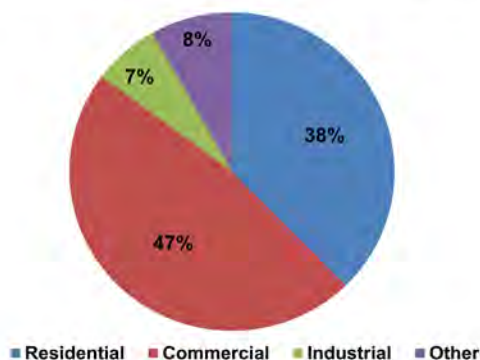
Fiscal Year 2024 Compared to Fiscal Year 2023

Operating revenues increased \$4.2 million or 6.1 percent. This reflects an increase in billed sales of \$4 million, due to an increase in billed water sales volumes of 1.8 percent and additional revenue from a 5 percent rate increase effective in July 2023.

FY 2024 Total Water Customers = 83,687



FY 2024 Water Sales = 8.6 Billion Gallons



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 (54 percent) of total sales volumes during the year.

KUB's ten largest water customers accounted for 25 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 2,181 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 0.2 percent compared to the prior fiscal year.

Commercial water sales volumes increased 1.1 percent compared to the prior year. Industrial sales volumes increased 8.8 percent compared to the prior year.

Other water sales volumes (i.e., utility districts) were 7.9 percent higher than the prior year.

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Knoxville Utilities Board Water Division

Management's Discussion and Analysis

June 30, 2025 and 2024

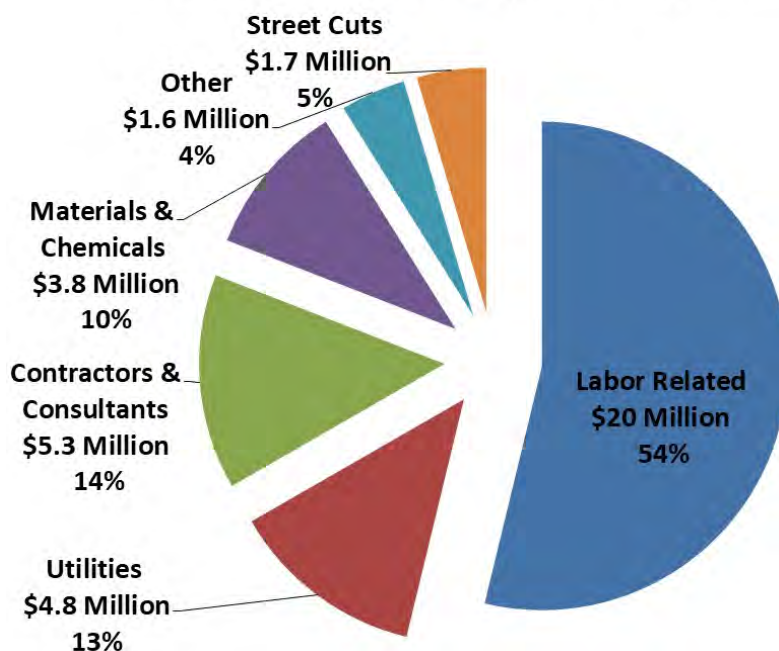
Operating Expenses

Fiscal Year 2025 Compared to Fiscal Year 2024

Operating expenses increased \$0.3 million or 0.6 percent. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as treatment, distribution, customer service, and administrative and general.

- Treatment expenses were \$0.5 million or 8.8 percent higher than the prior fiscal year, due to an increase in labor-related expenses, chemicals costs, and contractor expenses.
- Distribution expenses were less than \$0.1 million higher than the prior fiscal year.
- Customer service expenses were less than \$0.1 million higher than the prior fiscal year.
- Administrative and general expenses were \$0.2 million or 2.2 percent lower than the prior fiscal year, primarily due to a decrease in insurance costs and consultant expenses offset by an increase in labor-related expenses.

FY 2025 Water O&M Expense = \$37.2 Million



- Depreciation and amortization expense increased \$0.8 million. KUB added \$18.2 million in assets during fiscal year 2025. A partial year of depreciation expense was recorded on these capital investments and a full year of depreciation expense was incurred on \$21.4 million in assets placed in service during fiscal year 2024. In addition, \$3.8 million of assets were retired in fiscal year 2025.
- Taxes and tax equivalents were \$0.8 million less than the prior fiscal year, primarily due to the City of Knoxville's reduction in equalization rates.

Knoxville Utilities Board Water Division

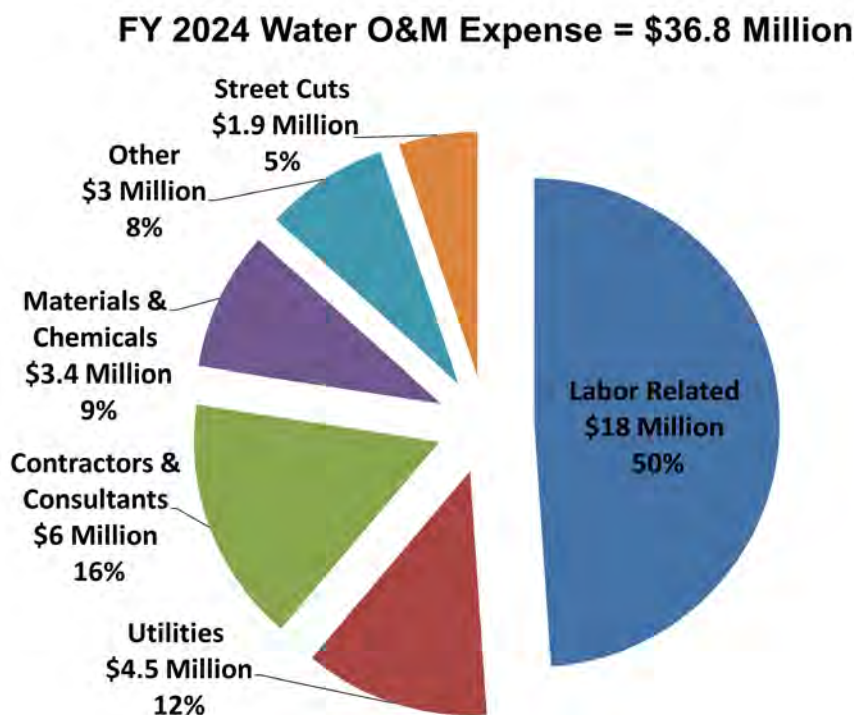
Management's Discussion and Analysis

June 30, 2025 and 2024

Fiscal Year 2024 Compared to Fiscal Year 2023

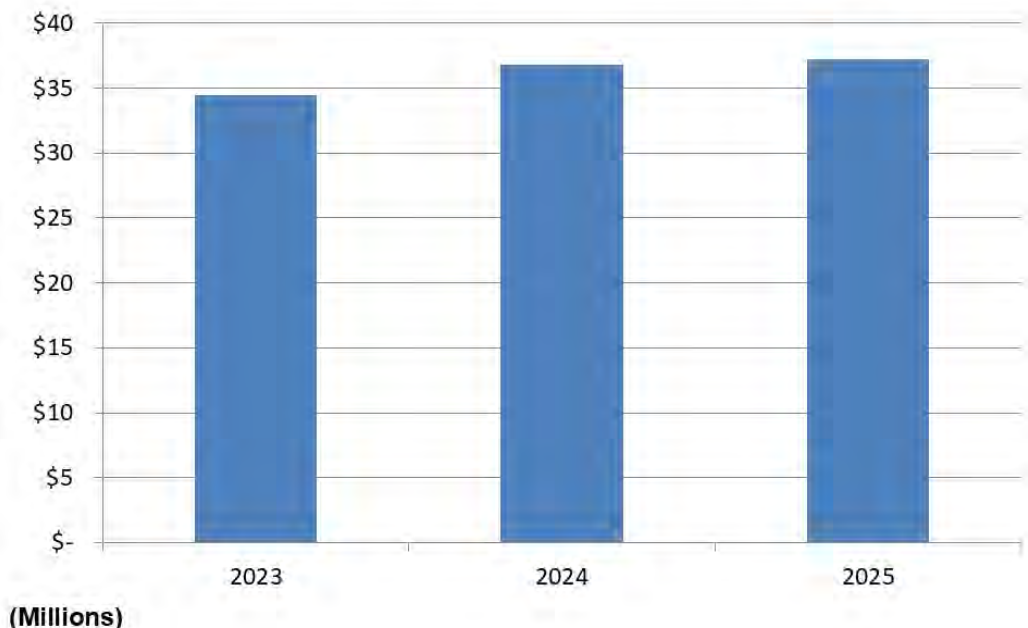
Operating expenses increased \$2.2 million or 4.3 percent. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as treatment, distribution, customer service, and administrative and general.

- Treatment expenses were \$0.3 million or 5.3 percent higher than the prior fiscal year, due to an increase in labor-related expenses and chemicals costs.
- Distribution expenses were \$1.3 million or 7.5 percent higher than the prior fiscal year, due to an increase in contractor and consultant costs and labor-related expenses.
- Customer service expenses were \$0.7 million lower than the prior fiscal year, primarily due to a change in methodology for technology-related costs that resulted in an offsetting increase in administration and general expenses.
- Administrative and general expenses were \$1.5 million or 15 percent higher than the prior fiscal year, primarily due to an increase in insurance costs, labor-related expenses, and a change in methodology for technology-related costs that resulted in an offsetting decrease in customer service expenses.



- Depreciation and amortization expense decreased \$0.2 million. KUB added \$21.4 million in assets during fiscal year 2024. A partial year of depreciation expense was recorded on these capital investments and a full year of depreciation expense was incurred on \$14.2 million in assets placed in service during fiscal year 2023. In addition, \$4.7 million of assets were retired in fiscal year 2024.
- Taxes and tax equivalents were consistent with the prior fiscal year.

Water Division Operation & Maintenance Expense



Other Income and Expense

Fiscal Year 2025 Compared to Fiscal Year 2024

Interest income was \$0.9 million higher than in the prior fiscal year, driven by higher cash balances and the replacement of maturing low-yield investments with new investments at significantly higher rates, despite a modest decline in overall interest rates.

Interest expense increased \$0.8 million compared to the previous fiscal year, reflecting additional interest expense from revenue bonds sold during the fiscal year.

Other income (net) was \$0.5 million lower than the prior fiscal year, primarily due to mark-to-market adjustments on investments and a reduction in grant reimbursements.

Capital contributions decreased \$0.6 million, the result of a decrease in donated utility assets from developers compared to the previous fiscal year.

Fiscal Year 2024 Compared to Fiscal Year 2023

Interest income was \$0.5 million higher than the prior fiscal year, primarily due to higher interest rates throughout the year.

Interest expense increased \$0.2 million compared to the previous fiscal year.

Other income (net) was \$0.7 million higher than the prior fiscal year, primarily due to mark-to-market adjustments on investments and grant reimbursements.

Knoxville Utilities Board Water Division

Management's Discussion and Analysis

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Capital contributions decreased \$0.1 million, the result of a decrease in donated utility assets from developers compared to the previous fiscal year.

Capital Assets

	Capital Assets As of June 30 (Net of Depreciation)		
<i>(in thousands of dollars)</i>	2025	2024	2023
Production Plant	\$ 6	\$ 6	\$ 6
Pumping & Treatment Plant	64,402	67,056	66,371
Distribution Plant			
Distribution Mains	\$ 204,915	\$ 196,956	\$ 191,223
Transmission Mains	37,798	38,382	35,977
Services & Meters	34,514	35,647	36,706
Other Accounts	13,601	13,760	13,689
Total Distribution Plant	<u>290,828</u>	<u>284,745</u>	<u>277,595</u>
Total General Plant	\$ <u>15,114</u>	\$ <u>13,809</u>	\$ <u>12,792</u>
Total Water Plant	<u>370,350</u>	<u>365,616</u>	<u>356,764</u>
Work In Progress	<u>77,617</u>	<u>42,290</u>	<u>30,734</u>
Total Net Plant	<u>\$ 447,967</u>	<u>\$ 407,906</u>	<u>\$ 387,498</u>

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Knoxville Utilities Board Water Division

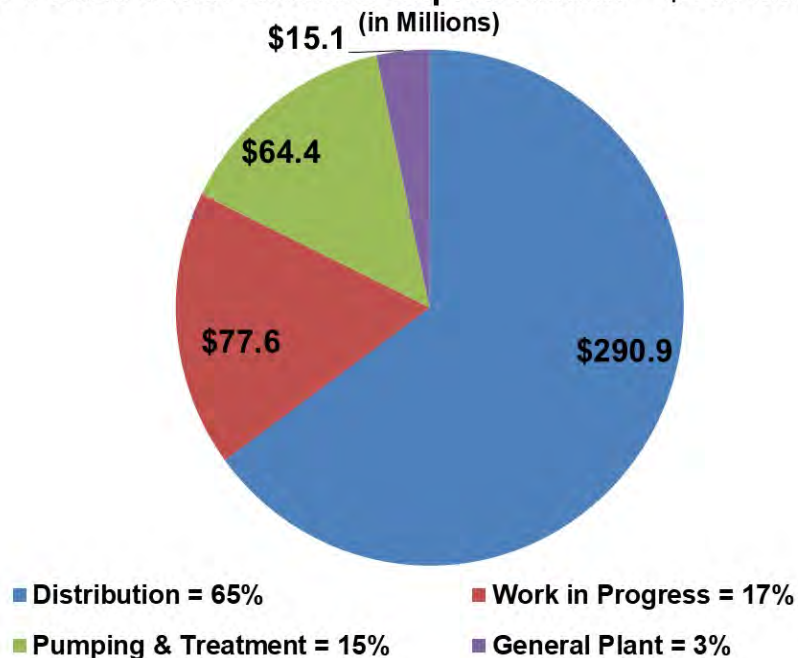
Management's Discussion and Analysis

June 30, 2025 and 2024

Fiscal Year 2025 Compared to Fiscal Year 2024

As of June 30, 2025, the Division had \$448 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 \$40.1 million or 9.8 percent over the end of the last fiscal year.

FY 2025 Water Division Capital Assets = \$448 Million



Major capital asset expenditures during the year were as follows:

- \$23.4 million for water plant redundancy
- \$15 million for galvanized and cast-iron water main replacement
- \$3.2 million for system improvements
- \$2 million for services and extensions
- \$1.6 million for plant improvements
- \$1.1 million for auto and truck purchases

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Knoxville Utilities Board Water Division

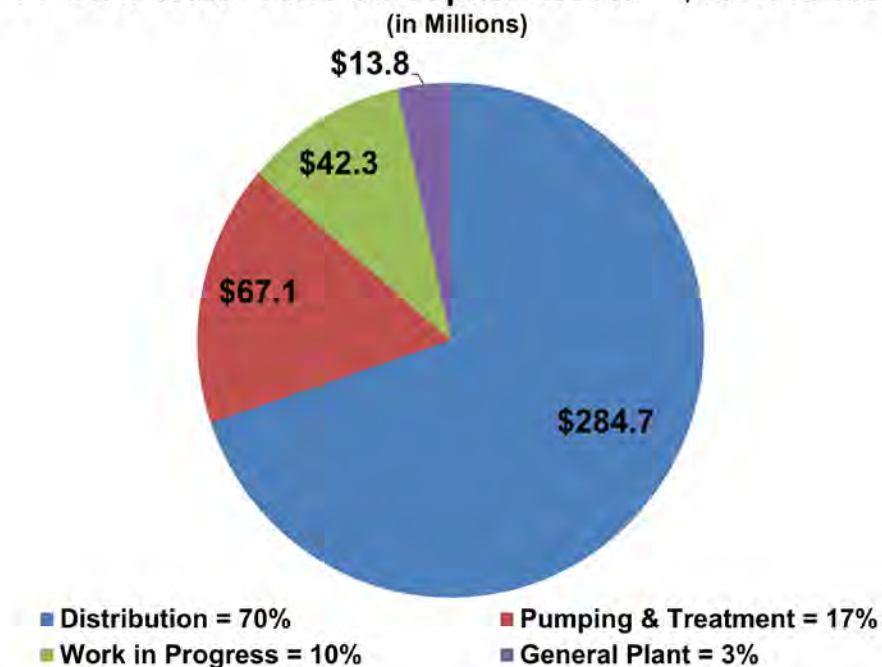
Management's Discussion and Analysis

June 30, 2025 and 2024

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$407.9 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 \$20.4 million or 5.3 percent over the end of the last fiscal year.

FY 2024 Water Division Capital Assets = \$407.9 Million



Major capital asset expenditures during the year were as follows:

- \$11.2 million for water plant redundancy
- \$9.1 million for galvanized and cast-iron water main replacement
- \$3.6 million for services and extensions
- \$3.3 million for system improvements
- \$1.4 million for building improvements
- \$1.1 million for heavy equipment

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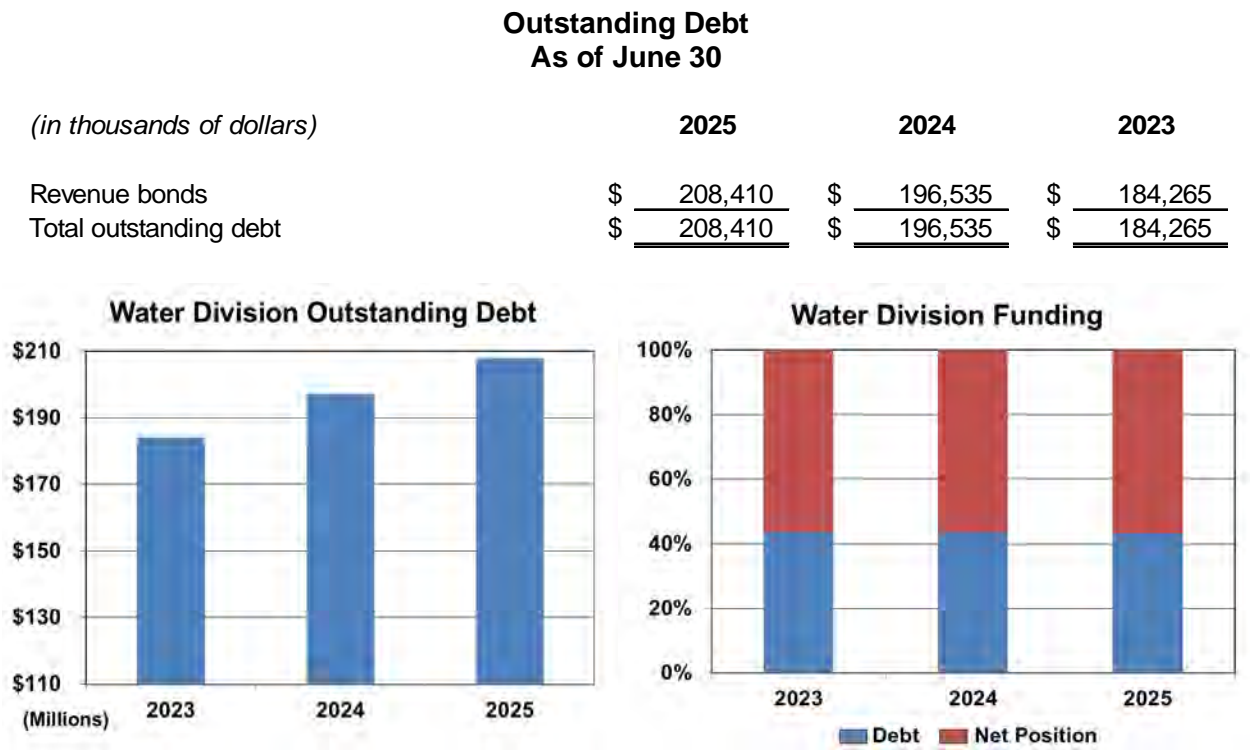
Knoxville Utilities Board Water Division

Management’s Discussion and Analysis

June 30, 2025 and 2024

Debt Administration

As of June 30, 2025, the Water Division had \$208.4 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 43.2 percent in 2025, 43.6 percent in 2024, and 43.6 percent in 2023. KUB’s Debt Management Policy limits the Division’s debt ratio to 50 percent or less.



The Division will pay \$95.4 million in principal payments over the next ten years, representing 45.8 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 2025 Compared to Fiscal Year 2024

As of June 30, 2025, the Division had \$208.4 million in outstanding debt (including the current portion of revenue bonds), representing an increase of \$11.9 million or 6 percent. As of June 30, 2025, the Division’s weighted average cost of debt was 3.6 percent.

KUB sold \$20 million in water system revenue bonds in July 2024 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 4.04 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2054.

The Division’s outstanding debt is rated by S&P Global Ratings and Moody’s Investors Service. As of June 30, 2025, the Division’s revenue bonds were rated AAA by S&P Global Ratings and Aa1 by Moody’s Investors Service. The S&P Global Ratings water rating represents the highest credit rating available from S&P Global Ratings.

Knoxville Utilities Board Water Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$196.5 million in outstanding debt (including the current portion of revenue bonds), representing a decrease of \$12.3 million or 6.7 percent. As of June 30, 2024, the Division's weighted average cost of debt was 3.53 percent.

KUB sold \$20 million in water system revenue bonds in November 2023 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 4.33 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2053.

The Division's outstanding debt is rated by S&P Global Ratings and Moody's Investors Service. As of June 30, 2024, the Division's revenue bonds were rated AAA by S&P Global Ratings and Aa1 by Moody's Investors Service. The S&P Global Ratings water rating represents the highest credit rating available from S&P Global Ratings.

Impacts on Future Financial Position

KUB anticipates adding 500 additional water system customers during fiscal year 2026.

The Pension Plan actuarial valuation resulted in an actuarially determined contribution of \$2,793,313 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Water Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2025, measurement date. Subsequent to June 30, 2025, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$2,939,593 for the fiscal year ending June 30, 2027, based on the Plan's current funding policy. The Water Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2026, measurement date. For the Plan year beginning January 1, 2025, the Plan's actuarial funded ratio is 103.9 percent, and the market value funded ratio is 100.3 percent.

The OPEB Plan actuarial valuation resulted in an actuarially determined contribution of \$1,217,234 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Water Division's portion of this contribution will be determined as part of the actuarial analysis for the June 30, 2026, measurement date. Subsequent to June 30, 2025, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$968,538 for the fiscal year ending June 30, 2027, based on the Plan's current funding policy. The Water Division's portion of this contribution will be determined as part of the actuarial analysis for the June 30, 2027, measurement date. For the Plan year beginning January 1, 2025, the Plan's actuarial funded ratio is 96.3 percent, and the market value funded ratio is 93.8 percent.

GASB Statement No. 103, *Financial Reporting Model Improvements*, is effective for fiscal years beginning after June 15, 2025. GASB Statement No. 104, *Disclosure of Certain Capital Assets*, is effective for fiscal years beginning after June 15, 2025. 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 2025.

Knoxville Utilities Board Water Division
Management's Discussion and Analysis
June 30, 2025 and 2024

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, 2025, and 2024. 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, 2025 and 2024

	2025	2024
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 20,556,604	\$ 19,803,587
Short-term contingency fund investments	17,951,582	4,225,681
Other current assets	218,704	209,501
Accrued interest receivable	19,924	22,603
Accounts receivable, less allowance of uncollectible accounts of \$68,308 in 2025 and \$63,857 in 2024	9,413,592	14,650,020
Current portion of lease receivable	106,061	104,244
Inventories	3,256,632	2,948,452
Prepaid expenses	77,146	71,927
Total current assets	<u>51,600,245</u>	<u>42,036,015</u>
Restricted assets:		
Water bond fund	5,420,352	5,018,415
Other funds	198	198
Total restricted assets	<u>5,420,550</u>	<u>5,018,613</u>
Water plant in service	542,316,450	527,950,238
Less accumulated depreciation	<u>(171,966,760)</u>	<u>(162,334,691)</u>
	370,349,690	365,615,547
Retirement in progress	18,954	20,741
Construction in progress	77,598,248	42,269,526
Net plant in service	<u>447,966,892</u>	<u>407,905,814</u>
Intangible assets:		
Intangible right of use asset	72,515	71,635
Intangible subscription asset	838,465	864,755
Less accumulated amortization	<u>(546,260)</u>	<u>(431,166)</u>
Net intangible assets	<u>364,720</u>	<u>505,224</u>
Other assets:		
Long-term contingency fund investments	-	13,607,910
Long-term lease receivable	1,069,643	1,091,725
Other	2,448,534	2,373,269
Total other assets	<u>3,518,177</u>	<u>17,072,904</u>
Total assets	<u>508,870,584</u>	<u>472,538,570</u>
Deferred outflows of resources:		
Pension outflow	2,819,099	5,024,181
OPEB outflow	369,129	552,906
Unamortized bond refunding costs	1,715,108	1,932,282
Total deferred outflows of resources	<u>4,903,336</u>	<u>7,509,369</u>
Total assets and deferred outflows of resources	<u>\$ 513,773,920</u>	<u>\$ 480,047,939</u>

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

Knoxville Utilities Board Water Division
Statements of Net Position
June 30, 2025 and 2024

	2025	2024
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	\$ 8,750,000	\$ 8,120,000
Current portion of accrued compensated absences	1,438,424	1,286,578
Current portion of lease liability	10,455	12,365
Current portion of subscription liability	147,328	142,047
Sales tax collections payable	426,464	411,051
Accounts payable	6,180,819	2,723,363
Accrued expenses	812,068	721,689
Customer deposits plus accrued interest	1,379,875	1,243,415
Accrued interest on revenue bonds	2,503,586	2,311,648
Total current liabilities	<u>21,649,019</u>	<u>16,972,156</u>
Other liabilities:		
Accrued compensated absences	708,477	662,783
Customer advances for construction	183,956	150,121
Lease liability	22,814	34,299
Subscription liability	156,696	303,935
Net pension liability	551,553	1,324,191
Net OPEB liability	891,811	1,617,952
Other	44,826	36,179
Total other liabilities	<u>2,560,133</u>	<u>4,129,460</u>
Long-term debt:		
Water revenue bonds	199,660,000	188,415,000
Unamortized premiums/discounts	13,915,532	13,996,203
Total long-term debt	<u>213,575,532</u>	<u>202,411,203</u>
Total liabilities	<u>237,784,684</u>	<u>223,512,819</u>
Deferred inflows of resources:		
Pension inflow	128,269	326,827
OPEB inflow	731,311	311,034
Lease inflow	1,098,771	1,146,464
Total deferred inflows of resources	<u>1,958,351</u>	<u>1,784,325</u>
Total liabilities and deferred inflows of resources	<u>239,743,035</u>	<u>225,297,144</u>
Net position		
Net investment in capital assets	229,558,746	201,447,697
Restricted for:		
Debt service	2,916,766	2,706,766
Other	198	198
Unrestricted	41,555,175	50,596,134
Total net position	<u>274,030,885</u>	<u>254,750,795</u>
Total liabilities, deferred inflows, and net position	<u>\$ 513,773,920</u>	<u>\$ 480,047,939</u>

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, 2025 and 2024

	2025	2024
Operating revenues	\$ 77,461,933	\$ 72,896,489
Operating expenses		
Treatment	6,248,177	5,744,601
Distribution	18,840,349	18,772,285
Customer service	1,072,682	1,017,796
Administrative and general	11,034,467	11,278,649
Depreciation and amortization	13,027,773	12,268,290
Taxes and tax equivalents	3,950,386	4,744,733
Total operating expenses	<u>54,173,834</u>	<u>53,826,354</u>
Operating income	<u>23,288,099</u>	<u>19,070,135</u>
Non-operating revenues (expenses)		
Contributions in aid of construction	5,753,777	16,800,864
Interest income	2,828,950	1,904,641
Interest expense	(7,599,497)	(6,807,918)
Amortization of debt costs	473,596	459,508
Write-down of plant for costs recovered through contributions	(5,753,777)	(16,800,864)
Other	126,166	682,963
Total non-operating revenues (expenses)	<u>(4,170,785)</u>	<u>(3,760,806)</u>
Change in net position before capital contributions	19,117,314	15,309,329
Capital contributions	162,776	746,997
Change in net position	19,280,090	16,056,326
Net position, beginning of year	254,750,795	238,694,469
Net position, end of year	<u>\$ 274,030,885</u>	<u>\$ 254,750,795</u>

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

Knoxville Utilities Board Water Division

Statements of Cash Flows

Years Ended June 30, 2025 and 2024

	2025	2024
Cash flows from operating activities:		
Cash receipts from customers	\$ 76,018,470	\$ 71,035,965
Cash receipts from other operations	2,755,993	1,913,933
Cash payments to suppliers of goods or services	(19,339,139)	(23,519,034)
Cash payments to employees for services	(15,140,446)	(14,047,054)
Payment in lieu of taxes	<u>(2,777,013)</u>	<u>(3,629,904)</u>
Net cash provided by operating activities	<u>41,517,865</u>	<u>31,753,906</u>
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	20,524,639	19,944,023
Principal paid on revenue bonds	(8,120,000)	(7,725,000)
Interest paid on revenue bonds	(7,384,250)	(6,581,604)
Acquisition and construction of water plant	(59,200,039)	(49,148,324)
Changes in water bond fund, restricted	(401,937)	(401,142)
Customer advances for construction	33,835	32,726
Proceeds received on disposal of plant	1,889	-
Principal paid on lease liabilities	(13,395)	(12,750)
Principal paid on subscription liabilities	(141,958)	(345,873)
Interest paid on lease and subscription liabilities	(17,414)	(23,309)
Cash received from developers and individuals for capital purposes	<u>11,118,001</u>	<u>16,800,864</u>
Net cash used in capital and related financing activities	<u>(43,600,629)</u>	<u>(27,460,389)</u>
Cash flows from investing activities:		
Purchase of investment securities	(4,034,047)	(13,597,427)
Maturities of investment securities	4,100,000	13,600,000
Interest received	2,728,074	1,867,715
Other property and investments	<u>41,754</u>	<u>197,241</u>
Net cash provided by investing activities	<u>2,835,781</u>	<u>2,067,529</u>
Net increase in cash and cash equivalents	753,017	6,361,046
Cash and cash equivalents, beginning of year	<u>19,803,587</u>	<u>13,442,541</u>
Cash and cash equivalents, end of year	<u>\$ 20,556,604</u>	<u>\$ 19,803,587</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 23,288,099	\$ 19,070,135
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	13,687,331	12,836,834
Changes in operating assets and liabilities:		
Accounts receivable	(127,796)	(903,341)
Lease receivable	20,266	(652,938)
Inventories	(308,180)	(458,455)
Prepaid expenses	(5,219)	(16,054)
Other assets	(4,006)	(75,586)
Sales tax collections payable	15,413	17,464
Accounts payable and other accrued expenses	4,808,725	1,870,995
Customer deposits plus accrued interest	134,587	51,891
Other liabilities	<u>8,645</u>	<u>12,961</u>
Net cash provided by operating activities	<u>\$ 41,517,865</u>	<u>\$ 31,753,906</u>
Noncash capital activities:		
Acquisition of plant assets through developer contributions	\$ 162,776	\$ 746,997

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2025 and 2024

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. 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 as of June 30, 2025, and 2024, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

2. Significant Accounting Policies

Basis of Accounting

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

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

Recently Adopted New Accounting Pronouncements

In June 2022, the GASB issued GASB Statement No. 101 (Statement No. 101), *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. Statement No. 101 is effective for fiscal years beginning after December 15, 2023. Adoption of this Statement did not result in a restatement of prior periods due to immateriality.

