

LEXINGTON ELECTRIC SYSTEM

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED
JUNE 30, 2024 AND 2023**

LEXINGTON ELECTRIC SYSTEM
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For The Fiscal Years Ended June 30, 2024 and 2023

TABLE OF CONTENTS

Introductory Section

Directory	1
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Financial Section

Independent Auditor’s Report	2
Management’s Discussion and Analysis.....	5
Financial Statements:	
Statements of Net Position	11
Statements of Revenues, Expenses, and Changes in Net Position	13
Statements of Cash Flows	14
Statements of Fiduciary Net Position.....	16
Statements of Changes in Fiduciary Net Position.....	17
Notes to Financial Statements	18
Required Supplementary Information:	
Schedule of Changes in the Net OPEB Liability and Related Ratios – LES Plan.....	42
Schedule of Notes to OPEB Required Supplementary Information – LES Plan.....	43
Schedule of Changes in Net OPEB Liability and Related Ratios – LGOP Plan	44
Schedule of Notes to OPEB Required Supplementary Information – LGOP Plan.....	45
Schedule of Changes in Net Pension Liability and Related Ratios.....	46
Schedule of Plan Contributions.....	47
Schedule of Investment Returns.....	48

Supplementary And Other Information Section

Combining Statements of Net Position	49
Combining Statements of Revenues, Expenses, and Changes in Net Position	51
Combining Statements of Cash Flows.....	52
Schedules of Operating Revenues and Expenses-Electric Division.....	54
Schedules of Operating Revenues and Expenses-Broadband Division	56
Electric Rates in Force	57
Broadband Rates in Force	60
Historical Information - Unaudited	61
Schedule of Long-term Debt.....	62
Schedule of Changes in Long-Term Debt by Individual Issue	63
Schedule of Expenditures of Federal Awards.....	64

Internal Control And Compliance Section

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 <i>Government Auditing Standards</i>	65
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	67
Schedule of Findings and Questioned Costs.....	67
Schedule of Prior Year Findings and Responses	68

INTRODUCTORY SECTION

**LEXINGTON ELECTRIC SYSTEM
DIRECTORY**
June 30, 2024

BOARD MEMBERS

Jeff Griggs, Mayor
Fred Ellis
Gordon Wildridge
Tim Rhodes
Gabe Williams
Jimmy White
Roger Loftin
Sandra Wood

MANAGEMENT TEAM

Brad Jones, General Manager
Molly Rhodes, Office Manager
LeAnn Powers, Accounting Manager

COUNSEL

Ken Walker
Lexington, Tennessee

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

ATA, PLLC
Jackson, Tennessee

FINANCIAL SECTION



Independent Auditor's Report

Board of Directors
Lexington Electric System
Lexington, Tennessee

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the major fund and the aggregate remaining fund information of the Lexington Electric System (the System), which are an enterprise and a fiduciary fund of the City of Lexington, Tennessee, as of and for the years ended June 30, 2024, and 2023, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund and the aggregate remaining fund information of the System as of June 30, 2024, and 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Lexington Electric System enterprise and fiduciary fund and do not purport to, and do not, present fairly the financial position of the City of Lexington, Tennessee, as of June 30, 2024, and 2023, the changes in its financial position or, where applicable, its cash flows for the years then ended with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

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 opinions. 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 System'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.

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, the schedules of changes in the net OPEB liability and related ratios, the schedules of notes to OPEB required supplementary information, the schedule of changes in net pension liability and related ratios, the schedule of Plan contributions, and the schedule of investment returns 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 opinions on the financial statements that collectively comprise the System's basic financial statements. The accompanying combining financial statements, Schedules of Operating Revenues and Expenses – Electric Division, Schedule of Operating Revenues and Expenses-Broadband Division, Schedule of Changes in Long-Term Debt by Individual Issue, Schedule of Long-term Debt, Electric Rates in Force, Broadband Rates in Force, and the Schedule of expenditure of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 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 combining financial statements, Schedules of Operating Revenues and Expenses – Electric Division, Schedule of Operating Revenues and Expenses- Broadband Division, Schedule of Changes in Long-Term Debt by Individual Issue, Schedule of Long-term Debt, and Electric Rates in Force, Broadband Rates in Force, and the Schedule of expenditures of federal awards 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 introductory section and Historical Information - Unaudited but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2024 on our consideration of the System'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 System'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 System's internal control over financial reporting and compliance.