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2025 and 2024

In December 2023, the GASB issued GASB Statement No. 102 (Statement No. 102), *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. Statement No. 102 is effective for fiscal years beginning after June 15, 2024. Adoption of this Statement did not have a significant impact on KUB's financial statements.

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 "Depreciation and amortization" in the Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment. Depreciation for transportation equipment of \$659,559 in fiscal year 2025 and \$568,544 in fiscal year 2024 is included in operation and maintenance expense.

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 \$179,231 in fiscal year 2025 and \$195,660 in fiscal year 2024.

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

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2025 and 2024

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

OPEB Trust

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

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, 2025, and 2024, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, are based on a June 30, 2025, and 2024, measurement date, respectively. The net OPEB liability is \$5,315,804 (Division's share \$891,811) as of June 30, 2025, and \$9,373,073 (Division's share \$1,617,952) as of June 30, 2024.

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 12). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2025, and 2024, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, are based on a December 31, 2024, and 2023, measurement date, respectively. The net pension

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2025 and 2024

liability is \$3,054,172 (Division's share \$548,581) as of June 30, 2025, and \$7,452,380 (Division's share \$1,324,191) as of June 30, 2024.

KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single employer defined benefit pension plan administered by KUB (Note 13). As required by GASB Statement No. 73, KUB measures the total pension liability of the QEBA. The amounts reported as of June 30, 2025, and 2024, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, are based on a December 31, 2024, and 2023, measurement date, respectively. The total pension liability of the QEBA is \$21,226 (Division's share \$2,972) as of June 30, 2025, and \$0 as of June 30, 2024.

For presentation purposes, the Pension Plan net pension liability and the QEBA total pension liability are disclosed in the Statement of Net Position as Net pension liability of \$551,553 as of June 30, 2025 and \$1,324,191 as of June 30, 2024. The Pension Plan deferred outflows and QEBA deferred outflows are disclosed as Pension outflow of \$2,819,099 as of June 30, 2025 and \$5,024,181 as of June 30, 2024. The Pension Plan deferred inflows and QEBA deferred inflows are disclosed as Pension inflow of \$128,269 as of June 30, 2025 and \$326,827 as of June 30, 2024.

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, lease liabilities, subscription liabilities, developer contributions, compensated absences, 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.

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2025 and 2024

Leases

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

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

Subscription-Based Information Technology Arrangements

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

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

Deferred Outflows and Inflows of Resources

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

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.

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2025 and 2024

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. During fiscal year 2025, KUB adopted GASB Statement No. 101, *Compensated Absences* (GASB 101). GASB 101 requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash items. The accompanying financial statements, as of and for the year ended June 30, 2024, have not been restated due to immaterial impact on the net position.

Subsequent Events

KUB has evaluated events and transactions through October 23, 2025, the date these financial statements were available to be issued, for items that should potentially be recognized or disclosed.

Recently Issued Accounting Pronouncements

In April 2024, the GASB issued GASB Statement No. 103 (Statement No. 103), *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. Statement No. 103 is effective for fiscal years beginning after June 15, 2025.

In September 2024, the GASB issued GASB Statement No. 104 (Statement No. 104), *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. Statement No. 104 is effective for fiscal years beginning after June 15, 2025.

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

Knoxville Utilities Board Water Division

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from the date of investment. KUB also limits its exposure by holding investments to maturity unless cash flow requirements dictate otherwise.

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

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

Classification of deposits and investments per Statement of Net Position:

	2025	2024
Current assets		
Cash and cash equivalents	\$ 20,556,604	\$ 19,803,587
Short-term contingency fund investments	17,763,490	4,129,411
Other assets		
Long-term contingency fund investments	-	13,607,910
Restricted assets		
Water bond fund	5,420,352	5,018,415
Other funds	198	198
	<u>\$ 43,740,644</u>	<u>\$ 42,559,521</u>

The above amounts do not include accrued interest of \$188,092 in fiscal year 2025 and \$96,270 in fiscal year 2024. Interest income is recorded on an accrual basis.

Investments and maturities of KUB's cash equivalents and investments as held by financial institutions as of June 30, 2025:

	Cash Equivalents and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	\$ 21,683,104	\$ 21,683,104	\$ -
State Treasurer's Investment Pool	5,426,035	5,426,035	-
Agency Bonds	17,757,707	17,757,707	-
	<u>\$ 44,866,846</u>	<u>\$ 44,866,846</u>	<u>\$ -</u>

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

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active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Division has no recurring fair value measurements as of June 30, 2025.

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:

	2025	2024
Wholesale and retail customers		
Billed services	\$ 4,896,166	\$ 4,836,165
Unbilled services	2,538,608	2,520,074
Other	2,047,126	7,357,638
Allowance for uncollectible accounts	(68,308)	(63,857)
	<u>\$ 9,413,592</u>	<u>\$ 14,650,020</u>

5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	2025	2024
Trade accounts	\$ 6,180,819	\$ 2,723,363
Current portion of accrued compensated absences	1,438,424	1,286,578
Salaries and wages	387,151	364,796
Self-insurance liabilities	424,917	356,893
	<u>\$ 8,431,311</u>	<u>\$ 4,731,630</u>

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Knoxville Utilities Board Water Division

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6. Long-Term Obligations

Long-term debt consists of the following:

		Balance				Balance	Amounts
		June 30,				June 30,	Due
		2024	Additions	Payments	Defeased	2025	Within
							One Year
Water							
BB-2015 - 2.0 - 5.0%	\$	15,915,000	\$ -	\$ 1,170,000	\$ -	\$ 14,745,000	\$ 1,210,000
CC-2015 - 2.0 - 4.0%		1,075,000	-	525,000	-	550,000	550,000
DD-2016 - 3.0 - 5.0%		20,825,000	-	675,000	-	20,150,000	700,000
EE-2016 - 2.0 - 5.0%		14,490,000	-	1,435,000	-	13,055,000	1,460,000
FF-2017 - 3.0 - 5.0%		1,815,000	-	575,000	-	1,240,000	605,000
GG-2017 - 2.125 - 5.0%		17,225,000	-	505,000	-	16,720,000	530,000
HH-2018 - 3.0 - 5.0%		17,415,000	-	465,000	-	16,950,000	485,000
II-2019 - 3.0 - 5.0%		18,030,000	-	440,000	-	17,590,000	465,000
JJ-2020 - 3.0 - 5.0%		17,505,000	-	450,000	-	17,055,000	460,000
KK-2020 - 3.0 - 5.0%		8,295,000	-	195,000	-	8,100,000	205,000
LL-2021 - 4.0 - 5.0%		29,385,000	-	1,350,000	-	28,035,000	1,400,000
MM-2022 - 3.0 - 5.0%		14,815,000	-	-	-	14,815,000	-
NN-2023 - 4.0 - 5.0%		19,745,000	-	335,000	-	19,410,000	350,000
OO-2024 - 4.0 - 5.0%		-	19,995,000	-	-	19,995,000	330,000
Total bonds	\$	<u>196,535,000</u>	\$ <u>19,995,000</u>	\$ <u>8,120,000</u>	\$ <u>-</u>	\$ <u>208,410,000</u>	\$ <u>8,750,000</u>
Unamortized Premium		<u>13,996,203</u>	<u>754,810</u>	<u>835,481</u>	<u>-</u>	<u>13,915,532</u>	<u>-</u>
Total long term debt	\$	<u><u>210,531,203</u></u>	\$ <u><u>20,749,810</u></u>	\$ <u><u>8,955,481</u></u>	\$ <u><u>-</u></u>	\$ <u><u>222,325,532</u></u>	\$ <u><u>8,750,000</u></u>

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Notes to Financial Statements

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	Balance June 30, 2023	Additions	Payments	Defeased	Balance June 30, 2024	Amounts Due Within One Year
Water						
BB-2015 - 2.0 - 5.0%	\$ 17,025,000	\$ -	\$ 1,110,000	\$ -	\$ 15,915,000	\$ 1,170,000
CC-2015 - 2.0 - 4.0%	1,575,000	-	500,000	-	1,075,000	525,000
DD-2016 - 3.0 - 5.0%	21,475,000	-	650,000	-	20,825,000	675,000
EE-2016 - 2.0 - 5.0%	15,870,000	-	1,380,000	-	14,490,000	1,435,000
FF-2017 - 3.0 - 5.0%	2,365,000	-	550,000	-	1,815,000	575,000
GG-2017 - 2.125 - 5.0%	17,710,000	-	485,000	-	17,225,000	505,000
HH-2018 - 3.0 - 5.0%	17,855,000	-	440,000	-	17,415,000	465,000
II-2019 - 3.0 - 5.0%	18,450,000	-	420,000	-	18,030,000	440,000
JJ-2020 - 3.0 - 5.0%	17,950,000	-	445,000	-	17,505,000	450,000
KK-2020 - 3.0 - 5.0%	8,485,000	-	190,000	-	8,295,000	195,000
LL-2021 - 4.0 - 5.0%	30,690,000	-	1,305,000	-	29,385,000	1,350,000
MM-2022 - 3.0 - 5.0%	14,815,000	-	-	-	14,815,000	-
NN-2023 - 4.0 - 5.0%	-	19,995,000	250,000	-	19,745,000	335,000
Total bonds	\$ 184,265,000	\$ 19,995,000	\$ 7,725,000	\$ -	\$ 196,535,000	\$ 8,120,000
Unamortized Premium	14,439,030	365,073	807,900	-	13,996,203	-
Total long term debt	\$ 198,704,030	\$ 20,360,073	\$ 8,532,900	\$ -	\$ 210,531,203	\$ 8,120,000

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

Fiscal Year	Principal	Total Interest	Grand Total
2026	\$ 8,750,000	\$ 7,510,757	\$ 16,260,757
2027	9,025,000	7,176,644	16,201,644
2028	9,390,000	6,815,918	16,205,918
2029	9,750,000	6,454,350	16,204,350
2030	10,110,000	6,076,948	16,186,948
2031 - 2035	48,330,000	24,865,717	73,195,717
2036 - 2040	44,170,000	17,227,022	61,397,022
2041 - 2045	39,370,000	9,698,633	49,068,633
2046 - 2050	21,750,000	3,673,151	25,423,151
2051 - 2054	7,765,000	747,807	8,512,807
Total	\$ 208,410,000	\$ 90,246,947	\$ 298,656,947

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, 2025, these bond covenants had been satisfied.

The Division's outstanding bonds payable contain provisions that in an event of default, outstanding amounts are to become immediately due if the Division is unable to make payment.

During fiscal year 2025, KUB's Water Division issued Series OO 2024 bonds to fund water system capital improvements.

During fiscal year 2024, KUB's Water Division issued Series NN 2023 bonds to fund water system capital improvements.

Knoxville Utilities Board Water Division
Notes to Financial Statements
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Other liabilities consist of the following:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
Accrued compensated absences	\$ 662,783	\$ 1,901,884	\$ (1,856,190)	\$ 708,477
Customer advances for construction	150,121	33,835	-	183,956
Other	36,179	79,790	(71,143)	44,826
	<u>\$ 849,083</u>	<u>\$ 2,015,509</u>	<u>\$ (1,927,333)</u>	<u>\$ 937,259</u>

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Accrued compensated absences	\$ 660,687	\$ 1,092,163	\$ (1,090,067)	\$ 662,783
Customer advances for construction	117,395	32,726	-	150,121
Other	23,216	42,779	(29,816)	36,179
	<u>\$ 801,298</u>	<u>\$ 1,167,668</u>	<u>\$ (1,119,883)</u>	<u>\$ 849,083</u>

7. Lease Receivables

KUB, as lessor, leases office space under non-cancelable lease arrangements. Terms of the leases range from one to fourteen years and contain fixed payment terms. Certain leases contain an option to renew that has been considered in the lease receivable when the lessee is reasonably certain to exercise the renewal option. KUB recognized lease revenue, which is included in other operating revenues, of \$133,507 in 2025 and \$122,775 in 2024. KUB also recognized interest income from leases, which is included in non-operating revenues, totaling \$42,446 in 2025 and \$40,115 in 2024. Total lease receivables were \$1,175,704 (\$106,061 current) and \$1,195,969 (\$104,244 current) as of June 30, 2025, and 2024, respectively, and are included in other assets on the Statement of Net Position.

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Knoxville Utilities Board Water Division
Notes to Financial Statements
June 30, 2025 and 2024

8. Lease Liabilities

Changes in lease liabilities are summarized as follows:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
Total lease liabilities	\$ 46,664	\$ -	\$ (13,395)	\$ 33,269
Less current portion	(12,365)			(10,455)
Long-term portion	<u>\$ 34,299</u>			<u>\$ 22,814</u>

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Total lease liabilities	\$ 59,414	\$ -	\$ (12,750)	\$ 46,664
Less current portion	(12,750)			(12,365)
Long-term portion	<u>\$ 46,664</u>			<u>\$ 34,299</u>

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

Maturities and future interest requirements related to the balances of lease liabilities outstanding as of June 30, 2025, are summarized as follows:

	Lease Maturities	Interest Requirements
2026	\$ 10,455	\$ 1,234
2027	7,045	805
2028	581	679
2029	622	676
2030	666	671
2031-2035	4,112	3,201
2036-2040	5,791	2,687
2041-2043	3,997	1,058
	<u>\$ 33,269</u>	<u>\$ 11,011</u>

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Knoxville Utilities Board Water Division
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9. Subscription-Based Information Technology Agreement Liabilities

Changes in SBITA liabilities are summarized as follows:

	Balance June 30, 2024		Increase		Decrease		Balance June 30, 2025
Total SBITA liabilities	\$ 445,982	\$	-	\$	(141,958)	\$	304,024
Less current portion	<u>(142,047)</u>						<u>(147,328)</u>
Long-term portion	<u>\$ 303,935</u>					\$	<u>156,696</u>

	Balance June 30, 2023		Increase		Decrease		Balance June 30, 2024
Total SBITA liabilities	\$ 791,855	\$	-	\$	(345,873)	\$	445,982
Less current portion	<u>(180,818)</u>						<u>(142,047)</u>
Long-term portion	<u>\$ 611,037</u>					\$	<u>303,935</u>

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

Maturities and future interest requirements related to the balances of SBITA liabilities outstanding as of June 30, 2025, are summarized as follows:

	Subscription Maturities		Interest Requirements
2026	\$ 147,328	\$	10,191
2027	76,261		4,619
2028	<u>80,435</u>		<u>1,577</u>
	<u>\$ 304,024</u>	\$	<u>16,387</u>

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Knoxville Utilities Board Water Division

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10. Capital and Intangible Assets

Capital and intangible asset activity was as follows:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
Production Plant	\$ 727,863	\$ -	\$ -	\$ 727,863
Pumping & Treatment Plant	113,779,421	748,784	(108,729)	114,419,476
Distribution Plant				
Distribution Mains	241,632,248	11,787,978	(82,531)	253,337,695
Transmission Mains	50,935,372	281,127	-	51,216,499
Services & Meters	52,206,924	1,340,473	(1,290,703)	52,256,694
Other Accounts	29,758,627	643,905	(41,453)	30,361,079
Total Distribution Plant	<u>\$ 374,533,171</u>	<u>\$ 14,053,483</u>	<u>\$ (1,414,687)</u>	<u>\$ 387,171,967</u>
Total General Plant	<u>38,909,783</u>	<u>3,370,095</u>	<u>(2,282,734)</u>	<u>39,997,144</u>
Total Water Plant	<u>\$ 527,950,238</u>	<u>\$ 18,172,362</u>	<u>\$ (3,806,150)</u>	<u>\$ 542,316,450</u>
Less Accumulated Depreciation	<u>(162,334,691)</u>	<u>(13,546,070)</u>	<u>3,914,001</u>	<u>(171,966,760)</u>
Net Plant Assets	<u>\$ 365,615,547</u>	<u>\$ 4,626,292</u>	<u>\$ 107,851</u>	<u>\$ 370,349,690</u>
Work In Progress	<u>42,290,267</u>	<u>53,479,051</u>	<u>(18,152,116)</u>	<u>77,617,202</u>
Total Net Plant	<u>\$ 407,905,814</u>	<u>\$ 58,105,343</u>	<u>\$ (18,044,265)</u>	<u>\$ 447,966,892</u>
Intangible Right of Use Assets				
Office space	\$ 42,315	\$ -	\$ -	\$ 42,315
Equipment	11,445	880	-	12,325
Other	17,875	-	-	17,875
Total Intangible Right of Use Assets	<u>\$ 71,635</u>	<u>\$ 880</u>	<u>\$ -</u>	<u>\$ 72,515</u>
Less Accumulated Amortization	<u>(26,733)</u>	<u>(13,482)</u>	<u>-</u>	<u>(40,215)</u>
Net Intangible Right of Use Assets	<u>\$ 44,902</u>	<u>\$ (12,602)</u>	<u>\$ -</u>	<u>\$ 32,300</u>
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 864,755	\$ -	\$ (26,290)	\$ 838,465
Less Accumulated Amortization	<u>(404,433)</u>	<u>(127,902)</u>	<u>26,290</u>	<u>(506,045)</u>
Net Intangible Subscription Assets	<u>\$ 460,322</u>	<u>\$ (127,902)</u>	<u>\$ -</u>	<u>\$ 332,420</u>

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Knoxville Utilities Board Water Division

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	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Production Plant	\$ 727,863	\$ -	\$ -	\$ 727,863
Pumping & Treatment Plant	110,101,620	3,915,838	(238,037)	113,779,421
Distribution Plant				
Distribution Mains	233,568,350	9,234,262	(1,170,364)	241,632,248
Transmission Mains	47,706,941	3,228,431	-	50,935,372
Services & Meters	50,878,581	1,399,588	(71,245)	52,206,924
Other Accounts	28,990,928	796,772	(29,073)	29,758,627
Total Distribution Plant	\$ 361,144,800	\$ 14,659,053	\$ (1,270,682)	\$ 374,533,171
Total General Plant	39,248,894	2,814,639	(3,153,750)	38,909,783
Total Water Plant	\$ 511,223,177	\$ 21,389,530	\$ (4,662,469)	\$ 527,950,238
Less Accumulated Depreciation	(154,459,484)	(12,690,166)	4,814,959	(162,334,691)
Net Plant Assets	\$ 356,763,693	\$ 8,699,364	\$ 152,490	\$ 365,615,547
Work In Progress	30,734,129	32,360,377	(20,804,239)	42,290,267
Total Net Plant	\$ 387,497,822	\$ 41,059,741	\$ (20,651,749)	\$ 407,905,814
Intangible Right of Use Assets				
Office space	\$ 42,315	\$ -	\$ -	\$ 42,315
Equipment	17,290	-	(5,845)	11,445
Other	17,875	-	-	17,875
Total Intangible Right of Use Assets	\$ 77,480	\$ -	\$ (5,845)	\$ 71,635
Less Accumulated Amortization	(19,121)	(13,457)	5,845	(26,733)
Net Intangible Right of Use Assets	\$ 58,359	\$ (13,457)	\$ -	\$ 44,902
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 1,133,065	\$ -	\$ (268,310)	\$ 864,755
Less Accumulated Amortization	(340,602)	(63,831)	-	(404,433)
Net Intangible Subscription Assets	\$ 792,463	\$ (63,831)	\$ (268,310)	\$ 460,322

11. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. As of June 30, 2025, and June 30, 2024, the amount of these liabilities was \$424,917 and \$356,893, respectively, resulting from the following changes:

	2025	2024
Balance, beginning of year	\$ 356,893	\$ 336,909
Current year claims and changes in estimates	2,810,878	2,654,062
Claims payments	(2,742,854)	(2,634,078)
Balance, end of year	\$ 424,917	\$ 356,893

Knoxville Utilities Board Water Division

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12. Pension Plan

Description of Plan

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

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

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

	2024	2023
Inactive plan members:		
Terminated vested participants	10	9
Retirees and beneficiaries	589	602
Active plan members	<u>359</u>	<u>389</u>
Total	<u>958</u>	<u>1,000</u>

Retirement Benefits

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

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

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

Knoxville Utilities Board Water Division

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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, 2024:

Asset Class	Target Allocation
Domestic equity – large cap	20% - 50%
Domestic equity – small/mid cap	0% - 30%
Multi-asset credit	0% - 20%
Non-U.S. equity	0% - 20%
U.S. core real estate	0% - 10%
Fixed income	20% - 40%
Cash and deposits	0% - 5%

Contributions of \$2,210,234 and \$1,108,147 for 2023 and 2022, respectively, were made during the Plan sponsor’s fiscal years ended June 30, 2025, and 2024, respectively. Of these amounts, \$396,996 and \$193,559 are attributable to the Water Division. The fiscal year 2025 contribution was determined as part of the January 1, 2023, 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.

Knoxville Utilities Board Water Division

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Net Pension Liability (Asset)

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, will be based on the December 31, 2024, and 2023, measurement date, respectively. The net pension liability is \$3,054,172 (Division's share \$548,581) as of June 30, 2025, and \$7,452,380 (Division's share \$1,324,191) as of June 30, 2024.

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

	2024	2023
Total pension liability	\$ 274,028,893	\$ 263,351,035
Plan fiduciary net position	(270,974,721)	(255,898,655)
Plan's net pension liability	<u>\$ 3,054,172</u>	<u>\$ 7,452,380</u>

Plan fiduciary net position as a percentage of the total pension liability	98.89%	97.17%
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Changes in Net Pension Liability (Asset) are as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2023	\$ 263,351,035	\$ 255,898,655	\$ 7,452,380
Changes for the year:			
Service cost	7,764,986	-	7,764,986
Interest	18,573,527	-	18,573,527
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	2,346,811	-	2,346,811
Changes of Assumptions	1,425,345	-	1,425,345
Contributions - employer	-	1,659,187	(1,659,187)
Contributions - rollovers	-	75	(75)
Contributions - member	-	4,971,073	(4,971,073)
Net investment income	-	28,541,389	(28,541,389)
Benefit payments	(19,432,811)	(19,432,811)	-
Administrative expense	-	(662,847)	662,847
Net changes	<u>10,677,858</u>	<u>15,076,066</u>	<u>(4,398,208)</u>
Balances at December 31, 2024	<u>\$ 274,028,893</u>	<u>\$ 270,974,721</u>	<u>\$ 3,054,172</u>

Knoxville Utilities Board Water Division

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Actuarial Assumptions

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

Valuation dates	January 1, 2024, rolled forward to December 31, 2024; January 1, 2023, rolled forward to December 31, 2023
Discount rate	7.00% as of December 31, 2024 and 2023
Salary increases	From 2.50% to 8.50%, based on years of service as of December 31, 2024 and from 2.50% to 5.65% as of December 31, 2023
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 MP-2021, fully generational as of December 31, 2024; Scale MP-2018 was used as of December 31, 2023
Inflation	2.5% as of December 31, 2024 and 2023

The actuarial assumptions used in the January 1, 2024, valuation was based on an actuarial experience study covering January 1, 2019 through December 31, 2023, and the assumptions used in the January 1, 2023 valuation were based on an actuarial experience study covering the period January 1, 2014 through December 31, 2018.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2024, and 2023, are summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. Prior to February 22, 2024, the Plan had both aggregate and long duration fixed income. As of December 31, 2024, the Plan has only aggregate fixed income. Effective September 30, 2024 the REIT fund was transferred to a U.S. core real estate fund.

Asset Class	Long Term Expected Real Rate of Return	
	2024	2023
Domestic equity	6.0%	5.6%
Non-U.S. equity	6.5%	6.5%
Real estate equity	n/a	5.8%
Real estate U.S. core	5.1%	n/a
Debt securities	2.5%	1.9%
Cash and deposits	1.2%	0.7%

Discount rate

The discount rate used to measure the total pension liability was 7.00 percent as of December 31, 2024, and December 31, 2023. 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

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expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability of the Plan as of December 31, 2024, calculated using the discount rate of 7.00 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 (6.00 percent) or one percent higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Plan's net pension liability	\$ 29,141,576	\$ 3,054,172	\$ (19,335,531)

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

For the year ended June 30, 2025, KUB recognized pension expense of \$10,401,958, and the Water Division's share was \$1,630,916.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2023, this average was three years. During the measurement year, there was a liability experience loss of \$2,346,811, with \$782,270 of that recognized in the current year and each of the next two years, resulting in a deferred outflow of \$1,564,541. Unrecognized liability experience losses from prior periods were \$2,580,215, of which \$1,463,476 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,116,739. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,681,280 (Division's share \$481,604).

During the measurement year, there was an assumption change loss of \$1,425,345 with \$475,115 of that recognized in the current year and each of the next two years, resulting in a deferred outflow of \$950,230. Net unrecognized assumption change losses from prior periods were \$2,634,336, of which \$1,317,168 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$1,317,168. The combination of unrecognized assumption change losses this year, along with unrecognized assumption change losses from prior periods, results in a deferred outflow of \$2,267,398 (Division's share \$407,263).

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 \$11,091,799, of which \$2,218,360 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$22,505,337, of which \$4,001,667 was recognized as an increase in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with net unrecognized investment losses from prior periods, results in a deferred outflow of \$9,630,231 (Division's share \$1,729,753).

The impact of the change in proportionate share for the Water Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is three years. This change resulted in a deferred inflow of \$39,116, with \$13,039 of that recognized in the current year and the remaining amount recognized over the next two years, resulting in a deferred inflow of resources of \$26,077. Net proportionate share changes from prior periods were \$326,605, of which \$224,413 was recognized in the current year, resulting in a

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deferred inflow of resources of \$102,192. In addition, KUB's Water Division recorded a deferred outflow of resources of \$198,498 for employer contributions made between December 31, 2024 and June 30, 2025.

The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Water Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 481,604	\$ -
Changes in assumptions	407,263	-
Net difference between projected and actual earnings on pension plan investments	1,729,753	-
Change in proportionate share	-	128,269
Contributions subsequent to measurement date	198,498	-
Total	<u>\$ 2,817,118</u>	<u>\$ 128,269</u>

\$198,498 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, 2026. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:		
2026	\$	1,776,953
2027		2,232,346
2028		(1,120,493)
2029		(398,455)
2030		-
Thereafter		-

For the year ended June 30, 2024, KUB recognized pension expense of \$6,394,757, and the Water Division's share was \$911,853.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2022, this average was four years. During the measurement year, there was a liability experience loss of \$2,092,475, with \$523,119 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$1,569,356. Unrecognized liability experience losses from prior periods were \$1,951,216, of which \$940,357 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,010,859. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,580,215 (Division's share \$458,470). Unrecognized liability gains from prior periods were \$210,825, of which \$210,825 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$0.

During the measurement year, there were no benefit changes or assumption changes. Net unrecognized assumption change losses from prior periods were \$5,646,136, of which \$3,011,800

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was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$2,634,336 (Division's share \$468,087).

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 \$20,099,370, of which \$4,019,874 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 \$39,628,509, of which \$1,043,676 was recognized as an increase in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with net unrecognized investment losses from prior periods, results in a deferred outflow of \$22,505,337 (Division's share \$3,998,906).

The impact of the change in proportionate share for the Water Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is four years. This change resulted in a deferred inflow of \$74,845, with \$18,712 of that recognized in the current year and the remaining amount recognized over the next three years, resulting in a deferred inflow of resources of \$56,133. Net proportionate share changes from prior periods were \$476,174, of which \$205,702 was recognized in the current year, resulting in a deferred inflow of resources of \$270,472. In addition, KUB's Water Division recorded a deferred outflow of resources of \$98,451 for employer contributions made between December 31, 2023, and June 30, 2024.

The table below summarizes the current balances of deferred outflows and deferred inflows of resources of the Water Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 458,470	\$ -
Changes in assumptions	468,087	-
Net difference between projected and actual earnings on pension plan investments	3,998,906	-
Change in proportionate share	-	326,605
Contributions subsequent to measurement date	98,451	-
Total	<u>\$ 5,023,914</u>	<u>\$ 326,605</u>

13. Qualified Excess Benefit Arrangement

Description

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

As of June 30, 2025, there are 341 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. The KUB Pension Plan was closed effective January

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

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, 2025, and 2024, are based on a December 31, 2024, and 2023, measurement date, respectively. The total pension liability of the QEBA is \$21,226 (Division's share \$2,972) as of June 30, 2025, and \$0 as of June 30, 2024.

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

	2024	2023
Total pension liability	\$21,226	\$0
Deferred outflows	(14,151)	(2,051)
Deferred inflows	-	1,704
Net impact on Statement of Net Position	<u>\$7,075</u>	<u>(\$347)</u>
Covered payroll	\$34,776,504	\$35,604,464
Total pension liability as a % of covered payroll	0.06%	0.00%

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

	Increase (Decrease)
	Total Pension Liability
Balances at December 31, 2023	\$ -
Changes for the year:	
Service cost	-
Interest	-
Changes of Benefits	-
Differences between Expected and Actual Experience	21,226
Changes of Assumptions	-
Benefit payments	-
Net changes	<u>21,226</u>
Balances at December 31, 2024	<u>\$ 21,226</u>

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Actuarial Assumptions

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

Valuation dates	January 1, 2024, rolled forward to December 31, 2024
Actuarial cost method	Individual entry age
Discount rate	4.08% at January 1, 2024
Salary increases	From 2.50% to 8.50%, based on years of service
Mortality	115% and 110% of the PubG-2010 table for males and females, respectively, using the benefits-weighted Public Sector General Healthy Annuitant Mortality Table for ages 50 and older and the benefits-weighted Public Sector General Employee Table for ages under 50, both projected from the 2010 base rates using scale MP-2021, fully generational as of December 31, 2024
Inflation	2.50%

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 4.08% at December 31, 2024.

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, 2024, calculated using the discount rate of 4.08 percent, as well as what the QEBA's liability would be if it were calculated using a discount rate that is one percent lower (3.08 percent) or one percent higher (5.08 percent) than the current rate.

	1% Decrease (3.08%)	Current Discount Rate (4.08%)	1% Increase (5.08%)
QEBA's total pension liability	\$ 24,131	\$ 21,226	\$ 18,639

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

For the year ended June 30, 2025, KUB recognized pension expense of \$7,422 (Division's share \$1,036) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [\$7,075 - (\$347)+ \$-].

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, 2023, this average was three years.

During the measurement year, there was an experience loss of \$21,226 with \$7,075 recognized in the current year and the remaining deferred outflow of \$14,151 (Division's share \$1,981) to be recognized over the next two years. Unrecognized experience losses from prior periods were \$2,033, with the full amount recognized as an increase in pension expense in the current year. Unrecognized experience gains from prior periods were \$1,704, with the full amount recognized as a decrease in pension expense in the current year.

Unrecognized assumption change losses from prior periods were \$19, with the full amount recognized as an increase in pension expense in the current year.

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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	\$ 14,151	\$ -
Changes in assumptions	-	-
Total	<u>\$ 14,151</u>	<u>\$ -</u>
Division's share	<u>\$ 1,981</u>	<u>\$ -</u>

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

Year ended June 30:

2026	\$ 7,075
2027	7,076
2028	-
2029	-
2030	-
Thereafter	-

For the year ended June 30, 2024, KUB recognized pension expense of \$3,024 (Division's share \$393) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [(\$347) – (\$3,371) + \$-].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2020, this average was four years. There was a deferred inflow at the end of the measurement year of \$1,717 (Division's share \$222) from experience gains in prior years and a deferred outflow of \$2,033 (Division's share \$264) from experience losses in prior years.

There was a deferred outflow of \$18 (Division's share \$3) from assumption changes in prior years.

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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	\$ 2,033	\$ 1,717
Changes in assumptions	18	-
Total	<u>\$ 2,051</u>	<u>\$ 1,717</u>
Division's share	<u>\$ 267</u>	<u>\$ 222</u>

14. Defined Contribution Plan

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

KUB funded 401(k) matching contributions and non-elective contributions of \$4,799,996 (Division's share \$672,000) and \$3,909,598 (Division's share \$508,248), respectively, for the years ended June 30, 2025, and 2024.

Vesting

Participants are immediately vested in their own contributions to the Plan, plus actual earnings on these contributions. Participants become 100% vested and entitled to the full value of their account, less any loans outstanding, upon death or disability or upon retirement after attaining their normal retirement age (first of the month coinciding with or following attainment of age 62).

Otherwise, vesting in the KUB matching contribution and non-elective contribution (as applicable) portion of their account plus related earnings are based on years of service and date of hire, as follows:

Participants hired prior to January 1, 2011 are 100% vested in the KUB matching contribution portion of their account.

Participants hired by KUB after December 31, 2010 are vested in the KUB matching and non-elective contribution portion of their account as follows:

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<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 2 years	0%
2	20%
3	40%
4	60%
5	80%
6 or more	100%

Forfeitures

Forfeitures are created when participants terminate employment before becoming entitled to their full benefits under the Plan. Upon forfeiture, the match and non-elective funds become available to offset Plan expenses. The Plan experienced forfeitures of \$243,630 during calendar year 2024 and \$306,016 during calendar year 2023. Forfeitures of \$271,595 and \$295,955 were used to reduce employer contributions in 2024 and 2023, respectively. The ending balance of forfeited assets in the Plan, including contributions and dividends, totaled \$10,862 and \$37,985 as of December 31, 2024 and 2023, respectively.

15. Other Post-Employment Benefits (OPEB)

Description of Trust

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

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

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

	HRA		Retiree Medical Benefit	
	2025	2024	2025	2024
Retirees	16	9	707	722
Dependents of retirees	16	7	385	401
Eligible active employees	1,109	1,127	128	144
Total	1,141	1,143	1,220	1,267

Benefits

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

Contributions and Funding

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

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

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

Based on the date of retirement, certain retired members are required to contribute specified amounts monthly to maintain health insurance. Those who retired prior to July 1983 have no required monthly premiums for themselves or dependents. The retirees, or their surviving dependents, who retired between August 1983 and January 1998 are required to pay \$275 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 \$275 for single coverage and \$550 for family coverage. There is currently no premium for Medicare eligible retirees or dependents. KUB is responsible for determining the level of retired plan member contributions on an annual basis as part of its review of healthcare cost sharing.

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

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2025 and 2024

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, 2025:

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%

Actuarially determined contributions for the Water Division of \$214,738 and \$205,029 were made to the OPEB Trust in fiscal years ended June 30, 2025 and 2024, respectively. These were based on the OPEB actuarial valuations as of January 1, 2023, and 2022.

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, 2025, and 2024, and the Total OPEB Liability as of the valuation date, January 1, 2024, updated to June 30, 2025, and January 1, 2023, updated to June 30, 2024, respectively. The Division's share of the total net OPEB liability was \$891,811 as of June 30, 2025, and \$1,617,952 as of June 30, 2024.

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

	2025	2024
Total OPEB liability	\$ 60,675,101	\$ 61,042,928
Plan fiduciary net position	55,359,297	51,669,855
Net OPEB liability	\$ 5,315,804	\$ 9,373,073
Plan fiduciary net position as a percentage of the total OPEB liability	91.24%	84.65%

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2025 and 2024

Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2024	\$ 61,042,928	\$ 51,669,855	\$ 9,373,073
Changes for the year:			
Service cost	506,802	-	506,802
Interest	4,176,096	-	4,176,096
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	(154,501)	-	(154,501)
Changes of Assumptions	(1,302,021)	-	(1,302,021)
Contributions - employer	-	1,279,985	(1,279,985)
Contributions - member	-	-	-
Net investment income	-	6,084,906	(6,084,906)
Benefit payments	(3,594,203)	(3,594,203)	-
Administrative expense	-	(81,246)	81,246
Net changes	(367,827)	3,689,442	(4,057,269)
Balances at June 30, 2025	\$ 60,675,101	\$ 55,359,297	\$ 5,315,804

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, 2024, rolled forward to June 30, 2025; January 1, 2023, rolled forward to June 30, 2024
Discount rate:	7.00% as of June 30, 2025 and June 30, 2024
Healthcare cost trend rates:	<i>Pre-Medicare:</i> 8.00% grading down to 3.935% over 20 years as of June 30, 2025; 5.75% grading down to 3.935% over 20 years as of June 30, 2024 <i>Medicare:</i> 6.00% grading down to 3.935% over 20 years as of June 30, 2025; 11.30% grading down to 3.935% over 20 years as of June 30, 2024 <i>Administrative expenses:</i> 3.0% per year
Salary increases:	From 2.50% to 8.50%
Mortality:	115% and 110% of the benefits-weighted Public Sector General Healthy Annuitant Mortality Table (PubG-2010) respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Healthy Annuitant Mortality Table, both projected using scale MP-2021 fully generational
Inflation:	2.50%

The actuarial assumptions used in the January 1, 2024 valuation were based on the results of an actuarial experience study for the period January 1, 2019 through December 31, 2023. The

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2025 and 2024

January 1, 2023 valuation assumptions were based on the results of actuarial experience study for the periods January 1, 2014, through December 31, 2018.

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

Asset Class	Long Term Expected Real Rate of Return	
	2025	2024
Domestic equity	6.0%	5.4%
International equity	6.4%	6.1%
Emerging Market equity	7.3%	7.8%
Real estate equity	6.3%	5.5%
Debt securities	2.4%	2.3%
Cash and deposits	0.9%	0.9%

Discount rate

The discount rate used to measure the total OPEB liability was 7.00 percent as of June 30, 2025 and June 30, 2024. 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, 2025, calculated using the discount rate of 7.00 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is one percent lower (6.00 percent) or one percent higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB liability	\$10,974,569	\$5,315,804	\$512,532

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2025 and 2024

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, 2025, as well as what the Trust's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percent lower or one percent higher than the current rate:

	1% Decrease	Baseline Trends	1% Increase
Net OPEB liability	\$435,302	\$5,315,804	\$10,948,243

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

For the year ended June 30, 2025, KUB's Water Division recognized OPEB expense of \$92,651.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience gain of \$154,501, with \$22,072 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$132,429 (Division's share \$22,217). Unrecognized experience losses from prior periods were \$587,407, of which \$100,703 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of resources of \$486,704 (Division's share \$81,652).

During the measurement year, there were no benefit changes.

During the measurement year, there was an assumption change gain of \$1,302,021, with \$186,003 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$1,116,018. Unrecognized assumption change gains from prior period were \$1,801,872, of which \$300,312 was recognized as a decrease in OPEB expense in the current year and resulted in a deferred inflow of resources of \$1,501,560. The combination of unrecognized assumption change gains this year, along with unrecognized assumption change gains from prior periods, results in a deferred inflow of resources of \$2,617,578 (Division's share \$439,141). Unrecognized assumption losses from prior periods were \$1,805,588, of which \$361,118 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of \$1,444,470 (Division's share \$242,333).

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 \$2,550,439, of which \$510,088 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$2,040,351. Net unrecognized investment losses from prior periods were \$496,150, of which \$140,457 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$636,607. The combination of unrecognized gains and losses from the current year and prior periods results in a deferred inflow of resources of \$1,403,744 (Division's share \$235,500).

The impact of the change in proportionate share for the Water Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is seven years. This change resulted in a deferred inflow of \$40,195, with \$5,742 of that recognized in the current year and the remaining amount recognized over the next six years, resulting in a deferred inflow of resources of \$34,453. Net proportionate share changes from prior periods were \$54,190, with \$9,046 of that recognized in the current year resulting in a deferred

Knoxville Utilities Board Water Division
Notes to Financial Statements
June 30, 2025 and 2024

outflow of resources of \$45,144. The table below summarizes the current balances of deferred outflows and deferred inflows of resources for the Water Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 81,652	\$ 22,217
Changes in assumptions	242,333	439,141
Net difference between projected and actual earnings on OPEB plan investments	-	235,500
Change in proportionate share	45,144	34,453
Total	<u>\$ 369,129</u>	<u>\$ 731,311</u>

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

Year ended June 30:	
2026	\$ 207,517
2027	(202,382)
2028	(168,585)
2029	(90,087)
2030	(67,995)
Thereafter	(40,650)

For the year ended June 30, 2024, KUB's Water Division recognized OPEB expense of \$358,007.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience loss of \$587,252, with \$83,893 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$503,359. Unrecognized experience losses from prior periods were \$100,858, of which \$16,810 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of resources of \$84,048. The combination of unrecognized experience gains or losses results in a deferred outflow of resources of \$587,407 (Division's share \$101,397).

During the measurement year, there was a benefit change gain of \$164,746. The entire amount was recognized as a decrease in OPEB expense in the current year.

During the measurement year, there was an assumption change gain of \$2,102,184, with \$300,312 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$1,801,872 (Division's share \$311,034). Unrecognized assumption losses from prior periods were \$2,166,706, of which \$361,118 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of \$1,805,588 (Division's share \$311,675).

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 \$2,339,599, of which \$467,920 was recognized in the current year and will be recognized in each of the next four years, resulting in a

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2025 and 2024

deferred inflow of resources of \$1,871,679. Net unrecognized investment losses from prior periods were \$3,211,114, of which \$843,284 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$2,367,829. The combination of unrecognized gains and losses from the current year and prior periods results in a deferred outflow of resources of \$496,150 (Division's share \$85,644).

The impact of the change in proportionate share for the Water Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is seven years. This change resulted in a deferred outflow of \$62,723, with \$8,960 of that recognized in the current year and the remaining amount recognized over the next six years, resulting in a deferred outflow of resources of \$53,763. Net proportionate share changes from prior periods were \$513, with \$86 of that recognized in the current year resulting in a deferred outflow of resources of \$427. The table below summarizes the current balances of deferred outflows and deferred inflows of resources for the Water Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 101,397	\$ -
Changes in assumptions	311,675	311,034
Net difference between projected and actual earnings on OPEB plan investments	85,644	-
Change in proportionate share	54,190	-
Total	<u>\$ 552,906</u>	<u>\$ 311,034</u>

16. 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, 2025, and 2024, are summarized as follows:

	2025	2024
City of Knoxville		
Amounts billed by the Division for utilities and related services	\$ 6,102,680	\$ 5,743,179
Payments by the Division in lieu of property tax	2,777,013	3,629,904
Payments by the Division for services provided	12,853	360,977
Grant expenditures incurred	-	7,581,000
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	583,337	605,627
Interdivisional rental expense	460,382	490,554
Interdivisional rental income	240,269	214,872
Amounts billed to the Division by other divisions for utilities services provided	4,180,334	3,738,234

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2025 and 2024

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

	2025	2024
Accounts receivable	\$ 475,454	\$ 476,778
Amounts eligible for reimbursement from grants	-	5,518,000

17. Other Commitments and Contingencies

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

Knoxville Utilities Board Water Division

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

June 30, 2025

	Year ended December 31									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability										
Service cost	\$ 7,764,986	\$ 8,221,181	\$ 6,349,402	\$ 6,647,220	\$ 5,227,657	\$ 6,142,213	\$ 5,095,488	\$ 4,607,486	\$ 4,226,985	\$ 4,157,062
Interest	18,573,527	17,868,490	17,430,465	16,982,226	16,393,202	16,030,626	15,344,193	15,015,282	14,966,559	14,812,784
Changes of benefit terms	-	-	-	-	-	163,199	-	-	-	-
Differences between expected and actual experience	2,346,811	2,092,475	282,014	1,935,276	1,930,170	(1,054,117)	(605,649)	(1,087,161)	(2,233,762)	(1,890,334)
Changes of assumptions	1,425,345	-	5,268,672	-	-	8,473,160	-	(357,633)	(2,932,883)	-
Benefit payments, including refunds of member contributions	(19,432,811)	(19,237,834)	(17,125,610)	(17,725,963)	(16,006,565)	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)
Net change in total pension liability	10,677,858	8,944,312	12,204,943	7,838,759	7,544,464	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586
Total pension liability - beginning	263,351,035	254,406,723	242,201,780	234,363,021	226,818,557	212,157,951	207,598,733	204,390,738	204,502,350	202,773,764
Total pension liability - ending (a)	\$ 274,028,893	\$ 263,351,035	\$ 254,406,723	\$ 242,201,780	\$ 234,363,021	\$ 226,818,557	\$ 212,157,951	\$ 207,598,733	\$ 204,390,738	\$ 204,502,350
Plan fiduciary net position										
Contributions - employer	\$ 1,659,187	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887
Contributions - participants	4,971,148	5,752,609	3,812,595	3,939,687	2,284,727	3,170,825	2,081,125	1,488,632	555,075	487,546
Net investment income	28,540,651	35,927,438	(63,493,985)	37,575,566	44,814,914	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)
Other additions	738	4,568	9,415	112,484	7,740	13,579	62,616	82,239	45,848	30,879
Benefit payments, including refunds of member contributions	(19,400,811)	(19,193,834)	(17,065,610)	(17,653,963)	(15,962,565)	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)
Administrative expense	(662,847)	(602,078)	(498,988)	(441,017)	(455,191)	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)
Death benefits	(32,000)	(44,000)	(60,000)	(72,000)	(44,000)	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)
Net change in plan fiduciary net position**	15,076,066	23,710,964	(74,151,803)	26,877,185	33,522,377	40,431,737	(21,868,910)	22,862,426	5,052,489	(9,333,204)
Plan fiduciary net position - beginning**	255,898,655	232,187,691	306,339,494	279,462,309	245,939,932	205,508,195	227,377,105	204,514,679	199,462,190	208,795,394
Plan fiduciary net position - ending (b)**	\$ 270,974,721	\$ 255,898,655	\$ 232,187,691	\$ 306,339,494	\$ 279,462,309	\$ 245,939,932	\$ 205,508,195	\$ 227,377,105	\$ 204,514,679	\$ 199,462,190
Plan's net pension liability - ending (a) - (b)	\$ 3,054,172	\$ 7,452,380	\$ 22,219,032	\$ (64,137,714)	\$ (45,099,288)	\$ (19,121,375)	\$ 6,649,756	\$ (19,778,372)	\$ (123,941)	\$ 5,040,160
Plan fiduciary net position as a percentage of the total pension liability	98.89%	97.17%	91.27%	126.48%	119.24%	108.43%	96.87%	109.53%	100.06%	97.54%
Covered payroll	\$ 34,776,504	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743
Plan's net pension liability as a percentage of covered payroll	8.78%	20.93%	59.39%	(168.45%)	(108.61%)	(47.48%)	15.78%	(45.67%)	(0.28%)	11.34%

Notes to Schedule:

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division

Required Supplementary Information – Schedule of Employer Pension Contributions

June 30, 2025

	Year ended December 31									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 1,659,187	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887
Contribution in relation to the actuarially determined contribution	1,659,187	1,866,261	3,144,770	3,416,428	2,876,752	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 34,776,504	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743
Contributions as a percentage of covered payroll	4.77%	5.24%	8.41%	8.97%	6.93%	7.13%	8.20%	9.90%	11.80%	13.48%

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, 2023 and January 1, 2022

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age

Asset valuation method: 5-year smoothed market, adjusted to remain within 20% of the market value

Amortization method: As of January 1, 2023: Level dollar, 30-year closed period with 18 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
As of January 1, 2022: Level dollar, 30-year closed period with 19 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
As of January 1, 2023 and 2022, the unfunded liability was negative.

Discount rate: 7.00% as of January 1, 2023; 7.25% as of January 1, 2022

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

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

Inflation: 2.5%

Please refer to prior year's audited financial statements for prior methods and assumptions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division

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

June 30, 2025

	2025	2024	2023	*Year ended June 30 2022	2021	2020	2019	2018
Total OPEB liability								
Service cost	\$ 506,802	\$ 615,753	\$ 595,392	\$ 416,277	\$ 283,786	\$ 256,270	\$ 270,515	\$ 202,603
Interest	4,176,096	4,256,122	4,133,008	3,858,276	3,861,304	3,672,291	3,624,737	3,295,240
Change of benefit terms	-	(164,746)	-	6,594,293	-	(202,408)	-	-
Differences between expected and actual experience	(154,501)	587,252	117,668	60,951	42,802	43,902	999,098	1,324,769
Changes of assumptions	(1,302,021)	(2,102,184)	2,527,824	-	(4,105,835)	3,604,843	3,231,601	(397,180)
Benefit payments	(3,594,203)	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	(367,827)	(594,174)	3,100,822	7,021,162	(3,029,122)	4,346,302	4,593,507	1,126,693
Total OPEB liability - beginning	61,042,928	61,637,102	58,536,280	51,515,118	54,544,240	50,197,938	45,604,431	44,477,738
Total OPEB liability - ending (a)	\$ 60,675,101	\$ 61,042,928	\$ 61,637,102	\$ 58,536,280	\$ 51,515,118	\$ 54,544,240	\$ 50,197,938	\$ 45,604,431
Plan fiduciary net position								
Contributions - employer	\$ 1,279,985	\$ 1,187,768	\$ 1,413,392	\$ 1,989,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Net investment income	6,084,906	5,656,390	4,333,538	(8,122,417)	12,890,602	975,155	2,981,928	3,705,473
Benefit payments	(3,594,203)	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(81,246)	(94,379)	(101,186)	(71,187)	(44,496)	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	3,689,442	2,963,408	1,372,674	(10,113,173)	10,492,153	(1,795,403)	(605,303)	355,066
Plan fiduciary net position - beginning	51,669,855	48,706,447	47,333,773	57,446,946	46,954,793	48,750,196	49,355,499	49,000,433
Plan fiduciary net position - ending (b)	\$ 55,359,297	\$ 51,669,855	\$ 48,706,447	\$ 47,333,773	\$ 57,446,946	\$ 46,954,793	\$ 48,750,196	\$ 49,355,499
Net OPEB liability (asset) - ending (a) - (b)	\$ 5,315,804	\$ 9,373,073	\$ 12,930,655	\$ 11,202,507	\$ (5,931,828)	\$ 7,589,447	\$ 1,447,742	\$ (3,751,068)
Plan fiduciary net position as a percentage of the total OPEB liability	91.24%	84.65%	79.02%	80.86%	111.51%	86.09%	97.12%	108.23%
Covered employee payroll**	\$ 89,939,256	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	5.91%	11.21%	18.44%	15.15%	(27.49%)	32.48%	5.95%	(15.84%)

Notes to Schedule:

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

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division

Required Supplementary Information – Schedule of Employer OPEB Contributions

June 30, 2025

	2025	2024	2023	*Year ended June 30 2022	2021	2020	2019	2018
Actuarially determined contribution	\$ 1,279,985	\$ 1,187,768	\$ 1,413,392	\$ 489,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Contribution in relation to the annual required contribution	1,279,985	1,187,768	1,413,392	1,989,066	757,226	311,324	-	-
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,500,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll*	\$ 89,939,256	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Contributions as a percentage of covered employee payroll	1.42%	1.42%	2.02%	2.69%	3.51%	1.33%	0.00%	0.00%

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

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

Notes to Schedule:

Valuation Date: January 1, 2023 and January 1, 2022
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: 15-year layered amortization bases for annual changes in the unfunded liabilities as of January 1, 2022 and 2023; 30-year rolling amortization for a funding surplus; As of January 1, 2022 and 2023, there was an unfunded liability
Discount rate: 7.25% and 7.00% as of January 1, 2022 and 2023, respectively
Healthcare cost trend rate: Pre-Medicare: 5.75% in 2022 and 5.70% in 2023 grading down to 3.935% in 2042 and beyond using the Getzen trend model
Medicare: 11.30% in 2022 and 7.40% in 2023 grading down to 3.935% in 2042 and beyond using the Getzen trend model
Administrative expenses: 3.0% per year
Salary increases: From 2.50% to 5.65%, based on years of service
Mortality: 115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational
Inflation: 2.5%
Investment rate of return: 7.25% and 7.00% as of January 1, 2022 and 2023, respectively
Retirement age: 2% at ages 50-57, grading up to 100% at age 70