ATA, PLLC

Jackson, Tennessee
October 30, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Lexington Electric System (the System), we offer readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal year ended June 30, 2024 and 2023. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

Management believes the System's financial condition is strong. The System is well within its debt covenants and the more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets and deferred outflows of resources at year-end were \$86.26 million and \$2.01 million, respectively, and exceeded liabilities and deferred inflows of resources by \$36.24 million (i.e. net position). Total assets increased by \$21.99 million due primarily to an increase in capital asset additions from the System's ongoing projects and the addition of a broadband division.
- Net income (loss) was (\$552) thousand during the current year, which is a decrease from the 2023 change in net position of \$1.83 million.
- During fiscal year 2024, the System delivered 418.10 million kWh compared to 421.12 million kWh during the fiscal year 2023.
- Operating revenues were \$51.05 million, a decrease from fiscal year 2023 in the amount of \$2.80 million or 5.20%.
- Operating expenses were \$50.40 million, a decrease from fiscal year 2023 in the amount of \$590 thousand or 1.15%.
- Ratios of operating income to total operating revenue were 1.19, 5.23, and 7.36 for 2024, 2023, and 2022, respectively.

OVERVIEW OF THE FINANCIAL REPORT

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the System's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the System's strategic plan, budget, bond resolutions, and other management tools were used for this analysis. The Financial Statements and Supplementary Information is made up of four sections: 1) the introductory section, 2) the financial section, 3) supplementary and other information section, and 4) the internal control and compliance section. The introductory section includes the System's directory. The financial section includes the MD&A, the independent auditor's report, the financial statements with accompanying notes, and the required supplementary information. The supplementary and other information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

REQUIRED FINANCIAL STATEMENTS

A Proprietary Fund is used to account for the operations of the System, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements report information about the System, using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

The System maintains one fiduciary fund used to report resources held related to the System's defined benefit pension plan.

A fiduciary fund is used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the proprietary financial statements because the resources of those funds are not available to support the System's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The *Statement of Net Position* presents the financial position of the System on a full accrual historical cost basis. The statement includes all of the System's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. It also provides the basis for computing rate of return, evaluating the capital structure of the System, and assessing the liquidity and financial flexibility of the System.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the System's operations and can be used to determine whether the System has successfully recovered all of its costs. This statement also measures the System's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

The *Statement of Fiduciary Net Position* includes all accounting assets and liabilities of the pension plan and provides a picture of the fiduciary net position of the pension plan as of the end of the current fiscal year compared to the previous fiscal year. Assets less liabilities results in net position restricted for pensions held in trust at year-end.

The *Statement of Changes in Fiduciary Net Position* reports all additions and deductions of the pension plan for the current fiscal year compared to the previous fiscal year. Additions consist of employer contributions and investment earnings. Deductions include benefits paid to plan participants and administrative expenses. Total additions minus total deductions provide the net increase in net position for the current fiscal year compared to the previous fiscal year. The increase in net position plus the beginning net position restricted for pensions results in the ending net position restricted for pensions for the current year compared to the previous year.

The *Notes to the Financial Statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the System's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

FINANCIAL ANALYSIS

One of the most important questions asked about the System's finances is "Is the System, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position reports information about the System's activities in a way that will help answer this question. These two statements report the net position of the System, and the changes in the net position. Net position is one way to measure the financial health or financial position of the System. Over time, increases or decreases in the System's net position is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The System's total net position decreased by \$587 thousand and increased by \$1.83 million, for the fiscal years ended June 30, 2024 and 2023, respectively. The analysis below focuses on the System's net position (Table 1) and changes in net position (Table 2) during the years.

Changes in the System's net position can be determined by reviewing the following condensed Statement of Revenues, Expenses and Changes in Net Position for the years.

CONDENSED STATEMENT OF NET POSITION (TABLE 1A)

	June 30, 2024	June 30, 2023	Increase (Decrease)	
			\$	%
Current and other assets	\$ 17,697,490	\$ 15,742,740	\$ 1,954,750	12.42%
Capital assets	68,557,698	48,519,003	20,038,695	41.30%
Total assets	<u>86,255,188</u>	<u>64,261,743</u>	<u>21,993,445</u>	34.22%
Deferred outflows of resources	<u>2,009,912</u>	<u>2,501,833</u>	<u>(491,921)</u>	-19.66%
Current liabilities	7,315,701	6,225,533	1,090,168	17.51%
Other liabilities	42,996,265	21,606,428	21,389,837	99.00%
Total liabilities	<u>50,311,966</u>	<u>27,831,961</u>	<u>22,480,005</u>	80.77%
Deferred inflows of resources	<u>1,681,107</u>	<u>2,107,887</u>	<u>(426,780)</u>	-20.25%
Net investment in capital assets	35,232,698	36,339,003	(1,106,305)	-3.04%
Restricted	8,571,338	1,614,118	6,957,220	431.02%
Unrestricted	<u>(7,532,009)</u>	<u>(1,129,393)</u>	<u>(6,402,616)</u>	566.91%
Total net position	<u>\$ 36,272,027</u>	<u>\$ 36,823,728</u>	<u>\$ (551,701)</u>	-1.50%