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2025

	*Year ended December 31								
	2024	2023	2022	2021	2020	2019	2018	2017	2016
Total pension liability									
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 941	\$ 584	\$ -
Interest (includes interest on service cost)	-	-	-	268	388	9,181	9,676	7,535	-
Changes of benefit terms	-	-	-	-	-	(218,272)	-	-	185,077
Differences between expected and actual experience	21,226	-	-	(6,816)	10,165	34	(36,125)	13,684	-
Changes of assumptions	-	-	-	-	91	13,342	(22,950)	73,461	-
Benefit payments, including refunds of member contributions	-	-	-	(12,166)	(12,166)	(15,932)	-	-	-
Net change in total pension liability	<u>21,226</u>	<u>-</u>	<u>-</u>	<u>(18,714)</u>	<u>(1,522)</u>	<u>(211,647)</u>	<u>(48,458)</u>	<u>95,264</u>	<u>185,077</u>
Total pension liability - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,714</u>	<u>20,236</u>	<u>231,883</u>	<u>280,341</u>	<u>185,077</u>	<u>-</u>
Total pension liability - ending	<u>\$ 21,226</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,714</u>	<u>\$ 20,236</u>	<u>\$ 231,883</u>	<u>\$ 280,341</u>	<u>\$ 185,077</u>
Covered payroll	\$ 34,776,504	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747
Total pension liability as a percentage of covered payroll	0.06%	0.00%	0.00%	0.00%	0.05%	0.05%	0.55%	0.65%	0.42%

Notes to Schedule:

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2025

Continued on Next Page

FY	BB-2015		CC-2015		DD-2016		EE-2016		FF-2017		GG-2017		HH-2018	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
25-26	\$ 1,210,000	\$ 467,900	\$ 550,000	\$ 14,438	\$ 700,000	\$ 604,500	\$ 1,460,000	\$ 278,594	\$ 605,000	\$ 49,600	\$ 530,000	\$ 533,556	\$ 485,000	\$ 604,813
26-27	1,245,000	428,575			725,000	583,500	1,515,000	249,394	635,000	25,400	555,000	512,356	510,000	580,562
27-28	1,260,000	385,000			750,000	561,750	1,560,000	219,094			575,000	490,156	535,000	555,063
28-29	1,275,000	340,900			775,000	539,250	1,605,000	187,894			590,000	477,938	555,000	539,013
29-30	1,315,000	296,275			800,000	516,000	1,645,000	155,794			600,000	464,662	570,000	522,362
30-31	2,740,000	256,825			825,000	492,000	1,710,000	120,838			625,000	440,663	590,000	504,550
31-32	2,800,000	174,625			825,000	467,250	1,750,000	82,362			650,000	415,662	605,000	485,375
32-33	2,900,000	90,625			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														
49-50														
50-51														
51-52														
52-53														
53-54														
	<u>\$ 14,745,000</u>	<u>\$ 2,440,725</u>	<u>\$ 550,000</u>	<u>\$ 14,438</u>	<u>\$ 20,150,000</u>	<u>\$ 7,293,750</u>	<u>\$ 13,055,000</u>	<u>\$ 1,336,958</u>	<u>\$ 1,240,000</u>	<u>\$ 75,000</u>	<u>\$ 16,720,000</u>	<u>\$ 6,715,476</u>	<u>\$ 16,950,000</u>	<u>\$ 8,154,362</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division

Supplemental Information - Schedule of Debt Maturities by Fiscal Year

June 30, 2025

Continued from Previous Page

	II-2019		JJ-2020		KK-2020		LL-2021		MM-2022		NN-2023		OO-2024		TOTAL		Grand
FY	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
25-26	\$ 465,000	\$ 584,800	\$ 460,000	\$ 558,350	\$ 205,000	\$ 260,800	\$ 1,400,000	\$ 1,241,650	\$ 562,744	\$ 350,000	\$ 860,275	\$ 330,000	\$ 888,737	\$ 8,750,000	\$ 7,510,757	\$ 16,260,757	
26-27	485,000	561,550	465,000	535,350	215,000	250,550	1,450,000	1,171,650	505,000	562,744	370,000	842,775	350,000	872,238	9,025,000	7,176,644	16,201,644
27-28	510,000	537,300	465,000	512,100	230,000	239,800	2,210,000	1,099,150	540,000	537,494	390,000	824,275	365,000	854,736	9,390,000	6,815,918	16,205,918
28-29	535,000	511,800	470,000	488,850	240,000	228,300	2,340,000	988,650	575,000	510,494	405,000	804,775	385,000	836,486	9,750,000	6,454,350	16,204,350
29-30	565,000	485,050	475,000	465,350	250,000	216,300	2,450,000	871,650	610,000	481,744	430,000	784,525	400,000	817,236	10,110,000	6,076,948	16,186,948
30-31	590,000	456,800	480,000	441,600	260,000	208,800	1,105,000	749,150	645,000	451,244	450,000	763,025	420,000	797,238	10,440,000	5,682,733	16,122,733
31-32	615,000	433,200	475,000	427,200	265,000	201,000	1,070,000	693,900	680,000	418,994	470,000	740,525	445,000	776,238	10,650,000	5,316,331	15,966,331
32-33	635,000	414,750	470,000	412,950	275,000	193,050	1,000,000	640,400	720,000	384,994	495,000	717,025	465,000	753,988	10,920,000	4,947,888	15,867,888
33-34	655,000	395,700	1,965,000	398,850	285,000	184,800	1,175,000	600,400	740,000	363,394	520,000	692,275	490,000	730,738	8,070,000	4,597,214	12,667,214
34-35	675,000	376,050	1,945,000	339,900	290,000	176,250	1,215,000	553,400	755,000	341,194	545,000	666,275	515,000	706,238	8,250,000	4,321,551	12,571,551
35-36	695,000	355,800	1,925,000	281,550	300,000	167,550	1,255,000	504,800	775,000	317,600	575,000	639,025	540,000	680,486	8,445,000	4,038,079	12,483,079
36-37	715,000	334,950	1,900,000	223,800	310,000	158,550	1,285,000	454,600	795,000	292,412	600,000	610,275	565,000	653,488	8,615,000	3,746,219	12,361,219
37-38	735,000	313,500	1,880,000	166,800	320,000	149,250	1,335,000	403,200	820,000	265,582	625,000	586,275	595,000	625,238	8,830,000	3,452,863	12,282,863
38-39	760,000	291,450	1,855,000	110,400	330,000	139,650	1,370,000	349,800	870,000	237,904	650,000	561,275	625,000	595,488	9,050,000	3,150,629	12,200,629
39-40	780,000	268,650	1,825,000	54,750	335,000	129,750	1,405,000	295,000	890,000	207,456	675,000	535,275	655,000	564,238	9,230,000	2,839,232	12,069,232
40-41	805,000	245,250			350,000	119,700	1,460,000	238,800	910,000	176,306	705,000	508,275	690,000	531,488	7,690,000	2,515,094	10,205,094
41-42	830,000	221,100			360,000	109,200	1,470,000	180,400	955,000	144,456	730,000	480,075	725,000	496,988	7,930,000	2,235,175	10,165,175
42-43	855,000	196,200			370,000	98,400	1,520,000	121,600	975,000	109,838	760,000	449,963	760,000	460,738	8,185,000	1,944,289	10,129,289
43-44	880,000	170,550			380,000	87,300	1,520,000	60,800	1,020,000	74,494	795,000	418,612	790,000	430,338	8,445,000	1,651,306	10,096,306
44-45	905,000	144,150			390,000	75,900			1,035,000	37,518	825,000	384,825	820,000	398,738	7,120,000	1,352,769	8,472,769
45-46	930,000	117,000			405,000	64,200					865,000	349,762	855,000	365,938	6,315,000	1,108,226	7,423,226
46-47	960,000	89,100			415,000	52,050					900,000	313,000	890,000	330,668	5,215,000	890,919	6,105,919
47-48	990,000	60,300			425,000	39,600					940,000	274,750	925,000	293,956	4,335,000	705,531	5,040,531
48-49	1,020,000	30,600			440,000	26,850					980,000	233,625	965,000	255,800	3,405,000	546,875	3,951,875
49-50					455,000	13,650					1,020,000	190,750	1,005,000	217,200	2,480,000	421,600	2,901,600
50-51											1,065,000	146,125	1,040,000	177,000	2,105,000	323,125	2,428,125
51-52											1,115,000	99,532	1,085,000	135,400	2,200,000	234,932	2,434,932
52-53											1,160,000	50,750	1,125,000	92,000	2,285,000	142,750	2,427,750
53-54													1,175,000	47,000	1,175,000	47,000	1,222,000
	\$ 17,590,000	\$ 7,595,600	\$ 17,055,000	\$ 5,417,800	\$ 8,100,000	\$ 3,591,250	\$ 28,035,000	\$ 11,219,000	\$ 14,815,000	\$ 6,478,606	\$ 19,410,000	\$ 14,527,919	\$ 19,995,000	\$ 15,386,063	\$ 208,410,000	\$ 90,246,947	\$ 298,656,947

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Changes in Long-term Debt by Individual Issue
June 30, 2025

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding Balance 7/1/2024	Issued During Period	Paid/Matured During Period	Refunded During Period	Outstanding Balance 6/30/2025
Business-Type Activities									
BONDS PAYABLE									
<u>Payable through Water Fund</u>									
Revenue Bond Refunding, Series BB-2015	\$ 23,005,000	2.0-5.0	05/01/15	03/01/33	\$ 15,915,000	\$ -	\$ 1,170,000	\$ -	\$ 14,745,000
Revenue Bond, Series CC-2015	\$ 20,000,000	2.0-4.0	05/20/15	03/01/26	1,075,000	-	525,000	-	550,000
Revenue Bond, Series DD-2016	\$ 25,000,000	3.0-5.0	08/05/16	03/01/46	20,825,000	-	675,000	-	20,150,000
Revenue Bond Refunding, Series EE-2016	\$ 20,875,000	2.0-5.0	08/05/16	03/01/33	14,490,000	-	1,435,000	-	13,055,000
Revenue Bond Refunding, Series FF-2017	\$ 5,310,000	3.0-5.0	04/07/17	03/01/27	1,815,000	-	575,000	-	1,240,000
Revenue Bond, Series GG-2017	\$ 20,000,000	2.125-5.0	09/15/17	03/01/47	17,225,000	-	505,000	-	16,720,000
Revenue Bond, Series HH-2018	\$ 19,995,000	3.0-5.0	09/14/18	03/01/48	17,415,000	-	465,000	-	16,950,000
Revenue Bond, Series II-2019	\$ 19,995,000	3.0-5.0	08/20/19	03/01/49	18,030,000	-	440,000	-	17,590,000
Revenue Bond Refunding, Series JJ-2020	\$ 19,520,000	3.0-5.0	05/22/20	03/01/40	17,505,000	-	450,000	-	17,055,000
Revenue Bond, Series KK-2020	\$ 9,045,000	3.0-5.0	10/30/20	03/01/50	8,295,000	-	195,000	-	8,100,000
Revenue Bond Refunding, Series LL-2021	\$ 33,180,000	4.0-5.0	04/19/21	03/01/44	29,385,000	-	1,350,000	-	28,035,000
Revenue Bond Refunding, Series MM-2022	\$ 14,915,000	3.0-5.0	05/13/22	03/01/45	14,815,000	-	-	-	14,815,000
Revenue Bond, Series NN-2023	\$ 19,995,000	4.0-5.0	12/08/23	03/01/53	19,745,000	-	335,000	-	19,410,000
Revenue Bond, Series OO-2024	\$ 19,995,000	4.0-5.0	08/29/24	03/01/54	-	19,995,000	-	-	19,995,000
					<u>\$ 196,535,000</u>	<u>\$ 19,995,000</u>	<u>\$ 8,120,000</u>	<u>\$ -</u>	<u>\$ 208,410,000</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Changes in Lease Liabilities
June 30, 2025

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Maturity Date	Outstanding 6/30/2024	Issued During Period	Paid and/or Matured During Period	Remeasure- ments	Outstanding 6/30/2025
<u>Lease Liabilities</u>									
<u>Payable through Water Fund</u>									
Crown Castle	\$ 17,875	3.90%	3/1/2023	2/1/2043	\$ 17,291	\$ -	\$ (473)	\$ -	\$ 16,818
Manki 1 Investments	42,315	3.88%	7/1/2020	5/31/2027	25,673	-	(8,479)	(1,028)	16,166
Ricoh Americas	4,850	3.88%	7/1/2020	7/31/2025	1,954	-	(1,797)	128	285
RJ Young Company	6,595	3.88%	7/1/2020	6/30/2026	1,746	-	(1,880)	134	-
Total Lease Liabilities					<u>\$ 46,664</u>	<u>\$ -</u>	<u>\$ (12,629)</u>	<u>\$ (766)</u>	<u>\$ 33,269</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Statistical Information - Schedule of Insurance in Force
June 30, 2025
(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.

Environmental and Pollution Legal Liability

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

Property Insurance

This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - \$250,000,000 per occurrence (subject to certain sub limits); \$3,500,000 deductible per occurrence.

Travel Accident

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

Excess Insurance for General Liability

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

Excess Insurance for Workers' Compensation

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

Employee Health Plan Stop Loss Coverage

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses for more than \$700,000 per individual participant.

Cyber Security Liability

Liability coverage resulting from losses related to a covered event such as data breaches, ransomware, regulatory fines, cyber extortion, business interruption and other cyber-related events. Limits of coverage - \$5,000,000; \$500,000 deductible.

Drone

Liability coverage resulting from losses related to bodily injury or damaged property arising out of the ownership, maintenance, or use of a drone aircraft. Limits of coverage - \$2,000,000.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(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:	57,910
Commodity Charge		
	First 2 CCF Per Month at \$2.00 Per CCF	
	Over 2 CCF Per Month at \$3.70 Per CCF	
Additional Monthly Customer Charge		
	For 5/8" meter \$ 18.00	
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:	15,106
Commodity Charge		
	First 2 CCF Per Month at \$2.20 Per CCF	
	Over 2 CCF Per Month at \$4.45 Per CCF	
Additional Monthly Customer Charge		
	For 5/8" meter \$ 19.40	

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2025
(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:	10,463

Commodity Charge

First	2	CCF Per Month at \$3.40 Per CCF
Next	8	CCF Per Month at \$5.45 Per CCF
Next	90	CCF Per Month at \$5.90 Per CCF
Next	300	CCF Per Month at \$5.45 Per CCF
Next	4,600	CCF Per Month at \$3.10 Per CCF
Next	5,000	CCF Per Month at \$1.40 Per CCF

Additional Monthly Customer Charge

For	5/8" meter	\$ 22.00
For	1" meter	\$ 35.00
For	1 1/2" meter	\$ 81.00
For	2" meter	\$ 116.00
For	3" meter	\$ 227.00
For	4" meter	\$ 342.00
For	6" meter	\$ 636.00
For	8" meter	\$1,026.00
For	10" meter	\$1,563.00
For	12" meter	\$2,400.00

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:	783
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Commodity Charge

First	2	CCF Per Month at \$3.80 Per CCF
Next	8	CCF Per Month at \$6.15 Per CCF
Next	90	CCF Per Month at \$6.90 Per CCF
Next	300	CCF Per Month at \$6.15 Per CCF
Next	4,600	CCF Per Month at \$3.65 Per CCF
Next	5,000	CCF Per Month at \$1.60 Per CCF

Additional Monthly Customer Charge

For	5/8" meter	\$ 24.35
For	1" meter	\$ 39.00
For	1 1/2" meter	\$ 90.00
For	2" meter	\$ 128.00
For	3" meter	\$ 252.00
For	4" meter	\$ 376.00
For	6" meter	\$ 715.00
For	8" meter	\$1,260.00
For	10" meter	\$1,920.00
For	12" meter	\$2,840.00

See accompanying Independent Auditor's Report

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Water Division of the Knoxville Utilities Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the 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, 2025, 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 17, 2025, which references, that the financial statements, are only that portion of Knoxville Utilities Board that resulted from the transactions of the Water Division.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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.

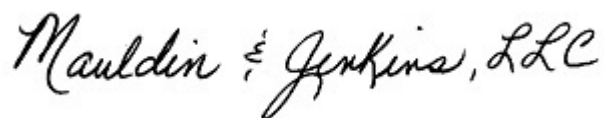
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any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

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Chattanooga, Tennessee
October 17, 2025



Wastewater Division

Financial Statements and Supplemental Information June 30, 2025 and 2024

KUB Board of Commissioners

Cynthia Gibson, Chair

Ron Feinbaum

Celeste Herbert

Dr. Craig Pickett, Jr.

Claudia Caballero, Vice Chair

Kathy Hamilton

Phyllis Nichols

Management

Gabriel Bolas II

President and Chief Executive Officer

Mark Walker

Senior Vice President and Chief Financial Officer

Jamie Davis

Senior Vice President Fiber and Chief Technology Officer

John Gresham

Senior Vice President and Chief Engineering and
Operations Officer

John Williams

Senior Vice President and Chief Infrastructure and
Compliance Officer

Tiffany Martin

Senior Vice President and Chief Customer and Talent Officer

Erin Gill

Vice President Communications and External Relations

Knoxville Utilities Board Wastewater Division

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June 30, 2025 and 2024

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Wastewater Division of the Knoxville Utilities Board

Report on the Audit of the Financial Statements

Opinion

We have audited 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 years ended June 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Division as of June 30, 2025 and 2024, and the changes in financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

-
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Division's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-27, the schedule of changes in net pension liability and related ratios, the schedule of employer pension contributions, the schedule of changes in net OPEB liability and related ratios, the schedule of employer OPEB contributions and the schedule of changes in total pension liability and related ratios - qualified governmental excess benefit arrangement on pages 67-71 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's basic financial statements. The schedule of debt maturities by fiscal year, the schedule of changes in long-term debt by individual issue, and the schedule of changes in lease liability are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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.

The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of debt maturities by fiscal year, the schedule of changes in long-term debt by individual issue, and schedule of changes in lease liabilities are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the statistical information but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Emphasis of Matter

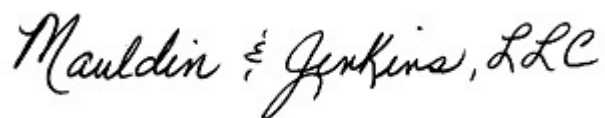
As discussed in Note 1, the financial statements present only the Wastewater Division and do not purport to, and do not, present fairly the financial position of the Knoxville Utilities Board, as of June 30, 2025 and 2024, and the changes in its financial position and its cash flows for the years then 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 Matter

The financial statements of the Division as of June 30, 2024, were audited by other auditors whose report dated October 23, 2024, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2025, 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 the Division's 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.



Chattanooga, Tennessee
October 17, 2025

Knoxville Utilities Board Wastewater Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Knoxville Utilities Board (KUB), comprised of the Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. 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 as of June 30, 2025, and 2024, 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, 2025, activities, resulting changes, and current known facts, and should be read in conjunction with the Division's financial statements.

Wastewater Division Highlights

System Highlights

As of June 30, 2025, KUB's wastewater system served 75,540 customers across a 249 square mile service area. The system includes approximately 1,349 miles of service mains, 80 pump stations, and 4 wastewater treatment plants. These facilities treated 14.4 billion gallons of wastewater over the fiscal year, with an average daily flow of 39.4 million gallons.

Customer growth has remained modest in recent years. Over the past three fiscal years, the wastewater system added 2,163 customers, representing an average annual growth rate of less than one percent. In fiscal year 2025, 588 new customers were added.

As of the end of the fiscal year, the average monthly wastewater bill for a typical residential customer was \$73.55. This reflects an increase of \$2.75 compared to the prior year, the result of the July 2024 rate increase.

KUB's wastewater treatment plants have a strong track record of excellent performance, recognized through numerous awards from the National Association of Clean Water Agencies (NACWA) over the years. In 2025, KUB met the 2024 criteria to earn a NACWA Peak Performance Gold Award for its Fourth Creek Wastewater Treatment Plant, and Silver Awards for its Eastbridge, Kuwahee, and Loves Creek facilities.

KUB was named a NACWA National Environmental Achievement Awards 2024 honoree. These awards recognize individuals and NACWA member agencies that have made outstanding contributions to environmental protection and the clean water community. In 2024, KUB received two awards: one in the Operations & Environmental Performance category for its Biologically Enhanced High-Rate Clarifier, and another in the Workforce Development category for its Utility Apprentice Program.

Knoxville Utilities Board Wastewater Division

Management's Discussion and Analysis

June 30, 2025 and 2024

In 2023, KUB obtained Diamond Certification from the National Biosolids Partnership, a ten-year recognition that represents the highest and newest level of certification within the program. Biosolids are nutrient-rich organic matter produced by wastewater treatment and are registered fertilizers with the Tennessee Department of Agriculture.

Century II Infrastructure Program

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

In June 2022, the Board approved three wastewater rate increases of 4 percent each to support the Century II program. The wastewater rate increases took effect in July 2022, July 2023, and July 2024, generating additional annual Wastewater Division revenue of \$3.9 million, \$4 million, and \$4.2 million, respectively.

In June 2024, as part of KUB's Inflation Response Plan, the Board approved the next phase of wastewater rate increases to support the Century II program. The three approved wastewater rate increases are effective in July 2025, July 2026, and July 2027 and are expected to provide \$2.3 million, \$2.4 million, and \$2.4 million in additional annual Wastewater Division revenue, respectively.

In fiscal year 2025, KUB rehabilitated or replaced 7.9 miles of wastewater system mains.

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Knoxville Utilities Board Wastewater Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Financial Highlights

Fiscal Year 2025 Compared to Fiscal Year 2024

The Division's net position during the year increased \$29.8 million compared to a \$25.4 million increase last fiscal year.

Operating revenue increased \$5.2 million or 4.6 percent for the fiscal year ended June 30, 2025. Billed sales increased \$4.9 million, primarily due to additional revenue from a 4 percent rate increase effective in July 2024.

Operating expenses increased \$0.4 million. Operating and maintenance (O&M) expenditures decreased \$1.6 million. Depreciation and amortization expense increased \$1.7 million. Taxes and tax equivalents increased \$0.3 million or 4.7 percent.

Interest income was \$0.4 million higher than the prior fiscal year driven by higher cash balances and the replacement of maturing low-yield investments with new investments at significantly higher rates, despite a modest decline in overall interest rates. Interest expense was \$0.6 million lower than the prior fiscal year. Other income (net) was \$0.6 million lower.

Capital contributions decreased \$0.7 million, the result of a lower level of donated utility assets from developers compared to the previous fiscal year.

Total plant assets (net) increased \$1.8 million or 0.2 percent since the end of last fiscal year.

Long-term debt represented 48.8 percent of the Division's capital structure as of June 30, 2025, as compared to 51.3 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. Debt coverage for the current fiscal year was 2.33. Maximum debt service coverage for future fiscal years is 2.24.

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's net position during the year increased \$25.4 million compared to a \$20.7 million increase last fiscal year.

Operating revenue increased \$6.3 million or 5.8 percent for the fiscal year ended June 30, 2024. Billed sales increased \$6 million, due to an increase in billable customer flows of 2.2 percent along with additional revenue from a 4 percent rate increase effective in July 2023.

Operating expenses increased \$2.2 million. Operating and maintenance (O&M) expenditures increased \$1.7 million. Depreciation and amortization expense increased \$0.2 million. Taxes and tax equivalents increased \$0.3 million or 4.9 percent.

Interest income was \$0.6 million higher than the prior fiscal year due to higher interest rates throughout the year. Interest expense was \$0.4 million lower than the prior fiscal year. Other income (net) was \$0.9 million higher.

Capital contributions decreased \$1.4 million, the result of a lower level of donated utility assets from developers compared to the previous fiscal year.

Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2025 and 2024

Total plant assets (net) increased \$23.8 million or 2.8 percent since the end of last fiscal year.

Long-term debt represented 51.3 percent of the Division's capital structure as of June 30, 2024, as compared to 53.6 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. Debt coverage for the current fiscal year was 2.10.

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Knoxville Utilities Board Wastewater Division

Management's Discussion and Analysis

June 30, 2025 and 2024

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, intangible, or other assets.

Liabilities are classified as current, other, or long-term debt. Net position is classified as net investment in capital assets, restricted, or unrestricted. Net position tells the user what 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 and intangible assets, less lease and subscription liabilities and the outstanding balances of debt used to acquire, construct, or improve those assets.

Restricted net position 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, non-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.

Knoxville Utilities Board Wastewater Division
Management's Discussion and Analysis
June 30, 2025 and 2024

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

<i>(in thousands of dollars)</i>	2025	2024	2023
Current, restricted, intangible, and other assets	\$ 82,759	\$ 73,985	\$ 86,025
Capital assets, net	869,958	868,124	844,254
Total assets	<u>952,717</u>	<u>942,109</u>	<u>930,279</u>
Deferred outflows of resources	13,138	16,361	21,402
Total assets and deferred outflows of resources	<u>965,855</u>	<u>958,470</u>	<u>951,681</u>
Current and other liabilities	27,086	32,333	34,894
Long-term debt outstanding	477,199	494,494	511,847
Total liabilities	<u>504,285</u>	<u>526,827</u>	<u>546,741</u>
Deferred inflows of resources	2,358	2,244	901
Total liabilities and deferred inflows of resources	<u>506,643</u>	<u>529,071</u>	<u>547,642</u>
Net position			
Net investment in capital assets	391,202	372,931	333,082
Restricted	3,700	3,714	3,632
Unrestricted	64,310	52,754	67,325
Total net position	<u>\$ 459,212</u>	<u>\$ 429,399</u>	<u>\$ 404,039</u>

Normal Impacts on Statement of Net Position

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

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

Knoxville Utilities Board Wastewater Division

Management's Discussion and Analysis

June 30, 2025 and 2024

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

Impacts and Analysis

Current, Restricted, Intangible, and Other Assets

Fiscal Year 2025 Compared to Fiscal Year 2024

Current, restricted, intangible, and other assets increased \$8.8 million or 11.9 percent, primarily due to a \$9.4 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) offset by a \$0.3 million decrease in lease receivable.

Fiscal Year 2024 Compared to Fiscal Year 2023

Current, restricted, intangible, and other assets decreased \$12 million or 14 percent, primarily due to a \$14.1 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) offset by a \$1.1 million increase in lease receivable and a \$0.8 million increase in accounts receivable.

Capital Assets

Fiscal Year 2025 Compared to Fiscal Year 2024

Capital assets increased \$1.8 million, the result of capital expenditures, net of depreciation. Major capital expenditures during the year included \$23.3 million for major system improvements related to Century II. Wastewater system assets of \$3.5 million were retired during the fiscal year.

Fiscal Year 2024 Compared to Fiscal Year 2023

Capital assets increased \$23.8 million or 2.8 percent, the result of capital expenditures, net of depreciation. Major capital expenditures during the year included \$21 million for major system improvements related to Century II. Wastewater system assets of \$6.4 million were retired during the fiscal year.

Deferred Outflows of Resources

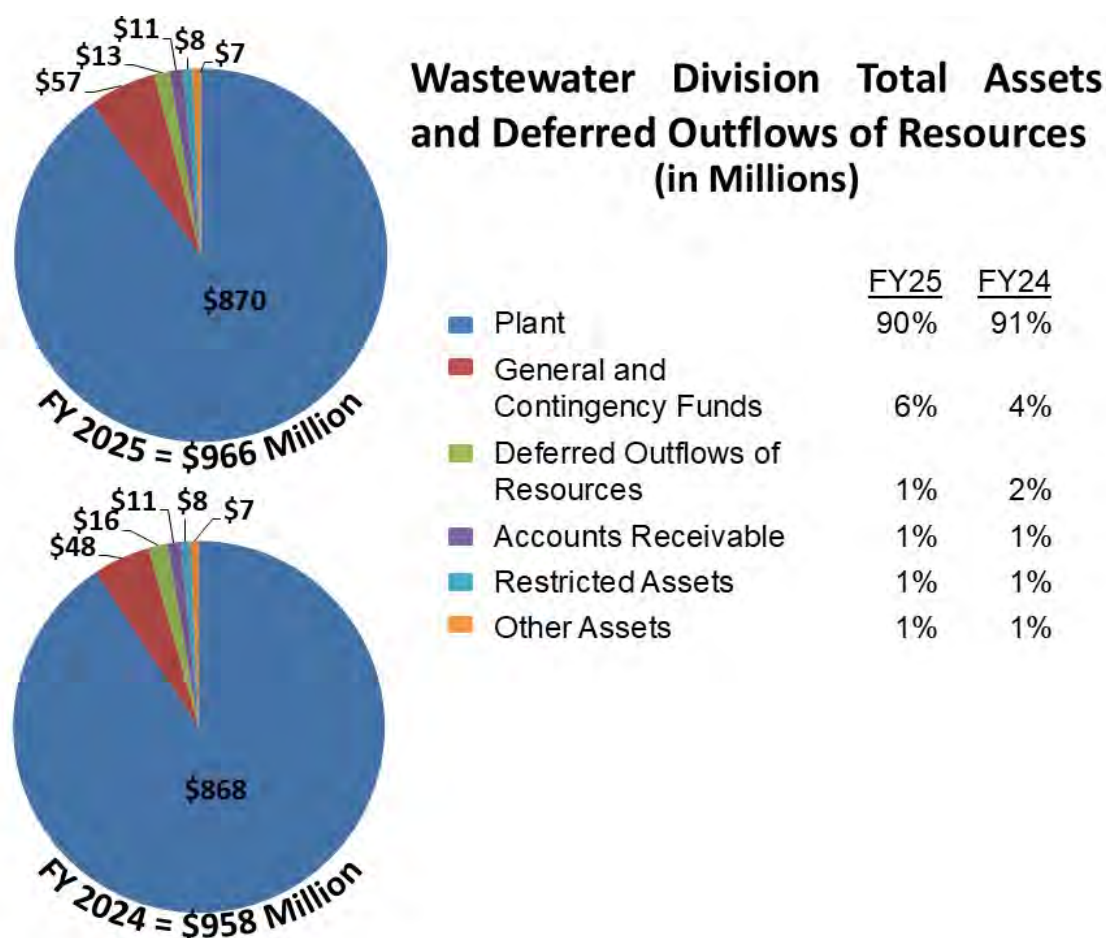
Fiscal Year 2025 Compared to Fiscal Year 2024

Deferred outflows decreased \$3.2 million compared to the prior year, due to a \$2.3 million decrease in pension outflow, a \$0.7 million decrease in unamortized bond refunding costs, and a \$0.2 million decrease in OPEB outflow.

Fiscal Year 2024 Compared to Fiscal Year 2023

Deferred outflows decreased \$5 million compared to the prior year, due to a \$3.8 million decrease in pension outflow, a \$0.7 million decrease in unamortized bond refunding costs, and a \$0.5 million decrease in OPEB outflow.

Knoxville Utilities Board Wastewater Division
Management's Discussion and Analysis
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Current and Other Liabilities

Fiscal Year 2025 Compared to Fiscal Year 2024

Current and other liabilities were \$5.2 million lower than the prior fiscal year, due primarily to decreases of \$3.7 million in accounts payable, \$0.7 million in the actuarially determined net pension liability, and a \$0.7 million in net OPEB liability.

Fiscal Year 2024 Compared to Fiscal Year 2023

Current and other liabilities were \$2.6 million lower than the prior fiscal year, due primarily to a decrease of \$2.7 million in the actuarially determined net pension liability.

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Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2025 and 2024

Long-Term Debt

Fiscal Year 2025 Compared to Fiscal Year 2024

The Division's outstanding long-term debt decreased \$17.3 million or 3.5 percent. This decrease is due to the scheduled repayment of debt.

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's outstanding long-term debt decreased \$17.4 million or 3.4 percent. This decrease is due to the scheduled repayment of debt.

Deferred Inflows of Resources

Fiscal Year 2025 Compared to Fiscal Year 2024

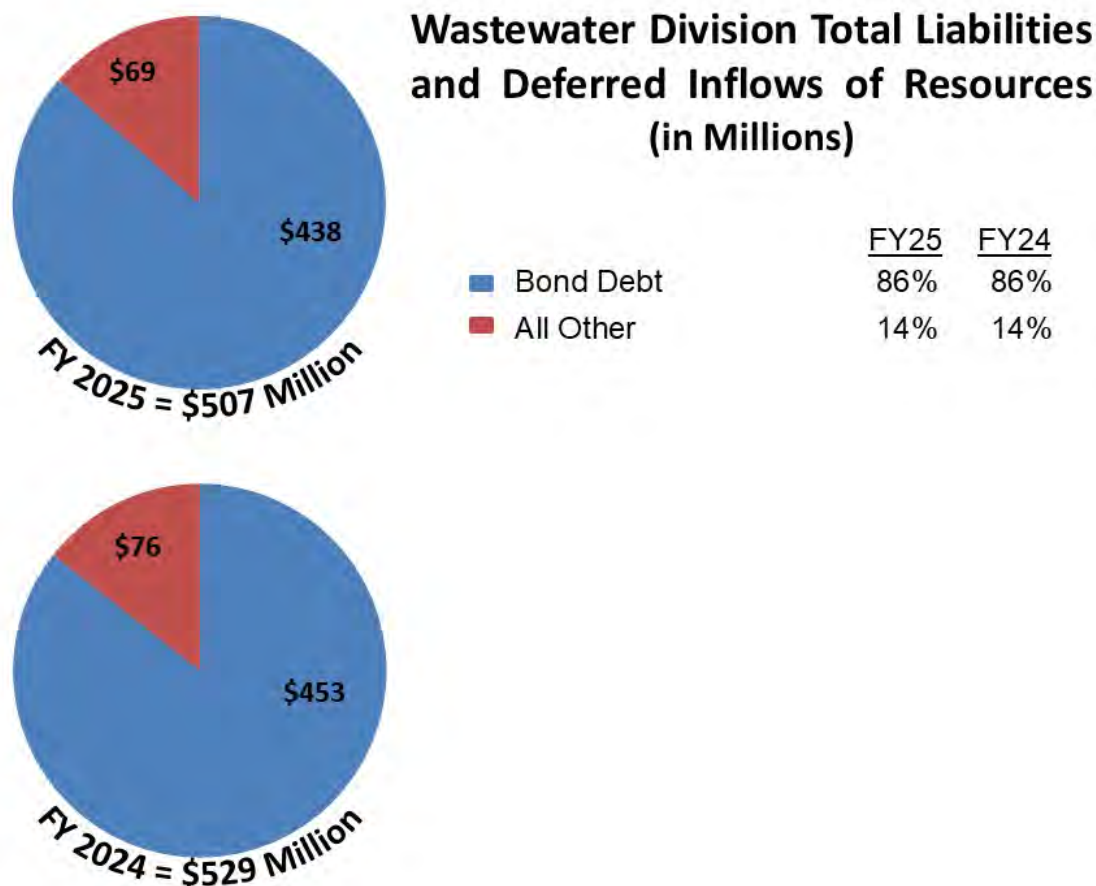
Deferred inflows of resources were \$0.1 million higher than the prior fiscal year, due to a \$0.4 million increase in OPEB inflow offset by \$0.3 million decrease in lease inflow.

Fiscal Year 2024 Compared to Fiscal Year 2023

Deferred inflows of resources were \$1.3 million higher than the prior fiscal year, due to a \$1 million increase in lease inflow and a \$0.4 million increase in OPEB inflow.

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Knoxville Utilities Board Wastewater Division
Management's Discussion and Analysis
June 30, 2025 and 2024



Net Position

Fiscal Year 2025 Compared to Fiscal Year 2024

Net position increased \$29.8 million in fiscal year 2025. Net investment in capital assets increased \$18.3 million, the result of \$1.8 million in net plant additions and a decrease in current and long-term portions of revenue bonds of \$14.9 million. Restricted net position was consistent with the prior year. Unrestricted net position increased \$11.5 million, primarily due to a \$9.4 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments).

Fiscal Year 2024 Compared to Fiscal Year 2023

Net position increased \$25.4 million in fiscal year 2024. Net investment in capital assets increased \$39.8 million, the result of \$23.8 million in net plant additions and a decrease in current and long-term portions of revenue bonds of \$14.5 million. Restricted net position increased \$0.1 million. Unrestricted net position decreased \$14.6 million, primarily due to a \$14.1 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments).

Knoxville Utilities Board Wastewater Division
Management's Discussion and Analysis
June 30, 2025 and 2024

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

<i>(in thousands of dollars)</i>	2025	2024	2023
Operating revenues	\$ 119,865	\$ 114,621	\$ 108,370
Operating expenses			
Treatment	17,647	16,027	15,346
Collection	7,640	8,173	9,757
Customer service	3,186	3,051	3,829
Administrative and general	16,433	19,249	15,843
Depreciation and amortization	26,142	24,450	24,284
Taxes and tax equivalents	7,065	6,748	6,433
Total operating expenses	<u>78,113</u>	<u>77,698</u>	<u>75,492</u>
Operating income	<u>41,752</u>	<u>36,923</u>	<u>32,878</u>
Interest income	3,055	2,635	2,033
Interest expense	(17,922)	(18,486)	(18,927)
Other income/(expense)	1,905	2,530	1,603
Change in net position before capital contributions	<u>28,790</u>	<u>23,602</u>	<u>17,587</u>
Capital contributions	1,023	1,758	3,136
Change in net position	<u>\$ 29,813</u>	<u>\$ 25,360</u>	<u>\$ 20,723</u>

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

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

- Operating revenue is 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 and amortization expense is impacted by intangible assets, 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.

Knoxville Utilities Board Wastewater Division

Management's Discussion and Analysis

June 30, 2025 and 2024

- 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 2025 Compared to Fiscal Year 2024

The Division's Change in Net Position increased \$29.8 million in fiscal year 2025. Comparatively, net position increased by \$25.4 million in fiscal year 2024.

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's Change in Net Position increased \$25.4 million in fiscal year 2024. Comparatively, net position increased by \$20.7 million in fiscal year 2023.

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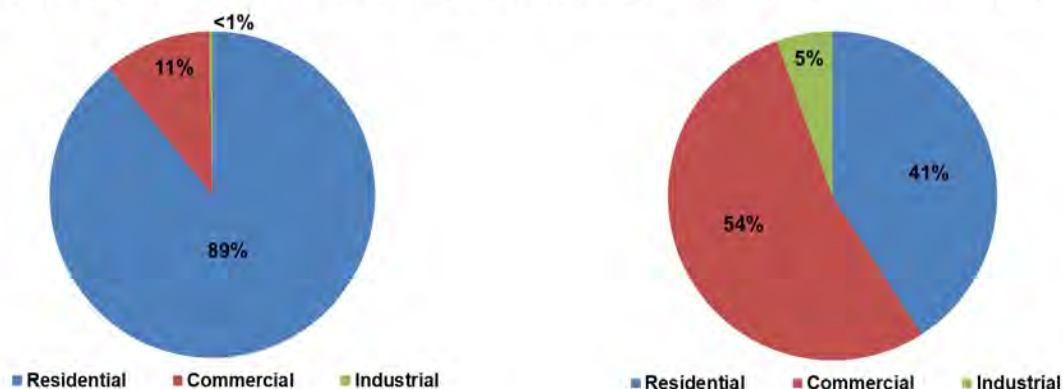
Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2025 and 2024

Margin from Sales

Fiscal Year 2025 Compared to Fiscal Year 2024

Operating revenue increased \$5.2 million or 4.6 percent for the fiscal year ended June 30, 2025. Billed sales increased \$4.9 million, primarily due to additional revenue from a 4 percent rate increase effective in July 2024. Rebates on bond interest payments from the federal government for federally taxable Build America Bonds (BABs) are reported as revenue in accordance with GASB. KUB recognized \$0.4 million in revenue for BABs rebates in fiscal year 2025.

FY 2025 Total Wastewater Customers = 75,540 FY 2025 Wastewater Sales = 6.7 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 54 percent.

KUB's ten largest wastewater customers accounted for 18 percent of KUB's billed wastewater volumes. Of the ten customers, six are commercial, including five governmental customers. Additionally, there are four industrial customers.

KUB has added 2,163 wastewater customers over the past three years, representing annual growth of less than one percent.

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Knoxville Utilities Board Wastewater Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Fiscal Year 2024 Compared to Fiscal Year 2023

Operating revenue increased \$6.3 million or 5.8 percent for the fiscal year ended June 30, 2024. Billed sales increased \$6 million, the combined result of an increase in billable customer flows of 2.2 percent and additional revenue from a 4 percent rate increase effective in July 2023. Rebates on bond interest payments from the federal government for federally taxable Build America Bonds (BABs) are reported as revenue in accordance with GASB. KUB recognized \$0.4 million in revenue for BABs rebates in fiscal year 2024.

FY 2024 Total Wastewater Customers = 74,952 FY 2024 Wastewater Sales = 6.7 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 53 percent.

KUB's ten largest wastewater customers accounted for 19 percent of KUB's billed wastewater volumes. Those ten customers represent five industrial and five commercial customers, including four governmental customers.

KUB has added 2,122 wastewater customers over the past three years, representing annual growth of less than one percent.

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Knoxville Utilities Board Wastewater Division

Management's Discussion and Analysis

June 30, 2025 and 2024

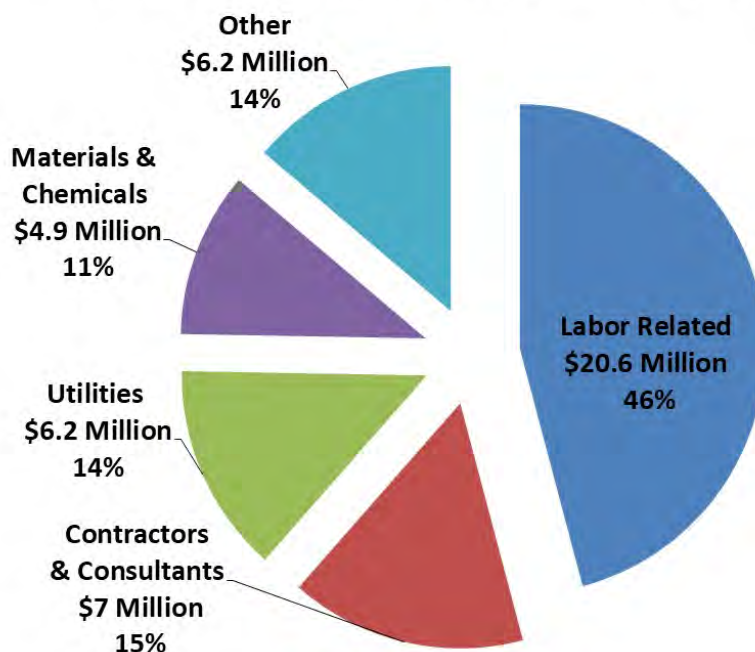
Operating Expenses

Fiscal Year 2025 Compared to Fiscal Year 2024

Operating expenses increased \$0.4 million compared to fiscal year 2025. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as treatment, collection, customer service, and administrative and general.

- Treatment expenses increased \$1.6 million, primarily due to an increase in chemicals, outside consultant expenses, and labor-related expenses.
- Collection system expenses decreased \$0.5 million, primarily due to a decrease in outside contractor expenses.
- Customer service expenses decreased \$0.1 million.
- Administrative and general expenses decreased \$2.8 million, primarily due to a decrease in outside contractor expenses and other expenses offset by an increase in labor-related expenses.

FY 2025 Wastewater O&M Expense = \$44.9 Million



- Depreciation and amortization expense increased \$1.7 million or 6.9 percent. KUB added \$46.3 million in assets during fiscal year 2025. A partial year of depreciation expense was recorded for these capital investments, and a full year of depreciation expense was incurred on \$62.1 million of wastewater system assets placed in service during fiscal year 2024. Wastewater system assets of \$3.5 million were retired during the fiscal year.

Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2025 and 2024

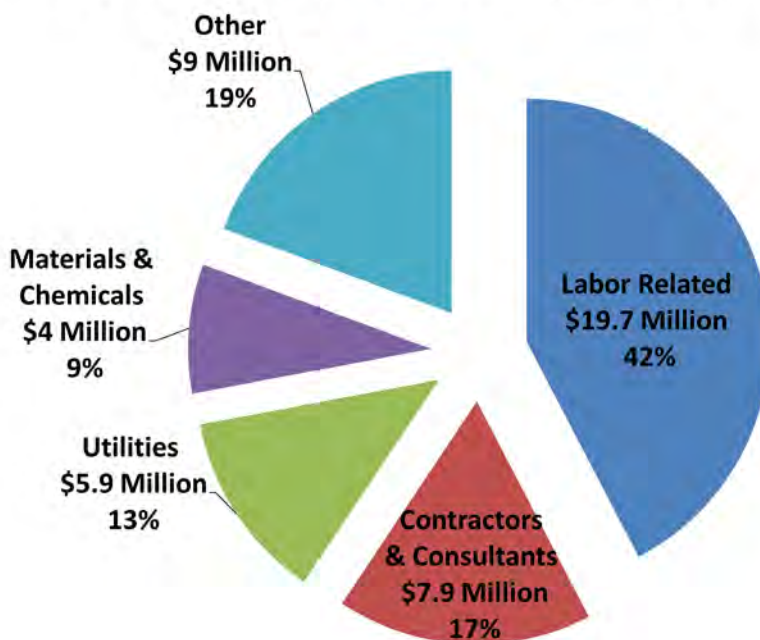
- Taxes and tax equivalents increased \$0.3 million compared to the prior fiscal year, due to increased plant in service levels.

Fiscal Year 2024 Compared to Fiscal Year 2023

Operating expenses increased \$2.2 million compared to fiscal year 2023. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as treatment, collection, customer service, and administrative and general.

- Treatment expenses increased \$0.7 million, primarily due to an increase in chemicals and labor-related expenses.
- Collection system expenses decreased \$1.6 million, primarily due to a decrease in outside contractor expenses.
- Customer service expenses decreased \$0.8 million, primarily due to a change in methodology for technology-related costs that resulted in an offsetting increase in administration and general expenses.
- Administrative and general expenses increased \$3.4 million, primarily due to an increase in other expenses, labor-related expenses, and a change in methodology for technology-related costs that resulted in an offsetting decrease in customer service expenses.

FY 2024 Wastewater O&M Expense = \$46.5 Million



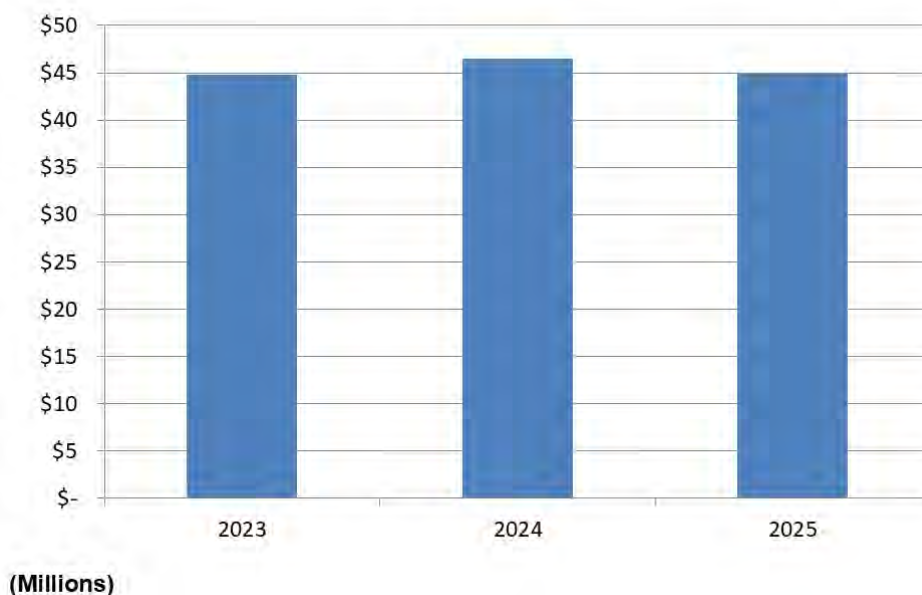
- Depreciation and amortization expense increased \$0.2 million or 0.7 percent. KUB added \$62.1 million in assets during fiscal year 2024. A partial year of depreciation expense was recorded for these capital investments and a full year of depreciation expense was incurred on \$22.5

Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2025 and 2024

million of wastewater system assets placed in service during fiscal year 2023. Wastewater system assets of \$6.4 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.

Wastewater Division Operation & Maintenance Expense



Other Income and Expense

Fiscal Year 2025 Compared to Fiscal Year 2024

Interest income was \$0.4 million higher than the prior fiscal year driven by higher cash balances and the replacement of maturing low-yield investments with new investments at significantly higher rates, despite a modest decline in overall interest rates.

Interest expense decreased \$0.6 million compared to the prior fiscal year due to the repayment of outstanding debt.

Other income (net) was \$0.6 million lower than the prior fiscal year, primarily due to mark-to-market adjustments on investments.

Capital contributions decreased \$0.7 million compared to the prior fiscal year, the result of a decrease in assets received from developers.

Fiscal Year 2024 Compared to Fiscal Year 2023

Interest income increased \$0.6 million due to higher interest rates throughout the year.

Interest expense decreased \$0.4 million compared to the prior fiscal year.

Other income (net) was \$0.9 million higher than the prior fiscal year, primarily due to mark-to-market adjustments on investments.

Knoxville Utilities Board Wastewater Division

Management's Discussion and Analysis

June 30, 2025 and 2024

Capital contributions decreased \$1.4 million compared to the prior fiscal year, the result of a decrease in assets received from developers.

Capital Assets

	Capital Assets As of June 30 (Net of Depreciation)		
<i>(in thousands of dollars)</i>	2025	2024	2023
Pumping & Treatment Plant	\$ 217,136	\$ 217,696	\$ 202,039
Collection Plant			
Mains and Metering	554,421	532,111	510,111
Other Accounts	56,424	57,953	59,483
Total Collection Plant	610,845	590,064	569,594
Total General Plant	14,513	14,804	13,560
Total Wastewater Plant	\$ 842,494	\$ 822,564	\$ 785,193
Work In Progress	27,464	45,560	59,061
Total Net Plant	\$ 869,958	\$ 868,124	\$ 844,254

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Knoxville Utilities Board Wastewater Division

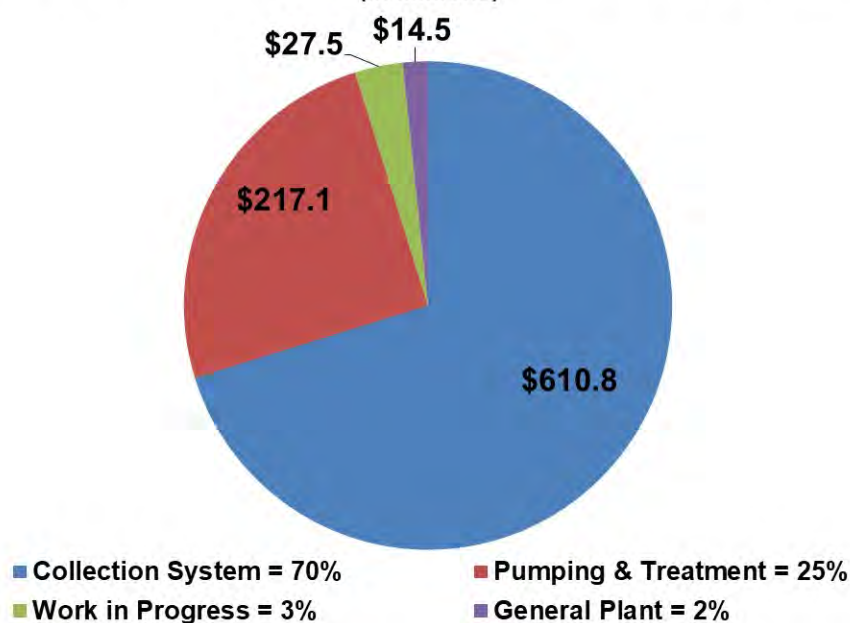
Management's Discussion and Analysis

June 30, 2025 and 2024

Fiscal Year 2025 Compared to Fiscal Year 2024

As of June 30, 2025, the Division had \$869.9 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 \$1.8 million or 0.2 percent over the end of the last fiscal year.

FY 2025 Wastewater Division Capital Assets = \$869.9 Million
(in Millions)



Major capital asset expenditures during the year were as follows:

- \$23.3 million related to Century II projects
 - \$10.3 million for collection system improvements
 - \$8.3 million for pump station construction and improvements
 - \$3.5 million for wastewater treatment plant upgrades
 - \$0.6 million for sewer mini-basin rehabilitation and replacement
 - \$0.6 million for short line projects
- \$0.6 million for auto and truck purchases

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Knoxville Utilities Board Wastewater Division

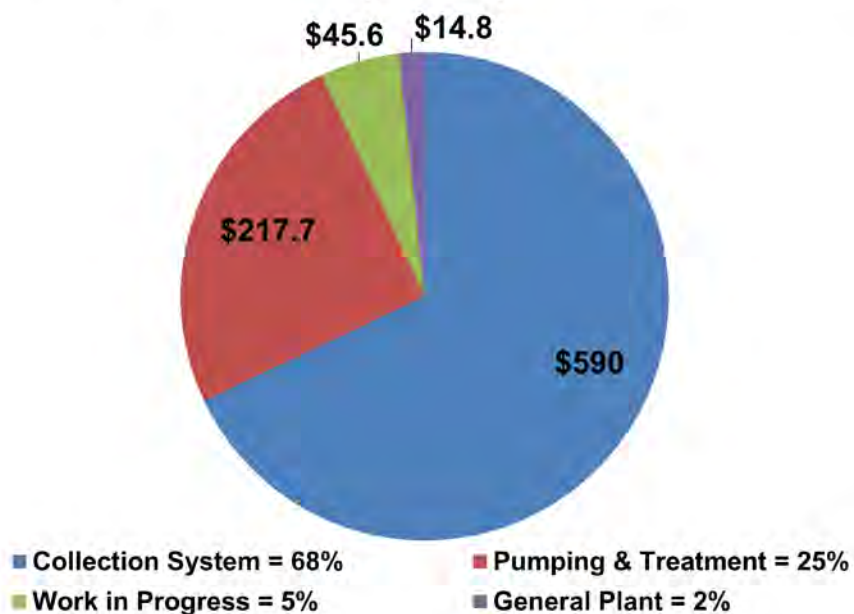
Management's Discussion and Analysis

June 30, 2025 and 2024

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$868.1 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 \$23.8 million or 2.8 percent over the end of the last fiscal year.

FY 2024 Wastewater Division Capital Assets = \$868.1 Million
(in Millions)



Major capital asset expenditures during the year were as follows:

- \$21 million related to Century II projects
 - \$7.2 million for sewer mini-basin rehabilitation and replacement
 - \$4.4 million for short line projects
 - \$4.4 million for pump station construction and improvements
 - \$4.2 million for wastewater treatment plant upgrades
 - \$0.8 million for trunkline improvements

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Knoxville Utilities Board Wastewater Division

Management's Discussion and Analysis

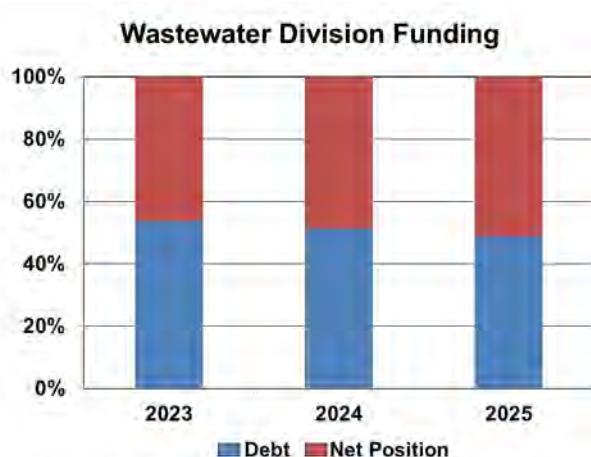
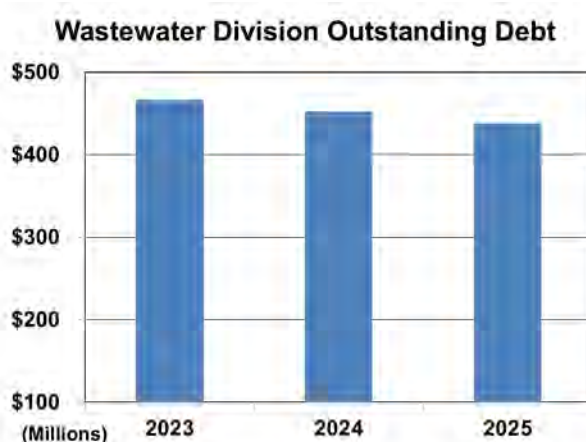
June 30, 2025 and 2024

Debt Administration

As of June 30, 2025, the Wastewater Division had \$438 million in outstanding wastewater system bonds. The bonds are secured solely by revenues of the Wastewater Division. Debt as a percentage of the Division's capital structure was 48.8 percent in 2025, 51.3 percent in 2024, and 53.6 percent in 2023. KUB's Debt Management Policy limits the Division's debt ratio to 60 percent or less.

Outstanding Debt As of June 30

<i>(in thousands of dollars)</i>	2025	2024	2023
Revenue bonds	\$ 437,965	\$ 452,820	\$ 467,345
Total outstanding debt	\$ 437,965	\$ 452,820	\$ 467,345



The Division will pay \$178.9 million in principal payments over the next ten years, representing 40.9 percent of the outstanding bonds. KUB's Debt Management Policy requires a minimum of 30 percent of wastewater debt principal be repaid over the next ten years.

Fiscal Year 2025 Compared to Fiscal Year 2024

As of June 30, 2025, the Division had \$438 million in outstanding debt (including the current portion of revenue bonds), representing a decrease of \$14.9 million. As of June 30, 2025, the Division's weighted average cost of debt was 3.99 percent (3.90 percent including the impact of Build America Bonds rebates).

The Division's outstanding debt is rated by S&P Global Ratings and Moody's Investors Service. In July 2024, S&P Global Ratings upgraded KUB's wastewater system's rating from AA+ to AAA, the highest rating available. As of June 30, 2025, the Division's revenue bonds were rated AAA by S&P Global Ratings and Aa2 by Moody's Investors Service.

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$452.8 million in outstanding debt (including the current portion of revenue bonds), representing a decrease of \$14.5 million. As of June 30, 2024, the Division's weighted average cost of debt was 3.98 percent (3.89 percent including the impact of Build America Bonds rebates).

Knoxville Utilities Board Wastewater Division

Management's Discussion and Analysis

June 30, 2025 and 2024

The Division's outstanding debt is rated by S&P Global Ratings and Moody's Investors Service. As of June 30, 2024, the Division's revenue bonds were rated AA+ by S&P Global Ratings and Aa2 by Moody's Investors Service.

Impacts on Future Financial Position

KUB anticipates adding 550 wastewater customers in fiscal year 2026.

KUB long-term debt includes \$20.3 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 5.7 percent. Any future actions by Congress may also affect the anticipated rebates for future fiscal years.

The Pension Plan actuarial valuation resulted in an actuarially determined contribution of \$2,793,313 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Wastewater Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2025, measurement date. Subsequent to June 30, 2025, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$2,939,593 for the fiscal year ending June 30, 2027, based on the Plan's current funding policy. The Wastewater Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2026, measurement date. For the Plan year beginning January 1, 2025, the Plan's actuarial funded ratio is 103.9 percent, and the market value funded ratio is 100.3 percent.

The OPEB Plan actuarial valuation resulted in an actuarially determined contribution of \$1,217,234 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Wastewater Division's portion of this contribution will be determined as part of the actuarial analysis for the June 30, 2026, measurement date. Subsequent to June 30, 2025, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$968,538 for the fiscal year ending June 30, 2027, based on the Plan's current funding policy. The Wastewater Division's portion of this contribution will be determined as part of the actuarial analysis for the June 30, 2027, measurement date. For the Plan year beginning January 1, 2025, the Plan's actuarial funded ratio is 96.3 percent, and the market value funded ratio is 93.8 percent.

GASB Statement No. 103, *Financial Reporting Model Improvements*, is effective for fiscal years beginning after June 15, 2025. GASB Statement No. 104, *Disclosure of Certain Capital Assets*, is effective for fiscal years beginning after June 15, 2025. 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 2025.

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, 2025, and 2024. 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, 2025 and 2024

	2025	2024
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 22,404,858	\$ 13,388,680
Short-term contingency fund investments	22,343,223	22,378,305
Other current assets	3,771	3,612
Accrued interest receivable	31,564	38,675
Accounts receivable, less allowance of uncollectible accounts of \$102,007 in 2025 and \$98,091 in 2024	11,315,233	11,312,857
Current portion of lease receivable	151,516	168,395
Inventories	709,091	574,851
Prepaid expenses	110,241	116,281
Total current assets	<u>57,069,497</u>	<u>47,981,656</u>
Restricted assets:		
Wastewater bond fund	8,071,897	8,224,234
Other funds	321	320
Total restricted assets	<u>8,072,218</u>	<u>8,224,554</u>
Wastewater plant in service	1,153,541,191	1,110,679,440
Less accumulated depreciation	<u>(311,047,142)</u>	<u>(288,115,652)</u>
	842,494,049	822,563,788
Retirement in progress	67,144	68,157
Construction in progress	<u>27,396,375</u>	<u>45,491,836</u>
Net plant in service	<u>869,957,568</u>	<u>868,123,781</u>
Intangible assets:		
Intangible right of use asset	97,330	101,233
Intangible subscription asset	458,034	502,929
Less accumulated amortization	<u>(310,641)</u>	<u>(272,606)</u>
Net intangible assets	<u>244,723</u>	<u>331,556</u>
Other assets:		
Long-term contingency fund investments	12,075,070	11,705,004
Long-term lease receivable	1,528,062	1,763,556
Other	<u>3,770,483</u>	<u>3,978,390</u>
Total other assets	<u>17,373,615</u>	<u>17,446,950</u>
Total assets	<u>952,717,621</u>	<u>942,108,497</u>
Deferred outflows of resources:		
Pension outflow	2,711,811	5,033,476
OPEB outflow	312,715	486,613
Unamortized bond refunding costs	<u>10,113,132</u>	<u>10,840,956</u>
Total deferred outflows of resources	<u>13,137,658</u>	<u>16,361,045</u>
Total assets and deferred outflows of resources	<u>\$ 965,855,279</u>	<u>\$ 958,469,542</u>

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

Knoxville Utilities Board Wastewater Division
Statements of Net Position
June 30, 2025 and 2024

	2025	2024
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	\$ 14,800,000	\$ 14,855,000
Current portion of accrued compensated absences	1,313,504	1,239,918
Current portion of lease liability	20,276	19,268
Current portion of subscription liability	67,468	66,418
Accounts payable	1,659,759	5,365,645
Accrued expenses	870,943	901,736
Customer deposits plus accrued interest	1,222,380	1,107,614
Accrued interest on revenue bonds	4,371,796	4,510,384
Total current liabilities	<u>24,326,126</u>	<u>28,065,983</u>
Other liabilities:		
Accrued compensated absences	646,950	638,746
Customer advances for construction	541,239	553,758
Lease liability	24,718	42,771
Subscription liability	142,451	210,007
Net pension liability	504,912	1,234,032
Net OPEB liability	860,788	1,578,688
Other	38,624	8,219
Total other liabilities	<u>2,759,682</u>	<u>4,266,221</u>
Long-term debt:		
Wastewater revenue bonds	423,165,000	437,965,000
Unamortized premiums/discounts	54,033,511	56,529,052
Total long-term debt	<u>477,198,511</u>	<u>494,494,052</u>
Total liabilities	<u>504,284,319</u>	<u>526,826,256</u>
Deferred inflows of resources:		
Pension inflow	4,753	9,882
OPEB inflow	783,864	381,912
Lease inflow	1,569,673	1,851,981
Total deferred inflows of resources	<u>2,358,290</u>	<u>2,243,775</u>
Total liabilities and deferred inflows of resources	<u>506,642,609</u>	<u>529,070,031</u>
Net position		
Net investment in capital assets	391,202,131	372,931,337
Restricted for:		
Debt service	3,700,100	3,713,850
Other	321	320
Unrestricted	64,310,118	52,754,004
Total net position	<u>459,212,670</u>	<u>429,399,511</u>
Total liabilities, deferred inflows, and net position	<u>\$ 965,855,279</u>	<u>\$ 958,469,542</u>

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, 2025 and 2024

	2025	2024
Operating revenues	\$ 119,864,643	\$ 114,620,879
Operating expenses		
Treatment	17,647,109	16,026,705
Collection	7,639,782	8,173,494
Customer service	3,185,892	3,051,083
Administrative and general	16,433,313	19,248,454
Depreciation and amortization	26,141,893	24,450,486
Taxes and tax equivalents	7,065,290	6,747,633
Total operating expenses	<u>78,113,279</u>	<u>77,697,855</u>
Operating income	<u>41,751,364</u>	<u>36,923,024</u>
Non-operating revenues (expenses)		
Contributions in aid of construction	1,579,356	893,969
Interest income	3,054,649	2,635,498
Interest expense	(17,921,641)	(18,485,795)
Amortization of debt costs	1,572,770	1,571,122
Write-down of plant for costs recovered through contributions	(1,579,356)	(893,969)
Other	332,838	958,186
Total non-operating revenues (expenses)	<u>(12,961,384)</u>	<u>(13,320,989)</u>
Change in net position before capital contributions	28,789,980	23,602,035
Capital contributions	<u>1,023,179</u>	<u>1,758,313</u>
Change in net position	29,813,159	25,360,348
Net position, beginning of year	<u>429,399,511</u>	<u>404,039,163</u>
Net position, end of year	<u>\$ 459,212,670</u>	<u>\$ 429,399,511</u>

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

Knoxville Utilities Board Wastewater Division

Statements of Cash Flows

Years Ended June 30, 2025 and 2024

	2025	2024
Cash flows from operating activities:		
Cash receipts from customers	\$ 118,669,307	\$ 112,685,736
Cash payments for other operations	168,787	(3,429,983)
Cash payments to suppliers of goods or services	(32,020,797)	(27,521,744)
Cash payments to employees for services	(14,731,977)	(13,780,745)
Payment in lieu of taxes	(5,935,512)	(5,652,868)
Net cash provided by operating activities	<u>66,149,808</u>	<u>62,300,396</u>
Cash flows from capital and related financing activities:		
Principal paid on revenue bonds	(14,855,000)	(14,525,000)
Interest paid on revenue bonds	(18,041,538)	(18,594,838)
Acquisition and construction of wastewater plant	(29,116,467)	(47,842,014)
Changes in wastewater bond fund, restricted	152,337	55,825
Customer advances for construction	198,155	106,567
Proceeds received on disposal of plant	1,132	-
Principal paid on lease liabilities	(17,045)	(19,925)
Principal paid on subscription liabilities	(66,506)	(77,952)
Interest paid on lease and subscription liabilities	(11,428)	(14,833)
Cash received from developers and individuals for capital purposes	1,579,356	893,969
Net cash used in capital and related financing activities	<u>(60,177,004)</u>	<u>(80,018,201)</u>
Cash flows from investing activities:		
Purchase of investment securities	(17,750,815)	(21,736,056)
Maturities of investment securities	17,800,000	21,800,000
Interest received	2,966,267	2,568,099
Other property and investments	27,922	(2,254)
Net cash provided by investing activities	<u>3,043,374</u>	<u>2,629,789</u>
Net increase (decrease) in cash and cash equivalents	9,016,178	(15,088,016)
Cash and cash equivalents, beginning of year	<u>13,388,680</u>	<u>28,476,696</u>
Cash and cash equivalents, end of year	<u>\$ 22,404,858</u>	<u>\$ 13,388,680</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 41,751,364	\$ 36,923,024
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	26,609,528	24,884,723
Changes in operating assets and liabilities:		
Accounts receivable	(2,376)	(823,886)
Lease receivable	252,373	(1,054,747)
Inventories	(134,240)	(111,021)
Prepaid expenses	6,040	(25,652)
Other assets	12,799	(50,574)
Accounts payable and other accrued expenses	(2,489,311)	2,522,240
Customer deposits plus accrued interest	113,227	42,921
Other liabilities	30,404	(6,632)
Net cash provided by operating activities	<u>\$ 66,149,808</u>	<u>\$ 62,300,396</u>
Noncash capital activities:		
Acquisition of plant assets through developer contributions	\$ 1,023,179	\$ 1,758,313
Record intangible subscription asset and subscription liability	\$ -	\$ 329,217

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

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. 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 as of June 30, 2025, and 2024, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

2. Significant Accounting Policies

Basis of Accounting

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

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

Recently Adopted New Accounting Pronouncements

In June 2022, the GASB issued GASB Statement No. 101 (Statement No. 101), *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. Statement No. 101 is effective for fiscal years beginning after December 15, 2023. Adoption of this Statement did not result in a restatement of prior periods due to immateriality.

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

In December 2023, the GASB issued GASB Statement No. 102 (Statement No. 102), *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. Statement No. 102 is effective for fiscal years beginning after June 15, 2024. Adoption of this Statement did not have a significant impact on KUB's financial statements.

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 "Depreciation and amortization" in the Statements of Revenue, Expenses and Change in Net Position does not include depreciation for transportation equipment. Depreciation for transportation equipment of \$467,636 in fiscal year 2025 and \$434,237 in fiscal year 2024 is included in operation and maintenance expense.

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 \$269,446 in fiscal year 2025 and \$266,332 in fiscal year 2024.

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

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

OPEB Trust

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

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, 2025, and 2024, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, are based on a June 30, 2025, and 2024, measurement date, respectively. The net OPEB liability is \$5,315,804 (Division's share \$860,788) as of June 30, 2025, and \$9,373,073 (Division's share \$1,578,688) as of June 30, 2024.

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 12). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2025, and 2024, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, are based on a December 31, 2024, and 2023, measurement date, respectively. The net pension liability is \$3,054,172 (Division's share \$500,667) as of June 30, 2025, and 7,452,380 (Division's share \$1,234,032) as of June 30, 2024.

KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single employer defined benefit pension plan administered by KUB (Note 13). As required by GASB Statement No. 73, KUB measures the total pension liability of the QEBA. The amounts reported as of June 30, 2025, and 2024, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2025, and 2024, are based on a December 31, 2024, and 2023, measurement date, respectively. The total pension liability of the QEBA is \$21,226 (Division's share \$4,245) as of June 30, 2025, and \$0 as of June 30, 2024.

For presentation purposes, the Pension Plan net pension liability and the QEBA total pension liability are disclosed in the Statement of Net Position as Net pension liability of \$504,912 as of June 30, 2025 and \$1,234,032 as of June 30, 2024. The Pension Plan deferred outflows and QEBA deferred outflows are disclosed as Pension outflow of \$2,711,811 as of June 30, 2025 and \$5,033,476 as of June 30, 2024. The Pension Plan deferred inflows and QEBA deferred inflows are disclosed as Pension inflow of \$4,753 as of June 30, 2025 and \$9,882 as of June 30, 2024.

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, lease liabilities, subscription liabilities, developer contributions, compensated absences, 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.

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

Cash Equivalents

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

Leases

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

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

Subscription-Based Information Technology Arrangements

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

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

Deferred Outflows and Inflows of Resources

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

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.

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

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. During fiscal year 2025, KUB adopted GASB Statement No. 101, *Compensated Absences* (GASB 101). GASB 101 requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash items. The accompanying financial statements, as of and for the year ended June 30, 2024, have not been restated due to immaterial impact on the net position.

Subsequent Events

KUB has evaluated events and transactions through October 23, 2025, the date these financial statements were available to be issued, for items that should potentially be recognized or disclosed.

Recently Issued Accounting Pronouncements

In April 2024, the GASB issued GASB Statement No. 103 (Statement No. 103), *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. Statement No. 103 is effective for fiscal years beginning after June 15, 2025.

In September 2024, the GASB issued GASB Statement No. 104 (Statement No. 104), *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. Statement No. 104 is effective for fiscal years beginning after June 15, 2025.

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.

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

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

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

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

Classification of deposits and investments per Statement of Net Position:

	2025	2024
Current assets		
Cash and cash equivalents	\$ 22,404,858	\$ 13,388,680
Short-term contingency fund investments	22,040,104	22,201,091
Other assets		
Long-term contingency fund investments	12,075,070	11,705,004
Restricted assets		
Wastewater bond fund	8,071,897	8,224,234
Other funds	321	320
	<u>\$ 64,592,250</u>	<u>\$ 55,519,329</u>

The above amounts do not include accrued interest of \$303,119 in fiscal year 2025 and \$177,214 in fiscal year 2024. Interest income is recorded on an accrual basis.

Investments and maturities of KUB's cash equivalents and investments as held by financial institutions as of June 30, 2025:

Cash Equivalents and Investment Maturities (in Years)			
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	\$ 23,650,037	\$ 23,650,037	\$ -
State Treasurer's Investment Pool	17,827,162	17,827,162	-
Agency Bonds	24,359,809	12,284,739	12,075,070
	<u>\$ 65,837,008</u>	<u>\$ 53,761,938</u>	<u>\$ 12,075,070</u>

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

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.

The Division has the following recurring fair value measurements as of June 30, 2025:

- U.S. Agency bonds of \$12,075,070, 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:

	2025	2024
Wholesale and retail customers		
Billed services	\$ 6,626,582	\$ 6,711,680
Unbilled services	4,459,716	4,387,281
Other	330,942	311,987
Allowance for uncollectible accounts	(102,007)	(98,091)
	<u>\$ 11,315,233</u>	<u>\$ 11,312,857</u>

5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	2025	2024
Trade accounts	\$ 1,659,759	\$ 5,365,645
Current portion of accrued compensated absences	1,313,504	1,239,918
Salaries and wages	364,401	327,018
Self-insurance liabilities	506,542	574,718
	<u>\$ 3,844,206</u>	<u>\$ 7,507,299</u>

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Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2024	Additions	Payments	Defeased	Balance June 30, 2025	Amounts Due Within One Year
Wastewater						
2010C - 1.18 - 6.1%	\$ 20,250,000	\$ -	\$ -	\$ -	\$ 20,250,000	\$ -
2015A - 3.0 - 5.0%	95,225,000	-	3,785,000	-	91,440,000	1,425,000
2015B - 3.0 - 5.0%	625,000	-	625,000	-	-	-
2016 - 2.0 - 5.0%	16,225,000	-	575,000	-	15,650,000	575,000
2017A - 3.0 - 5.0%	1,915,000	-	615,000	-	1,300,000	640,000
2017B - 2.0 - 5.0%	21,405,000	-	660,000	-	20,745,000	690,000
2018 - 3.0 - 5.0%	10,435,000	-	290,000	-	10,145,000	305,000
2019 - 3.0 - 5.0%	14,460,000	-	360,000	-	14,100,000	380,000
2020A - 3.0 - 5.0%	25,300,000	-	785,000	-	24,515,000	825,000
2020B - 3.0 - 4.0%	25,175,000	-	625,000	-	24,550,000	650,000
2021A - 4.0 - 5.0%	178,180,000	-	6,150,000	-	172,030,000	8,360,000
2022A - 4.0 - 5.0%	10,700,000	-	210,000	-	10,490,000	220,000
2022B - 4.0 - 5.0%	23,100,000	-	-	-	23,100,000	545,000
2022C - 4.0 - 5.0%	9,825,000	-	175,000	-	9,650,000	185,000
Total bonds	\$ 452,820,000	\$ -	\$ 14,855,000	\$ -	\$ 437,965,000	\$ 14,800,000
Unamortized Premium	56,529,052	-	2,495,541	-	54,033,511	-
Total long term debt	\$ 509,349,052	\$ -	\$ 17,350,541	\$ -	\$ 491,998,511	\$ 14,800,000

	Balance June 30, 2023	Additions	Payments	Defeased	Balance June 30, 2024	Amounts Due Within One Year
Wastewater						
2010C - 1.18 - 6.1%	\$ 20,250,000	\$ -	\$ -	\$ -	\$ 20,250,000	\$ -
2015A - 3.0 - 5.0%	98,945,000	-	3,720,000	-	95,225,000	3,785,000
2015B - 3.0 - 5.0%	1,225,000	-	600,000	-	625,000	625,000
2016 - 2.0 - 5.0%	16,775,000	-	550,000	-	16,225,000	575,000
2017A - 3.0 - 5.0%	2,510,000	-	595,000	-	1,915,000	615,000
2017B - 2.0 - 5.0%	22,035,000	-	630,000	-	21,405,000	660,000
2018 - 3.0 - 5.0%	10,715,000	-	280,000	-	10,435,000	290,000
2019 - 3.0 - 5.0%	14,805,000	-	345,000	-	14,460,000	360,000
2020A - 3.0 - 5.0%	26,050,000	-	750,000	-	25,300,000	785,000
2020B - 3.0 - 4.0%	25,775,000	-	600,000	-	25,175,000	625,000
2021A - 4.0 - 5.0%	184,265,000	-	6,085,000	-	178,180,000	6,150,000
2022A - 4.0 - 5.0%	10,900,000	-	200,000	-	10,700,000	210,000
2022B - 4.0 - 5.0%	23,100,000	-	-	-	23,100,000	-
2022C - 4.0 - 5.0%	9,995,000	-	170,000	-	9,825,000	175,000
Total bonds	\$ 467,345,000	\$ -	\$ 14,525,000	\$ -	\$ 452,820,000	\$ 14,855,000
Unamortized Premium	59,027,339	-	2,498,287	-	56,529,052	-
Total long term debt	\$ 526,372,339	\$ -	\$ 17,023,287	\$ -	\$ 509,349,052	\$ 14,855,000

Knoxville Utilities Board Wastewater Division
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June 30, 2025 and 2024

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

Fiscal Year	Principal	Total Interest	Grand Total
2026	\$ 14,800,000	\$ 17,487,189	\$ 32,287,189
2027	15,255,000	16,902,724	32,157,724
2028	15,910,000	16,221,426	32,131,426
2029	16,640,000	15,499,395	32,139,395
2030	17,390,000	14,748,701	32,138,701
2031-2035	98,935,000	61,808,620	160,743,620
2036-2040	127,825,000	40,153,471	167,978,471
2041-2045	89,870,000	15,945,641	105,815,641
2046-2050	39,555,000	3,999,306	43,554,306
2051-2052	1,785,000	99,125	1,884,125
Total	\$ 437,965,000	\$ 202,865,598	\$ 640,830,598

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, 2025, those bond covenants had been satisfied.

The Division's outstanding bonds payable contain provisions that in an event of default, outstanding amounts are to become immediately due if the Division is unable to make payment.

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, 2021, the effective reduction in rebate is 5.7 percent.

Other liabilities consist of the following:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
Accrued compensated absences	\$ 638,746	\$ 2,131,821	\$ (2,123,617)	\$ 646,950
Customer advances for construction	553,758	233,272	(245,791)	541,239
Other	8,219	64,205	(33,800)	38,624
	\$ 1,200,723	\$ 2,429,298	\$ (2,403,208)	\$ 1,226,813

Knoxville Utilities Board Wastewater Division
Notes to Financial Statements
June 30, 2025 and 2024

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Accrued compensated absences	\$ 646,371	\$ 1,347,137	\$ (1,354,762)	\$ 638,746
Customer advances for construction	447,191	154,816	(48,249)	553,758
Other	14,852	-	(6,633)	8,219
	<u>\$ 1,108,414</u>	<u>\$ 1,501,953</u>	<u>\$ (1,409,644)</u>	<u>\$ 1,200,723</u>

7. Lease Receivables

KUB, as lessor, leases office space under non-cancelable lease arrangements. Terms of the leases range from one to fourteen years and contain fixed payment terms. Certain leases contain an option to renew that has been considered in the lease receivable when the lessee is reasonably certain to exercise the renewal option. KUB recognized lease revenue, which is included in other operating revenues, of \$190,724 in 2025 and \$198,328 in 2024. KUB also recognized interest income from leases, which is included in non-operating revenues, totaling \$60,637 in 2025 and \$64,802 in 2024. Total lease receivables were \$1,679,578 (\$151,516 current) and \$1,931,951 (\$168,395 current) as of June 30, 2025, and 2024, respectively, and are included in other assets on the Statement of Net Position.

8. Lease Liabilities

Changes in lease liabilities are summarized as follows:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
Total lease liabilities	\$ 62,039	\$ -	\$ (17,045)	\$ 44,994
Less current portion	(19,268)			(20,276)
Long-term portion	<u>\$ 42,771</u>			<u>\$ 24,718</u>

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Total lease liabilities	\$ 81,964	\$ -	\$ (19,925)	\$ 62,039
Less current portion	(19,925)			(19,268)
Long-term portion	<u>\$ 62,039</u>			<u>\$ 42,771</u>

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

Knoxville Utilities Board Wastewater Division
Notes to Financial Statements
June 30, 2025 and 2024

Maturities and future interest requirements related to the balances of lease liabilities outstanding as of June 30, 2025, are summarized as follows:

	Lease Maturities	Interest Requirements
2026	\$ 20,276	\$ 1,446
2027	10,383	808
2028	528	618
2029	566	615
2030	606	610
2031-2035	3,738	2,910
2036-2040	5,264	2,442
2041-2043	3,633	961
	<u>\$ 44,994</u>	<u>\$ 10,410</u>

9. Subscription-Based Information Technology Agreement Liabilities

Changes in SBITA liabilities are summarized as follows:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
Total SBITA liabilities	\$ 276,425	\$ -	\$ (66,506)	\$ 209,919
Less current portion	<u>(66,418)</u>			<u>(67,468)</u>
Long-term portion	<u>\$ 210,007</u>			<u>\$ 142,451</u>

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Total SBITA liabilities	\$ 25,161	\$ 329,217	\$ (77,953)	\$ 276,425
Less current portion	<u>(19,084)</u>			<u>(66,418)</u>
Long-term portion	<u>\$ 6,077</u>			<u>\$ 210,007</u>

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

Maturities and future interest requirements related to the balances of SBITA liabilities outstanding as of June 30, 2025, are summarized as follows:

	Subscription Maturities	Interest Requirements
2026	\$ 67,468	\$ 6,838
2027	69,328	4,199
2028	73,123	1,434
	<u>\$ 209,919</u>	<u>\$ 12,471</u>

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

10. Capital and Intangible Assets

Capital and intangible asset activity was as follows:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
Pumping & Treatment Plant	\$ 333,008,588	\$ 8,580,966	\$ (583,373)	\$ 341,006,181
Collection Plant				
Mains and Metering	653,722,654	35,672,695	-	689,395,349
Mains and Metering - Meters	1,176,766	-	-	1,176,766
Other Accounts	79,805,163	-	-	79,805,163
Total Collection Plant	\$ 734,704,583	\$ 35,672,695	\$ -	\$ 770,377,278
Total General Plant	<u>42,966,269</u>	<u>2,083,761</u>	<u>(2,892,298)</u>	<u>42,157,732</u>
Total Wastewater Plant	\$ 1,110,679,440	\$ 46,337,422	\$ (3,475,671)	\$ 1,153,541,191
Less accumulated depreciation	<u>(288,115,652)</u>	<u>(26,526,103)</u>	<u>3,594,613</u>	<u>(311,047,142)</u>
Net Plant Assets	\$ 822,563,788	\$ 19,811,319	\$ 118,942	\$ 842,494,049
Work In Progress	<u>45,559,993</u>	<u>27,370,897</u>	<u>(45,467,371)</u>	<u>27,463,519</u>
Total Net Plant	<u>\$ 868,123,781</u>	<u>\$ 47,182,216</u>	<u>\$ (45,348,429)</u>	<u>\$ 869,957,568</u>
Intangible Right of Use Assets				
Office space	\$ 66,494	\$ -	\$ (3,023)	\$ 63,471
Equipment	18,489	-	(880)	17,609
Other	16,250	-	-	16,250
Total Intangible Right of Use Assets	\$ 101,233	\$ -	\$ (3,903)	\$ 97,330
Less Accumulated Amortization	<u>(41,568)</u>	<u>(16,663)</u>	<u>-</u>	<u>(58,231)</u>
Net Intangible Right of Use Assets	<u>\$ 59,665</u>	<u>\$ (16,663)</u>	<u>\$ (3,903)</u>	<u>\$ 39,099</u>
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 502,929	\$ -	\$ (44,895)	\$ 458,034
Less Accumulated Amortization	<u>(231,038)</u>	<u>(66,267)</u>	<u>44,895</u>	<u>(252,410)</u>
Net Intangible Subscription Assets	<u>\$ 271,891</u>	<u>\$ (66,267)</u>	<u>\$ -</u>	<u>\$ 205,624</u>

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Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Pumping & Treatment Plant	\$ 309,310,148	\$ 24,276,077	\$ (577,637)	\$ 333,008,588
Collection Plant				
Mains and Metering	621,002,125	34,558,687	(1,838,158)	653,722,654
Mains and Metering - Meters	1,180,398	(3,632)	-	1,176,766
Other Accounts	79,805,163	-	-	79,805,163
Total Collection Plant	\$ 701,987,686	\$ 34,555,055	\$ (1,838,158)	\$ 734,704,583
Total General Plant	43,691,913	3,288,107	(4,013,751)	42,966,269
Total Wastewater Plant	\$ 1,054,989,747	\$ 62,119,239	\$ (6,429,546)	\$ 1,110,679,440
Less accumulated depreciation	(269,797,310)	(24,785,681)	6,467,339	(288,115,652)
Net Plant Assets	\$ 785,192,437	\$ 37,333,558	\$ 37,793	\$ 822,563,788
Work In Progress	59,061,181	46,964,185	(60,465,373)	45,559,993
Total Net Plant	\$ 844,253,618	\$ 84,297,743	\$ (60,427,580)	\$ 868,123,781
Intangible Right of Use Assets				
Office space	\$ 66,494	\$ -	\$ -	\$ 66,494
Equipment	27,931	-	(9,442)	18,489
Other	16,250	-	-	16,250
Total Intangible Right of Use Assets	\$ 110,675	\$ -	\$ (9,442)	\$ 101,233
Less Accumulated Amortization	(30,275)	(20,735)	9,442	(41,568)
Net Intangible Right of Use Assets	\$ 80,400	\$ (20,735)	\$ -	\$ 59,665
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 63,455	\$ 439,474	\$ -	\$ 502,929
Less Accumulated Amortization	(33,297)	(197,741)	-	(231,038)
Net Intangible Subscription Assets	\$ 30,158	\$ 241,733	\$ -	\$ 271,891

11. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. As of June 30, 2025, and June 30, 2024, the amount of these liabilities was \$506,542 and \$574,718 respectively, resulting from the following changes:

	2025	2024
Balance, beginning of year	\$ 574,718	\$ 543,575
Current year claims and changes in estimates	3,881,509	4,265,238
Claims payments	(3,949,685)	(4,234,095)
Balance, end of year	\$ 506,542	\$ 574,718

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

12. Pension Plan

Description of Plan

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

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

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

	2024	2023
Inactive plan members:		
Terminated vested participants	10	9
Retirees and beneficiaries	589	602
Active plan members	<u>359</u>	<u>389</u>
Total	<u>958</u>	<u>1,000</u>

Retirement Benefits

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

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

In addition, the Plan provided retirement benefits through "Plan A" for former City System Plan A participants who elected not to participate in the CEP. Plan A is a closed plan and is not available to KUB employees hired after July 1, 1999. Plan A provides for early retirement benefits with 25

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

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, 2024:

Asset Class	Target Allocation
Domestic equity – large cap	20% - 50%
Domestic equity – small/mid cap	0% - 30%
Multi-asset credit	0% - 20%
Non-U.S. equity	0% - 20%
U.S. core real estate	0% - 10%
Fixed income	20% - 40%
Cash and deposits	0% - 5%

Contributions of \$2,210,234 and \$1,108,147 for 2023 and 2022, respectively, were made during the Plan sponsor’s fiscal years ended June 30, 2025, and 2024, respectively. Of these amounts, \$362,320 and \$183,497 are attributable to the Wastewater Division. The fiscal year 2025

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

contribution was determined as part of the January 1, 2023, 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, 2025, and 2024, will be based on the December 31, 2024, and 2023, measurement dates, respectively. The net pension liability is \$3,054,172 (Division's share \$500,667) as of June 30, 2025, and \$7,452,380 (Division's share \$1,234,032) as of June 30, 2024.

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

	2024	2023
Total pension liability	\$ 274,028,893	\$ 263,351,035
Plan fiduciary net position	<u>(270,974,721)</u>	<u>(255,898,655)</u>
Plan's net pension liability	<u>\$ 3,054,172</u>	<u>\$ 7,452,380</u>

Plan fiduciary net position as a percentage of the total pension liability	98.89%	97.17%
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Knoxville Utilities Board Wastewater Division
Notes to Financial Statements
June 30, 2025 and 2024

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

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2023	\$ 263,351,035	\$ 255,898,655	\$ 7,452,380
Changes for the year:			
Service cost	7,764,986	-	7,764,986
Interest	18,573,527	-	18,573,527
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	2,346,811	-	2,346,811
Changes of Assumptions	1,425,345	-	1,425,345
Contributions - employer	-	1,659,187	(1,659,187)
Contributions - rollovers	-	75	(75)
Contributions - member	-	4,971,073	(4,971,073)
Net investment income	-	28,541,389	(28,541,389)
Benefit payments	(19,432,811)	(19,432,811)	-
Administrative expense	-	(662,847)	662,847
Net changes	10,677,858	15,076,066	(4,398,208)
Balances at December 31, 2024	<u>\$ 274,028,893</u>	<u>\$ 270,974,721</u>	<u>\$ 3,054,172</u>

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, 2024, rolled forward to December 31, 2024; January 1, 2023, rolled forward to December 31, 2023
Discount rate	7.00% as of December 31, 2024 and 2023
Salary increases	From 2.50% to 8.50%, based on years of service as of December 31, 2024 and from 2.50% to 5.65% as of December 31, 2023
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 MP-2021, fully generational as of December 31, 2024; Scale MP-2018 was used as of December 31, 2023
Inflation	2.5% as of December 31, 2024 and 2023

The actuarial assumptions used in the January 1, 2024, valuation was based on an actuarial experience study covering January 1, 2019 through December 31, 2023, and the assumptions used in the January 1, 2023 valuation were based on an actuarial experience study covering the period January 1, 2014 through December 31, 2018.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class.

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

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, 2024, and 2023, are summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. Prior to February 22, 2024, the Plan had both aggregate and long duration fixed income. As of December 31, 2024, the Plan has only aggregate fixed income. Effective September 30, 2024 the REIT fund was transferred to a U.S. core real estate fund.

Asset Class	Long Term Expected Real Rate of Return	
	2024	2023
Domestic equity	6.0%	5.6%
Non-U.S. equity	6.5%	6.5%
Real estate equity	n/a	5.8%
Real estate U.S. core	5.1%	n/a
Debt securities	2.5%	1.9%
Cash and deposits	1.2%	0.7%

Discount rate

The discount rate used to measure the total pension liability was 7.00 percent as of December 31, 2024, and December 31, 2023. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability of the Plan as of December 31, 2024, calculated using the discount rate of 7.00 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 (6.00 percent) or one percent higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Plan's net pension liability	\$ 29,141,576	\$ 3,054,172	\$ (19,335,531)

Knoxville Utilities Board Wastewater Division

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June 30, 2025 and 2024

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

For the year ended June 30, 2025, KUB recognized pension expense of \$10,401,958, and the Wastewater Division's share was \$1,947,326.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2023, this average was three years. During the measurement year, there was a liability experience loss of \$2,346,811, with \$782,270 of that recognized in the current year and each of the next two years, resulting in a deferred outflow of \$1,564,541. Unrecognized liability experience losses from prior periods were \$2,580,215, of which \$1,463,476 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,116,739. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,681,280 (Division's share \$439,540).

During the measurement year, there was an assumption change loss of \$1,425,345 with \$475,115 of that recognized in the current year and each of the next two years, resulting in a deferred outflow of \$950,230. Net unrecognized assumption change losses from prior periods were \$2,634,336, of which \$1,317,168 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$1,317,168. The combination of unrecognized assumption change losses this year, along with unrecognized assumption change losses from prior periods, results in a deferred outflow of \$2,267,398 (Division's share \$371,692).

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 \$11,091,799, of which \$2,218,360 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$22,505,337, of which \$4,001,667 was recognized as an increase in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with net unrecognized investment losses from prior periods, results in a deferred outflow of \$9,630,231 (Division's share \$1,578,674).

The impact of the change in proportionate share for the Wastewater Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is three years. This change resulted in a deferred outflow of \$33,644, with \$11,214 of that recognized in the current year and the remaining amount recognized over the next two years, resulting in a deferred outflow of resources of \$22,430. Net proportionate share changes from prior periods were \$351,167 of which \$235,683 was recognized in the current year, resulting in a deferred outflow of resources of \$115,484. Unrecognized proportionate share changes from prior periods of \$9,507, of which \$4,754 was recognized in the current year, resulted in a deferred inflow of \$4,753. In addition, KUB's Wastewater Division recorded a deferred outflow of resources of \$181,161 for employer contributions made between December 31, 2024 and June 30, 2025.

Knoxville Utilities Board Wastewater Division

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The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Wastewater Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 439,540	\$ -
Changes in assumptions	371,692	-
Net difference between projected and actual earnings on pension plan investments	1,578,674	-
Change in proportionate share	137,914	4,753
Contributions subsequent to measurement date	181,161	-
Total	<u>\$ 2,708,981</u>	<u>\$ 4,753</u>

\$181,161 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, 2026. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:		
2026	\$	1,774,045
2027		2,135,302
2028		(1,022,627)
2029		(363,653)
2030		-
Thereafter		-

For the year ended June 30, 2024, KUB recognized pension expense of \$6,394,757, and the Wastewater Division's share was \$1,289,829.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2022, this average was four years. During the measurement year, there was a liability experience loss of \$2,092,475, with \$523,119 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$1,569,356. Unrecognized liability experience losses from prior periods were \$1,951,216, of which \$940,357 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,010,859. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,580,215 (Division's share \$427,256). Unrecognized liability gains from prior periods were \$210,825, of which \$210,825 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$0.

During the measurement year, there were no benefit changes or assumption changes. Net unrecognized assumption change losses from prior periods were \$5,646,136, of which \$3,011,800 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$2,634,336 (Division's share \$436,217).

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

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 \$20,099,370, of which \$4,019,874 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 \$39,628,509, of which \$1,043,676 was recognized as an increase in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with net unrecognized investment losses from prior periods, results in a deferred outflow of \$22,505,337 (Division's share \$3,726,636).

The impact of the change in proportionate share for the Wastewater Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is four years. This change resulted in a deferred outflow of \$230,969, with \$57,742 of that recognized in the current year and the remaining amount recognized over the next three years, resulting in a deferred outflow of resources of \$173,227. Net proportionate share changes from prior periods were \$355,880, of which \$177,940 was recognized in the current year, resulting in a deferred outflow of resources of \$177,940. Unrecognized proportionate share changes from prior periods of \$14,261, of which \$4,754 was recognized in the current year, resulted in a deferred inflow of \$9,507. In addition, KUB's Wastewater Division recorded a deferred outflow of resources of \$91,749 for employer contributions made between December 31, 2023, and June 30, 2024.

The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Wastewater Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 427,256	\$ -
Changes in assumptions	436,217	-
Net difference between projected and actual earnings on pension plan investments	3,726,636	-
Change in proportionate share	351,167	9,507
Contributions subsequent to measurement date	91,749	-
Total	<u>\$ 5,033,025</u>	<u>\$ 9,507</u>

13. Qualified Excess Benefit Arrangement

Description

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

As of June 30, 2025, there are 341 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

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

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, 2025, and 2024, are based on a December 31, 2024, and 2023, measurement date, respectively. The total pension liability of the QEBA is \$21,226 (Division's share \$4,245) as of June 30, 2025, and \$0 as of June 30, 2024.

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

	2024	2023
Total pension liability	\$21,226	\$0
Deferred outflows	(14,151)	(2,051)
Deferred inflows	-	1,704
Net impact on Statement of Net Position	<u>\$7,075</u>	<u>(\$347)</u>
Covered payroll	\$34,776,504	\$35,604,464
Total pension liability as a % of covered payroll	0.06%	0.00%

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

	Increase (Decrease)
	Total Pension Liability
Balances at December 31, 2023	\$ -
Changes for the year:	
Service cost	-
Interest	-
Changes of Benefits	-
Differences between Expected and Actual Experience	21,226
Changes of Assumptions	-
Benefit payments	-
Net changes	<u>21,226</u>
Balances at December 31, 2024	<u>\$ 21,226</u>

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Actuarial Assumptions

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

Valuation dates	January 1, 2024, rolled forward to December 31, 2024
Actuarial cost method	Individual entry age
Discount rate	4.08% at January 1, 2024
Salary increases	From 2.50% to 8.50%, based on years of service
Mortality	115% and 110% of the PubG-2010 table for males and females, respectively, using the benefits-weighted Public Sector General Healthy Annuitant Mortality Table for ages 50 and older and the benefits-weighted Public Sector General Employee Table for ages under 50, both projected from the 2010 base rates using scale MP-2021, fully generational as of December 31, 2024
Inflation	2.50%

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 4.08% at December 31, 2024.

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, 2024, calculated using the discount rate of 4.08 percent, as well as what the QEBA's liability would be if it were calculated using a discount rate that is one percent lower (3.08 percent) or one percent higher (5.08 percent) than the current rate.

	1% Decrease (3.08%)	Current Discount Rate (4.08%)	1% Increase (5.08%)
QEBA's total pension liability	\$ 24,131	\$ 21,226	\$ 18,639

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

For the year ended June 30, 2025, KUB recognized pension expense of \$7,422 (Division's share \$1,491) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [\$7,075 – (\$347)+ \$-].

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, 2023, this average was three years.

During the measurement year, there was an experience loss of \$21,226 with \$7,075 recognized in the current year and the remaining deferred outflow of \$14,151 (Division's share \$2,830) to be recognized over the next two years. Unrecognized experience losses from prior periods were \$2,033, with the full amount recognized as an increase in pension expense in the current year. Unrecognized experience gains from prior periods were \$1,704, with the full amount recognized as a decrease in pension expense in the current year.

Unrecognized assumption change losses from prior periods were \$19, with the full amount recognized as an increase in pension expense in the current year.

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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	\$ 14,151	\$ -
Changes in assumptions	-	-
Total	<u>\$ 14,151</u>	<u>\$ -</u>
Division's share	<u>\$ 2,830</u>	<u>\$ -</u>

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

Year ended June 30:

2026	\$ 7,075
2027	7,076
2028	-
2029	-
2030	-
Thereafter	-

For the year ended June 30, 2024, KUB recognized pension expense of \$3,024 (Division's share \$665) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [(\$347) – (\$3,371) + \$-].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2020, this average was four years. There was a deferred inflow at the end of the measurement year of \$1,717 (Division's share \$375) from experience gains in prior years and a deferred outflow of \$2,033 (Division's share \$447) from experience losses in prior years.

There was a deferred outflow of \$18 (Division's share \$4) from assumption changes in prior years.

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Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

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	\$ 2,033	\$ 1,717
Changes in assumptions	18	-
Total	<u>\$ 2,051</u>	<u>\$ 1,717</u>
Division's share	<u>\$ 451</u>	<u>\$ 375</u>

14. Defined Contribution Plan

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

KUB funded 401(k) matching contributions and non-elective contributions of \$4,799,996 (Division's share \$959,999) and \$3,909,598 (Division's share \$821,015), respectively, for the years ended June 30, 2025, and 2024.

Vesting

Participants are immediately vested in their own contributions to the Plan, plus actual earnings on these contributions. Participants become 100% vested and entitled to the full value of their account, less any loans outstanding, upon death or disability or upon retirement after attaining their normal retirement age (first of the month coinciding with or following attainment of age 62).

Otherwise, vesting in the KUB matching contribution and non-elective contribution (as applicable) portion of their account plus related earnings are based on years of service and date of hire, as follows:

Participants hired prior to January 1, 2011 are 100% vested in the KUB matching contribution portion of their account.

Participants hired by KUB after December 31, 2010 are vested in the KUB matching and non-elective contribution portion of their account as follows:

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<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 2 years	0%
2	20%
3	40%
4	60%
5	80%
6 or more	100%

Forfeitures

Forfeitures are created when participants terminate employment before becoming entitled to their full benefits under the Plan. Upon forfeiture, the match and non-elective funds become available to offset Plan expenses. The Plan experienced forfeitures of \$243,630 during calendar year 2024 and \$306,016 during calendar year 2023. Forfeitures of \$271,595 and \$295,955 were used to reduce employer contributions in 2024 and 2023, respectively. The ending balance of forfeited assets in the Plan, including contributions and dividends, totaled \$10,862 and \$37,985 as of December 31, 2024 and 2023, respectively.

15. Other Post-Employment Benefits (OPEB)

Description of Trust

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

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

Knoxville Utilities Board Wastewater Division

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

	HRA		Retiree Medical Benefit	
	2025	2024	2025	2024
Retirees	16	9	707	722
Dependents of retirees	16	7	385	401
Eligible active employees	1,109	1,127	128	144
Total	1,141	1,143	1,220	1,267

Benefits

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

Contributions and Funding

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

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

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

Based on the date of retirement, certain retired members are required to contribute specified amounts monthly to maintain health insurance. Those who retired prior to July 1983 have no required monthly premiums for themselves or dependents. The retirees, or their surviving dependents, who retired between August 1983 and January 1998 are required to pay \$275 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 \$275 for single coverage and \$550 for family coverage. There is currently no premium for Medicare eligible retirees or dependents. KUB is responsible for determining the level of retired plan member contributions on an annual basis as part of its review of healthcare cost sharing.

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

Knoxville Utilities Board Wastewater Division

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Investments

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

The following was the Trust's adopted investment target allocations as set forth in the Trust's Investment Policy as of June 30, 2025:

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%

Actuarially determined contributions for the Wastewater Division of \$207,268 and \$200,053 were made to the OPEB Trust in fiscal years ended June 30, 2025 and 2024, respectively. These were based on the OPEB actuarial valuations as of January 1, 2023, and 2022.

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, 2025, and 2024, and the Total OPEB Liability as of the valuation date, January 1, 2024, updated to June 30, 2025, and January 1, 2023, updated to June 30, 2024, respectively. The Division's share of the total net OPEB liability was \$860,788 as of June 30, 2025, and \$1,578,688 as of June 30, 2024.

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

	2025	2024
Total OPEB liability	\$ 60,675,101	\$ 61,042,928
Plan fiduciary net position	55,359,297	51,669,855
Net OPEB liability	\$ 5,315,804	\$ 9,373,073
Plan fiduciary net position as a percentage of the total OPEB liability	91.24%	84.65%

Knoxville Utilities Board Wastewater Division
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Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2024	\$ 61,042,928	\$ 51,669,855	\$ 9,373,073
Changes for the year:			
Service cost	506,802	-	506,802
Interest	4,176,096	-	4,176,096
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	(154,501)	-	(154,501)
Changes of Assumptions	(1,302,021)	-	(1,302,021)
Contributions - employer	-	1,279,985	(1,279,985)
Contributions - member	-	-	-
Net investment income	-	6,084,906	(6,084,906)
Benefit payments	(3,594,203)	(3,594,203)	-
Administrative expense	-	(81,246)	81,246
Net changes	(367,827)	3,689,442	(4,057,269)
Balances at June 30, 2025	<u>\$ 60,675,101</u>	<u>\$ 55,359,297</u>	<u>\$ 5,315,804</u>

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, 2024, rolled forward to June 30, 2025; January 1, 2023, rolled forward to June 30, 2024
Discount rate:	7.00% as of June 30, 2025 and June 30, 2024
Healthcare cost trend rates:	<i>Pre-Medicare:</i> 8.00% grading down to 3.935% over 20 years as of June 30, 2025; 5.75% grading down to 3.935% over 20 years as of June 30, 2024 <i>Medicare:</i> 6.00% grading down to 3.935% over 20 years as of June 30, 2025; 11.30% grading down to 3.935% over 20 years as of June 30, 2024 <i>Administrative expenses:</i> 3.0% per year
Salary increases:	From 2.50% to 8.50%
Mortality:	115% and 110% of the benefits-weighted Public Sector General Healthy Annuitant Mortality Table (PubG-2010) respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Healthy Annuitant Mortality Table, both projected using scale MP-2021 fully generational
Inflation:	2.50%

Knoxville Utilities Board Wastewater Division

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The actuarial assumptions used in the January 1, 2024 valuation were based on the results of an actuarial experience study for the period January 1, 2019 through December 31, 2023. The January 1, 2023 valuation assumptions were based on the results of actuarial experience study for the periods January 1, 2014, through December 31, 2018.

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

Asset Class	Long Term Expected Real Rate of Return	
	2025	2024
Domestic equity	6.0%	5.4%
International equity	6.4%	6.1%
Emerging Market equity	7.3%	7.8%
Real estate equity	6.3%	5.5%
Debt securities	2.4%	2.3%
Cash and deposits	0.9%	0.9%

Discount rate

The discount rate used to measure the total OPEB liability was 7.00 percent as of June 30, 2025 and June 30, 2024. 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, 2025, calculated using the discount rate of 7.00 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is one percent lower (6.00 percent) or one percent higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB liability	\$10,974,569	\$5,315,804	\$512,532

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

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, 2025, as well as what the Trust's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percent lower or one percent higher than the current rate:

	1% Decrease	Baseline Trends	1% Increase
Net OPEB liability	\$435,302	\$5,315,804	\$10,948,243

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

For the year ended June 30, 2025, KUB's Wastewater Division recognized OPEB expense of \$65,218.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience gain of \$154,501, with \$22,072 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$132,429 (Division's share \$21,444). Unrecognized experience losses from prior periods were \$587,407, of which \$100,703 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of resources of \$486,704 (Division's share \$78,812).

During the measurement year, there were no benefit changes.

During the measurement year, there was an assumption change gain of \$1,302,021, with \$186,003 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$1,116,018. Unrecognized assumption change gains from prior period were \$1,801,872, of which \$300,312 was recognized as a decrease in OPEB expense in the current year and resulted in a deferred inflow of resources of \$1,501,560. The combination of unrecognized assumption change gains this year, along with unrecognized assumption change gains from prior periods, results in a deferred inflow of resources of \$2,617,578 (Division's share \$423,864). Unrecognized assumption losses from prior periods were \$1,805,588, of which \$361,118 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of \$1,444,470 (Division's share \$233,903).

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 \$2,550,439, of which \$510,088 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$2,040,351. Net unrecognized investment losses from prior periods were \$496,150, of which \$140,457 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$636,607. The combination of unrecognized gains and losses from the current year and prior periods results in a deferred inflow of resources of \$1,403,744 (Division's share \$227,309).

The impact of the change in proportionate share for the Wastewater Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is seven years. This change resulted in a deferred inflow of \$53,841, with \$7,692 of that recognized in the current year and the remaining amount recognized over the next six years, resulting in a deferred inflow of resources of \$46,149. Net proportionate share changes

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

from prior periods were \$78,426, with \$13,328 of that recognized in the current year resulting in a deferred inflow of resources of \$65,098. The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Wastewater Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 78,812	\$ 21,444
Changes in assumptions	233,903	423,864
Net difference between projected and actual earnings on OPEB plan investments	-	227,309
Change in proportionate share	-	111,247
Total	<u>\$ 312,715</u>	<u>\$ 783,864</u>

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

Year ended June 30:

2026	\$ 176,089
2027	(219,551)
2028	(186,929)
2029	(111,159)
2030	(88,217)
Thereafter	(41,382)

For the year ended June 30, 2024, KUB's Wastewater Division recognized OPEB expense of \$327,165.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience loss of \$587,252, with \$83,893 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$503,359. Unrecognized experience losses from prior periods were \$100,858, of which \$16,810 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of resources of \$84,048. The combination of unrecognized experience gains or losses results in a deferred outflow of resources of \$587,407 (Division's share \$98,936).

During the measurement year, there was a benefit change gain of \$164,746. The entire amount was recognized as a decrease in OPEB expense in the current year.

During the measurement year, there was an assumption change gain of \$2,102,184, with \$300,312 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$1,801,872 (Division's share \$303,486). Unrecognized assumption losses from prior periods were \$2,166,706, of which \$361,118 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of \$1,805,588 (Division's share \$304,112).

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

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 \$2,339,599, of which \$467,920 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$1,871,679. Net unrecognized investment losses from prior periods were \$3,211,114, of which \$843,284 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$2,367,829. The combination of unrecognized gains and losses from the current year and prior periods results in a deferred outflow of resources of \$496,150 (Division's share \$83,565).

The impact of the change in proportionate share for the Wastewater Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is seven years. This change resulted in a deferred inflow of \$82,508, with \$11,787 of that recognized in the current year and the remaining amount recognized over the next six years, resulting in a deferred inflow of resources of \$70,721. Net proportionate share changes from prior periods were \$9,246, with \$1,541 of that recognized in the current year resulting in a deferred inflow of resources of \$7,705. The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Wastewater Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 98,936	\$ -
Changes in assumptions	304,112	303,486
Net difference between projected and actual earnings on OPEB plan investments	83,565	-
Change in proportionate share	-	78,426
Total	<u>\$ 486,613</u>	<u>\$ 381,912</u>

16. 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, 2025, and 2024, are summarized as follows:

	2025	2024
City of Knoxville		
Amounts billed by the Division for utilities and related services	\$ 1,219,869	\$ 1,133,373
Payments by the Division in lieu of property tax	5,935,511	5,652,868
Payments by the Division for services provided	1,107,174	460,858
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	386,645	422,527
Interdivisional rental expense	564,330	638,459
Interdivisional rental income	230,985	278,727
Amounts billed to the Division by other divisions for utilities services provided	5,219,581	4,307,710

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2025 and 2024

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

	2025	2024
Accounts receivable	\$ 51,658	\$ 91,403

17. Other Commitments and Contingencies

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

Knoxville Utilities Board Wastewater Division

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

June 30, 2025

	Year ended December 31									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability										
Service cost	\$ 7,764,986	\$ 8,221,181	\$ 6,349,402	\$ 6,647,220	\$ 5,227,657	\$ 6,142,213	\$ 5,095,488	\$ 4,607,486	\$ 4,226,985	\$ 4,157,062
Interest	18,573,527	17,868,490	17,430,465	16,982,226	16,393,202	16,030,626	15,344,193	15,015,282	14,966,559	14,812,784
Changes of benefit terms	-	-	-	-	-	163,199	-	-	-	-
Differences between expected and actual experience	2,346,811	2,092,475	282,014	1,935,276	1,930,170	(1,054,117)	(605,649)	(1,087,161)	(2,233,762)	(1,890,334)
Changes of assumptions	1,425,345	-	5,268,672	-	-	8,473,160	-	(357,633)	(2,932,883)	-
Benefit payments, including refunds of member contributions	(19,432,811)	(19,237,834)	(17,125,610)	(17,725,963)	(16,006,565)	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)
Net change in total pension liability	10,677,858	8,944,312	12,204,943	7,838,759	7,544,464	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586
Total pension liability - beginning	263,351,035	254,406,723	242,201,780	234,363,021	226,818,557	212,157,951	207,598,733	204,390,738	204,502,350	202,773,764
Total pension liability - ending (a)	\$ 274,028,893	\$ 263,351,035	\$ 254,406,723	\$ 242,201,780	\$ 234,363,021	\$ 226,818,557	\$ 212,157,951	\$ 207,598,733	\$ 204,390,738	\$ 204,502,350
Plan fiduciary net position										
Contributions - employer	\$ 1,659,187	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887
Contributions - participants	4,971,148	5,752,609	3,812,595	3,939,687	2,284,727	3,170,825	2,081,125	1,488,632	555,075	487,546
Net investment income	28,540,651	35,927,438	(63,493,985)	37,575,566	44,814,914	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)
Other additions	738	4,568	9,415	112,484	7,740	13,579	62,616	82,239	45,848	30,879
Benefit payments, including refunds of member contributions	(19,400,811)	(19,193,834)	(17,065,610)	(17,653,963)	(15,962,565)	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)
Administrative expense	(662,847)	(602,078)	(498,988)	(441,017)	(455,191)	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)
Death benefits	(32,000)	(44,000)	(60,000)	(72,000)	(44,000)	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)
Net change in plan fiduciary net position**	15,076,066	23,710,964	(74,151,803)	26,877,185	33,522,377	40,431,737	(21,868,910)	22,862,426	5,052,489	(9,333,204)
Plan fiduciary net position - beginning**	255,898,655	232,187,691	306,339,494	279,462,309	245,939,932	205,508,195	227,377,105	204,514,679	199,462,190	208,795,394
Plan fiduciary net position - ending (b)**	\$ 270,974,721	\$ 255,898,655	\$ 232,187,691	\$ 306,339,494	\$ 279,462,309	\$ 245,939,932	\$ 205,508,195	\$ 227,377,105	\$ 204,514,679	\$ 199,462,190
Plan's net pension liability - ending (a) - (b)	\$ 3,054,172	\$ 7,452,380	\$ 22,219,032	\$ (64,137,714)	\$ (45,099,288)	\$ (19,121,375)	\$ 6,649,756	\$ (19,778,372)	\$ (123,941)	\$ 5,040,160
Plan fiduciary net position as a percentage of the total pension liability	98.89%	97.17%	91.27%	126.48%	119.24%	108.43%	96.87%	109.53%	100.06%	97.54%
Covered payroll	\$ 34,776,504	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743
Plan's net pension liability as a percentage of covered payroll	8.78%	20.93%	59.39%	(168.45%)	(108.61%)	(47.48%)	15.78%	(45.67%)	(0.28%)	11.34%

Notes to Schedule:

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division

Required Supplementary Information – Schedule of Employer Pension Contributions

June 30, 2025

	Year ended December 31											
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015		
Actuarially determined contribution	\$ 1,659,187	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887		
Contribution in relation to the actuarially determined contribution	1,659,187	1,866,261	3,144,770	3,416,428	2,876,752	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887		
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Covered payroll	\$ 34,776,504	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743		
Contributions as a percentage of covered payroll	4.77%	5.24%	8.41%	8.97%	6.93%	7.13%	8.20%	9.90%	11.80%	13.48%		

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, 2023 and January 1, 2022

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age

Asset valuation method: 5-year smoothed market, adjusted to remain within 20% of the market value

Amortization method: As of January 1, 2023: Level dollar, 30-year closed period with 18 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
As of January 1, 2022: Level dollar, 30-year closed period with 19 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
As of January 1, 2023 and 2022, the unfunded liability was negative.

Discount rate: 7.00% as of January 1, 2023; 7.25% as of January 1, 2022

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

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

Inflation: 2.5%

Please refer to prior year's audited financial statements for prior methods and assumptions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division

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

June 30, 2025

	2025	2024	2023	*Year ended June 30 2022	2021	2020	2019	2018
Total OPEB liability								
Service cost	\$ 506,802	\$ 615,753	\$ 595,392	\$ 416,277	\$ 283,786	\$ 256,270	\$ 270,515	\$ 202,603
Interest	4,176,096	4,256,122	4,133,008	3,858,276	3,861,304	3,672,291	3,624,737	3,295,240
Change of benefit terms	-	(164,746)	-	6,594,293	-	(202,408)	-	-
Differences between expected and actual experience	(154,501)	587,252	117,668	60,951	42,802	43,902	999,098	1,324,769
Changes of assumptions	(1,302,021)	(2,102,184)	2,527,824	-	(4,105,835)	3,604,843	3,231,601	(397,180)
Benefit payments	(3,594,203)	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	(367,827)	(594,174)	3,100,822	7,021,162	(3,029,122)	4,346,302	4,593,507	1,126,693
Total OPEB liability - beginning	61,042,928	61,637,102	58,536,280	51,515,118	54,544,240	50,197,938	45,604,431	44,477,738
Total OPEB liability - ending (a)	\$ 60,675,101	\$ 61,042,928	\$ 61,637,102	\$ 58,536,280	\$ 51,515,118	\$ 54,544,240	\$ 50,197,938	\$ 45,604,431
Plan fiduciary net position								
Contributions - employer	\$ 1,279,985	\$ 1,187,768	\$ 1,413,392	\$ 1,989,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Net investment income	6,084,906	5,656,390	4,333,538	(8,122,417)	12,890,602	975,155	2,981,928	3,705,473
Benefit payments	(3,594,203)	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(81,246)	(94,379)	(101,186)	(71,187)	(44,496)	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	3,689,442	2,963,408	1,372,674	(10,113,173)	10,492,153	(1,795,403)	(605,303)	355,066
Plan fiduciary net position - beginning	51,669,855	48,706,447	47,333,773	57,446,946	46,954,793	48,750,196	49,355,499	49,000,433
Plan fiduciary net position - ending (b)	\$ 55,359,297	\$ 51,669,855	\$ 48,706,447	\$ 47,333,773	\$ 57,446,946	\$ 46,954,793	\$ 48,750,196	\$ 49,355,499
Net OPEB liability (asset) - ending (a) - (b)	\$ 5,315,804	\$ 9,373,073	\$ 12,930,655	\$ 11,202,507	\$ (5,931,828)	\$ 7,589,447	\$ 1,447,742	\$ (3,751,068)
Plan fiduciary net position as a percentage of the total OPEB liability	91.24%	84.65%	79.02%	80.86%	111.51%	86.09%	97.12%	108.23%
Covered employee payroll**	\$ 89,939,256	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	5.91%	11.21%	18.44%	15.15%	(27.49%)	32.48%	5.95%	(15.84%)

Notes to Schedule:

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

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division

Required Supplementary Information – Schedule of Employer OPEB Contributions

June 30, 2025

	2025	2024	2023	*Year ended June 30 2022	2021	2020	2019	2018
Actuarially determined contribution	\$ 1,279,985	\$ 1,187,768	\$ 1,413,392	\$ 489,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Contribution in relation to the annual required contribution	1,279,985	1,187,768	1,413,392	1,989,066	757,226	311,324	-	-
Contribution deficiency/(excess)	\$ -	\$ -	\$ -	\$ (1,500,000)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll*	\$ 89,939,256	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Contributions as a percentage of covered employee payroll	1.42%	1.42%	2.02%	2.69%	3.51%	1.33%	0.00%	0.00%

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

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

Notes to Schedule:

Valuation Date: January 1, 2023 and January 1, 2022
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: 15-year layered amortization bases for annual changes in the unfunded liabilities as of January 1, 2022 and 2023; 30-year rolling amortization for a funding surplus; As of January 1, 2022 and 2023, there was an unfunded liability
Discount rate: 7.25% and 7.00% as of January 1, 2022 and 2023, respectively
Healthcare cost trend rate: Pre-Medicare: 5.75% in 2022 and 5.70% in 2023 grading down to 3.935% in 2042 and beyond using the Getzen trend model
Medicare: 11.30% in 2022 and 7.40% in 2023 grading down to 3.935% in 2042 and beyond using the Getzen trend model
Administrative expenses: 3.0% per year
Salary increases: From 2.50% to 5.65%, based on years of service
Mortality: 115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational
Inflation: 2.5%
Investment rate of return: 7.25% and 7.00% as of January 1, 2022 and 2023, respectively
Retirement age: 2% at ages 50-57, grading up to 100% at age 70

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2025

	*Year ended December 31								
	2024	2023	2022	2021	2020	2019	2018	2017	2016
Total pension liability									
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 941	\$ 584	\$ -
Interest (includes interest on service cost)	-	-	-	268	388	9,181	9,676	7,535	-
Changes of benefit terms	-	-	-	-	-	(218,272)	-	-	185,077
Differences between expected and actual experience	21,226	-	-	(6,816)	10,165	34	(36,125)	13,684	-
Changes of assumptions	-	-	-	-	91	13,342	(22,950)	73,461	-
Benefit payments, including refunds of member contributions	-	-	-	(12,166)	(12,166)	(15,932)	-	-	-
Net change in total pension liability	<u>21,226</u>	<u>-</u>	<u>-</u>	<u>(18,714)</u>	<u>(1,522)</u>	<u>(211,647)</u>	<u>(48,458)</u>	<u>95,264</u>	<u>185,077</u>
Total pension liability - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,714</u>	<u>20,236</u>	<u>231,883</u>	<u>280,341</u>	<u>185,077</u>	<u>-</u>
Total pension liability - ending	<u>\$ 21,226</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,714</u>	<u>\$ 20,236</u>	<u>\$ 231,883</u>	<u>\$ 280,341</u>	<u>\$ 185,077</u>
Covered payroll	\$ 34,776,504	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747
Total pension liability as a percentage of covered payroll	0.06%	0.00%	0.00%	0.00%	0.05%	0.05%	0.55%	0.65%	0.42%

Notes to Schedule:

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Debt Maturities by Fiscal Year
June 30, 2025

Continued on Next Page

FY	2010C			2015A		2016		2017A		2017B		2018		2019		2020A	
	Principal	Interest	Rebate*	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
25-26	\$	\$ 1,235,250	\$ 432,338	\$ 1,425,000	\$ 3,369,864	\$ 575,000	\$ 409,531	\$ 640,000	\$ 52,000	\$ 690,000	\$ 621,213	\$ 305,000	\$ 343,156	\$ 380,000	\$ 469,950	\$ 825,000	\$ 848,150
26-27		1,235,250	432,338	1,490,000	3,323,550	600,000	398,031	660,000	26,400	715,000	600,512	315,000	330,956	400,000	450,950	865,000	806,900
27-28		1,235,250	432,338	1,405,000	3,271,400	600,000	386,032			725,000	586,213	325,000	321,506	420,000	430,950	910,000	763,650
28-29		1,235,250	432,338	1,450,000	3,222,226	625,000	374,032			745,000	570,806	335,000	311,756	435,000	409,950	955,000	718,150
29-30		1,235,250	432,338	1,455,000	3,178,726	625,000	361,532			760,000	553,112	345,000	301,706	455,000	388,200	1,005,000	670,400
30-31		1,235,250	432,338	1,515,000	3,135,076	650,000	348,250			785,000	530,313	355,000	291,356	475,000	370,000	1,055,000	620,150
31-32		1,235,250	432,338	1,520,000	3,089,626	675,000	333,625			805,000	506,762	365,000	280,706	495,000	351,000	1,095,000	577,950
32-33		1,235,250	432,338	1,580,000	3,042,125	675,000	318,438			830,000	482,613	375,000	269,756	515,000	331,200	1,140,000	534,150
33-34		1,235,250	432,338	1,635,000	2,992,750	700,000	302,406			855,000	457,712	390,000	258,038	530,000	315,750	1,175,000	499,950
34-35		1,235,250	432,338	1,690,000	2,939,612	700,000	284,906			880,000	432,063	400,000	245,362	545,000	299,850	1,210,000	464,700
35-36	3,700,000	1,235,250	432,338	1,750,000	2,884,688	725,000	267,406			910,000	405,662	415,000	232,364	560,000	283,500	1,245,000	428,400
36-37	3,875,000	1,009,550	353,343	1,825,000	2,827,812	750,000	249,282			935,000	378,363	425,000	218,874	580,000	266,700	1,285,000	391,050
37-38	4,050,000	773,175	270,611	13,420,000	2,768,500	775,000	229,594			965,000	350,312	440,000	204,532	595,000	249,300	1,320,000	352,500
38-39	4,225,000	526,125	184,144	13,895,000	2,298,800	775,000	209,250			995,000	320,156	455,000	189,682	615,000	231,450	1,360,000	312,900
39-40	4,400,000	268,400	93,940	14,480,000	1,743,000	800,000	186,000			1,025,000	289,063	475,000	173,756	615,000	213,000	1,400,000	272,100
40-41				15,130,000	1,236,200	825,000	162,000			1,055,000	257,032	490,000	157,132	635,000	194,550	1,445,000	230,100
41-42				15,775,000	631,000	850,000	137,250			1,090,000	224,062	505,000	139,982	655,000	175,500	1,490,000	186,750
42-43						875,000	111,750			1,125,000	190,000	525,000	122,306	675,000	155,850	1,530,000	142,050
43-44						900,000	85,500			1,160,000	154,844	540,000	103,932	700,000	135,600	1,580,000	96,150
44-45						950,000	58,500			1,195,000	118,594	560,000	85,032	720,000	114,600	1,625,000	48,750
45-46						1,000,000	30,000			1,230,000	81,250	580,000	65,432	740,000	93,000		
46-47										1,270,000	41,275	600,000	44,406	765,000	70,800		
47-48												625,000	22,656	785,000	47,850		
48-49														810,000	24,300		
49-50																	
50-51																	
51-52																	
Total	\$ 20,250,000	\$ 16,165,000	\$ 5,657,756	\$ 91,440,000	\$ 45,954,955	\$ 15,650,000	\$ 5,243,315	\$ 1,300,000	\$ 78,400	\$ 20,745,000	\$ 8,151,932	\$ 10,145,000	\$ 4,714,384	\$ 14,100,000	\$ 6,073,800	\$ 24,515,000	\$ 8,964,900

*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, 2021 these bonds became subject to a 5.7% 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.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Debt Maturities by Fiscal Year
June 30, 2025

Continued from Previous Page

FY	2020B		2021A		2022A		2022B		2022C		TOTALS		Grand Total	Grand Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	(P + I)	(Less Rebates)
25-26	\$ 650,000	\$ 764,100	\$ 8,360,000	\$ 7,507,250	\$ 220,000	\$ 440,650	\$ 545,000	\$ 1,003,300	\$ 185,000	\$ 422,775	\$ 14,800,000	\$ 17,487,189	\$ 32,287,189	\$ 31,854,851
26-27	675,000	738,100	8,535,000	7,172,850	230,000	429,650	575,000	976,050	195,000	413,525	15,255,000	16,902,724	32,157,724	31,725,386
27-28	705,000	711,100	9,760,000	6,746,100	245,000	418,150	610,000	947,300	205,000	403,775	15,910,000	16,221,426	32,131,426	31,699,088
28-29	730,000	682,900	10,260,000	6,258,100	255,000	405,900	635,000	916,800	215,000	393,525	16,640,000	15,499,395	32,139,395	31,707,057
29-30	760,000	653,700	10,800,000	5,745,100	270,000	393,150	690,000	885,050	225,000	382,775	17,390,000	14,748,701	32,138,701	31,706,363
30-31	785,000	630,900	11,315,000	5,205,100	280,000	379,650	715,000	850,550	235,000	371,525	18,165,000	13,968,120	32,133,120	31,700,782
31-32	805,000	607,350	11,935,000	4,639,350	295,000	365,650	745,000	814,800	250,000	359,775	18,985,000	13,161,844	32,146,844	31,714,506
32-33	830,000	583,200	12,550,000	4,042,600	310,000	350,900	775,000	777,550	260,000	347,275	19,840,000	12,315,057	32,155,057	31,722,719
33-34	855,000	558,300	13,015,000	3,540,600	325,000	335,400	835,000	738,800	275,000	334,275	20,590,000	11,569,231	32,159,231	31,726,893
34-35	880,000	532,650	13,550,000	3,020,000	340,000	322,400	870,000	697,050	290,000	320,525	21,355,000	10,794,368	32,149,368	31,717,030
35-36	905,000	506,250	10,885,000	2,478,000	355,000	308,800	935,000	653,550	305,000	306,025	22,690,000	9,989,895	32,679,895	32,247,557
36-37	935,000	479,100	11,430,000	2,042,600	370,000	294,600	965,000	606,800	320,000	290,775	23,695,000	9,055,506	32,750,506	32,397,163
37-38	965,000	451,050	2,465,000	1,585,400	380,000	279,800	465,000	568,200	335,000	274,775	26,175,000	8,087,138	34,262,138	33,991,527
38-39	990,000	422,100	2,595,000	1,486,800	395,000	264,600	465,000	549,600	345,000	261,375	27,110,000	7,072,838	34,182,838	33,998,694
39-40	1,020,000	392,400	2,705,000	1,383,000	415,000	248,800	460,000	531,000	360,000	247,575	28,155,000	5,948,094	34,103,094	34,009,154
40-41	1,050,000	361,800	3,515,000	1,274,800	430,000	232,200	1,060,000	512,600	375,000	233,175	26,010,000	4,851,589	30,861,589	30,861,589
41-42	1,085,000	330,300	3,655,000	1,134,200	445,000	215,000	1,110,000	470,200	390,000	218,175	27,050,000	3,862,419	30,912,419	30,912,419
42-43	1,115,000	297,750	3,920,000	988,000	465,000	197,200	1,155,000	425,800	405,000	202,575	11,790,000	2,833,281	14,623,281	14,623,281
43-44	1,150,000	264,300	4,110,000	831,200	485,000	178,600	1,205,000	379,600	420,000	186,375	12,250,000	2,416,101	14,666,101	14,666,101
44-45	1,185,000	229,800	4,335,000	666,800	505,000	159,200	1,255,000	331,400	440,000	169,575	12,770,000	1,982,251	14,752,251	14,752,251
45-46	1,220,000	194,250	4,580,000	493,400	525,000	139,000	1,300,000	281,200	455,000	151,425	11,630,000	1,528,957	13,158,957	13,158,957
46-47	1,255,000	157,650	4,830,000	310,200	545,000	118,000	1,350,000	229,200	475,000	132,656	11,090,000	1,104,187	12,194,187	12,194,187
47-48	1,295,000	120,000	1,425,000	117,000	565,000	96,200	1,395,000	175,200	495,000	113,062	6,585,000	691,968	7,276,968	7,276,968
48-49	1,335,000	81,150	1,500,000	60,000	590,000	73,600	1,470,000	119,400	515,000	92,644	6,220,000	451,094	6,671,094	6,671,094
49-50	1,370,000	41,100			610,000	50,000	1,515,000	60,600	535,000	71,400	4,030,000	223,100	4,253,100	4,253,100
50-51					640,000	25,600			560,000	48,662	1,200,000	74,262	1,274,262	1,274,262
51-52									585,000	24,863	585,000	24,863	609,863	609,863
Total	\$ 24,550,000	\$ 10,791,300	\$ 172,030,000	\$ 68,728,450	\$ 10,490,000	\$ 6,722,700	\$ 23,100,000	\$ 14,501,600	\$ 9,650,000	\$ 6,774,862	\$ 437,965,000	\$ 202,865,598	\$ 640,830,598	\$ 635,172,842

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Changes in Long-term Debt by Individual Issue
June 30, 2025

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding Balance 7/1/2024	Issued During Period	Paid/Matured During Period	Refunded During Period	Outstanding Balance 6/30/2025
Business-Type Activities									
<u>BONDS PAYABLE</u>									
<u>Payable through Wastewater Fund</u>									
Revenue Bond, Series 2010C	\$ 70,000,000	1.18-6.1	12/08/10	04/01/40	\$ 20,250,000	\$ -	\$ -	\$ -	\$ 20,250,000
Revenue Bond Refunding, Series 2015A	\$ 129,825,000	3.0-5.0	05/01/15	04/01/42	95,225,000	-	3,785,000	-	91,440,000
Revenue Bond, Series 2015B	\$ 30,000,000	3.0-5.0	05/20/15	04/01/25	625,000	-	625,000	-	-
Revenue Bond, Series 2016	\$ 20,000,000	2.0-5.0	08/05/16	04/01/46	16,225,000	-	575,000	-	15,650,000
Revenue Bond Refunding, Series 2017A	\$ 11,965,000	3.0-5.0	04/07/17	04/01/27	1,915,000	-	615,000	-	1,300,000
Revenue Bond, Series 2017B	\$ 25,000,000	2.0-5.0	09/15/17	04/01/47	21,405,000	-	660,000	-	20,745,000
Revenue Bond, Series 2018	\$ 12,000,000	3.0-5.0	09/14/18	04/01/48	10,435,000	-	290,000	-	10,145,000
Revenue Bond, Series 2019	\$ 16,000,000	3.0-5.0	08/20/19	04/01/49	14,460,000	-	360,000	-	14,100,000
Revenue Bond Refunding, Series 2020A	\$ 28,230,000	3.0-5.0	05/22/20	04/01/45	25,300,000	-	785,000	-	24,515,000
Revenue Bond, Series 2020B	\$ 27,460,000	3.0-4.0	10/30/20	04/01/50	25,175,000	-	625,000	-	24,550,000
Revenue Bond Refunding, Series 2021A	\$ 190,815,000	4.0-5.0	04/19/21	04/01/49	178,180,000	-	6,150,000	-	172,030,000
Revenue Bond, Series 2022A	\$ 11,125,000	4.0-5.0	04/29/22	04/01/51	10,700,000	-	210,000	-	10,490,000
Revenue Bond Refunding, Series 2022B	\$ 23,200,000	4.0-5.0	05/13/22	04/01/50	23,100,000	-	-	-	23,100,000
Revenue Bond, Series 2022C	\$ 9,995,000	4.0-5.0	12/16/22	04/01/52	9,825,000	-	175,000	-	9,650,000
					<u>\$ 452,820,000</u>	<u>\$ -</u>	<u>\$ 14,855,000</u>	<u>\$ -</u>	<u>\$ 437,965,000</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Supplemental Information - Schedule of Changes in Lease Liabilities
June 30, 2025

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Maturity Date	Outstanding 6/30/2024	Issued During Period	Paid and/or Matured During Period	Remeasure- ments	Outstanding 6/30/2025
<u>Lease Liabilities</u>									
<u>Payable through Wastewater Fund</u>									
Crown Castle	\$ 16,250	3.90%	3/1/2023	2/1/2043	\$ 15,719	\$ -	\$ (430)	\$ -	\$ 15,289
Manki 1 Investments	66,495	3.88%	7/1/2020	5/31/2027	40,345	-	(12,715)	1,615	29,245
Ricoh Americas	7,834	3.88%	7/1/2020	7/31/2025	3,155	-	(2,567)	(128)	460
RJ Young Company	10,654	3.88%	7/1/2020	6/30/2026	2,820	-	(2,686)	(134)	-
Total Lease Liabilities					<u>\$ 62,039</u>	<u>\$ -</u>	<u>\$ (18,398)</u>	<u>\$ 1,353</u>	<u>\$ 44,994</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Statistical Information – Schedule of Insurance in Force
June 30, 2025
(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.

Environmental and Pollution Legal Liability

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

Property Insurance

This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - \$250,000,000 per occurrence (subject to certain sub limits); \$3,500,000 deductible per occurrence.

Travel Accident

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

Excess Insurance for General Liability

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

Excess Insurance for Workers' Compensation

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

Employee Health Plan Stop Loss Coverage

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses for more than \$700,000 per individual participant.

Cyber Security Liability

Liability coverage resulting from losses related to a covered event such as data breaches, ransomware, regulatory fines, cyber extortion, business interruption and other cyber-related events. Limits of coverage - \$5,000,000; \$500,000 deductible.

Drone

Liability coverage resulting from losses related to bodily injury or damaged property arising out of the ownership, maintenance, or use of a drone aircraft. Limits of coverage - \$2,000,000.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Statistical Information – Schedule of Current Rates in Force
June 30, 2025
(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:	57,347
	Commodity Charge	
	First 2 CCF Per Month at \$2.55 Per CCF	
	Over 2 CCF Per Month at \$10.85 Per CCF	
	Additional Monthly Customer Charge	
	5/8" meter \$ 35.90	
Non-Residential Inside City rate	For wastewater service furnished to premises entirely within the corporate limits of the City of Knoxville:	7,861
	Commodity Charge	
	First 2 CCF Per Month at \$4.00 Per CCF	
	Next 8 CCF Per Month at \$12.95 Per CCF	
	Next 90 CCF Per Month at \$12.60 Per CCF	
	Next 300 CCF Per Month at \$11.15 Per CCF	
	Next 4,600 CCF Per Month at \$9.10 Per CCF	
	Next 5,000 CCF Per Month at \$5.35 Per CCF	
	Additional Monthly Customer Charge	
	5/8" meter \$ 35.90	
	1" meter \$ 55.00	
	1 1/2" meter \$ 73.00	
	2" meter \$ 104.00	
	3" meter \$ 194.00	
	4" meter \$ 315.00	
	6" meter \$ 655.00	
	8" meter \$ 1,130.00	
	10" meter \$ 1,720.00	
	12" meter \$ 2,700.00	

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Statistical Information – Schedule of Current Rates in Force
June 30, 2025
(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:		9,979
	Commodity Charge		
	First	2 CCF Per Month at \$2.80 Per CCF	
	Over	2 CCF Per Month at \$11.95 Per CCF	
	Additional Monthly Customer Charge		
	5/8" meter	\$ 39.90	
Non-Residential Outside City rate	For wastewater service furnished to premises entirely or partly outside the corporate limits of the City of Knoxville:		353
	Commodity Charge		
	First	2 CCF Per Month at \$4.45 Per CCF	
	Next	8 CCF Per Month at \$14.25 Per CCF	
	Next	90 CCF Per Month at \$14.00 Per CCF	
	Next	300 CCF Per Month at \$12.25 Per CCF	
	Next	4,600 CCF Per Month at \$10.05 Per CCF	
	Next	5,000 CCF Per Month at \$5.90 Per CCF	
	Additional Monthly Customer Charge		
	5/8" meter	\$ 39.90	
	1" meter	\$ 60.50	
	1 1/2" meter	\$ 80.00	
	2" meter	\$ 114.00	
	3" meter	\$ 213.00	
	4" meter	\$ 346.00	
	6" meter	\$ 720.00	
	8" meter	\$ 1,240.00	
	10" meter	\$ 1,900.00	
	12" meter	\$ 2,960.00	

See accompanying Independent Auditor's Report

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Wastewater Division of the Knoxville Utilities Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the 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, 2025, 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 17, 2025, which references, that the financial statements, are only that portion of Knoxville Utilities Board that resulted from the transactions of the Wastewater Division.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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.

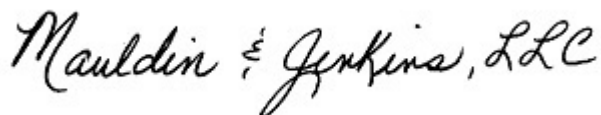
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any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

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Chattanooga, Tennessee
October 17, 2025