The System's current and other assets increased by \$1.95 million due mainly to a \$7.39 million increase in restricted cash and cash equivalents as a result of current year operations. Other liabilities increased by \$20.94 million due primarily due to issuing a new bond in the current year.

CONDENSED STATEMENT OF NET POSITION (TABLE 1B)

	June 30, 2023	June 30, 2022	Increase (Decrease)	
			\$	%
Current and other assets	\$ 15,742,740	\$ 18,165,245	\$ (2,422,505)	-13.34%
Capital assets	48,519,003	44,814,682	3,704,321	8.27%
Total assets	<u>64,261,743</u>	<u>62,979,927</u>	<u>1,281,816</u>	2.04%
Deferred outflows of resources	<u>2,501,833</u>	<u>1,860,235</u>	<u>641,598</u>	34.49%
Current liabilities	6,225,533	5,977,324	248,209	4.15%
Other liabilities	<u>21,606,428</u>	<u>20,462,200</u>	<u>1,144,228</u>	5.59%
Total liabilities	<u>27,831,961</u>	<u>26,439,524</u>	<u>1,392,437</u>	5.27%
Deferred inflows of resources	<u>2,107,887</u>	<u>3,403,091</u>	<u>(1,295,204)</u>	-38.06%
Net investment in capital assets	36,339,003	31,804,682	4,534,321	14.26%
Restricted	1,614,118	1,601,977	12,141	0.76%
Unrestricted	<u>(1,129,393)</u>	<u>1,590,888</u>	<u>(2,720,281)</u>	-170.99%
Total net position	<u>\$ 36,823,728</u>	<u>\$ 34,997,547</u>	<u>\$ 1,826,181</u>	5.22%

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (TABLE 2A)

	June 30, 2024	June 30, 2023	Increase (Decrease)	
			\$	%
Operating revenues	\$ 51,049,982	\$ 53,848,315	\$ (2,798,333)	-5.20%
Non-operating revenues	<u>981,145</u>	<u>258,808</u>	<u>722,337</u>	279.10%
Total revenues	<u>52,031,127</u>	<u>54,107,123</u>	<u>(2,075,996)</u>	-3.84%
Cost of sales and service	36,887,284	39,250,199	(2,362,915)	-6.02%
Operations expense	6,796,114	5,849,139	946,975	16.19%
Maintenance expense	3,708,764	2,962,415	746,349	25.19%
Depreciation expense	2,771,171	2,702,201	68,970	2.55%
Tax equivalents - including transfers out	1,139,747	1,085,286	54,461	5.02%
Non-operating expenses	<u>1,279,748</u>	<u>431,702</u>	<u>848,046</u>	196.44%
Total expenses	<u>52,582,828</u>	<u>52,280,942</u>	<u>301,886</u>	0.58%
Change in net position	(551,701)	1,826,181	(2,377,882)	-130.21%
Beginning net position	<u>36,823,728</u>	<u>34,997,547</u>	<u>1,826,181</u>	5.22%
Ending net position	<u>\$ 36,272,027</u>	<u>\$ 36,823,728</u>	<u>\$ (551,701)</u>	-1.50%

The System's operating revenues decreased by \$2.80 million due mainly to the rate changes coupled with the weather in the current year. Cost of sales and service decreased by \$2.36 million which is to be expected when operating revenues and the related usage increased significantly in the current year.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (TABLE 2B)

	June 30, 2023	June 30, 2022	Increase (Decrease)	
			\$	%
Operating revenues	\$ 53,848,315	\$ 49,138,823	\$ 4,709,492	9.58%
Non-operating revenues	258,808	167,909	90,899	54.14%
Total revenues	<u>54,107,123</u>	<u>49,306,732</u>	<u>4,800,391</u>	9.74%
Cost of sales and service	39,250,199	35,277,594	3,972,605	11.26%
Operations expense	5,849,139	4,929,973	919,166	18.64%
Maintenance expense	2,962,415	2,326,448	635,967	27.34%
Depreciation expense	2,702,201	2,684,471	17,730	0.66%
Tax equivalents - including transfers out	1,085,286	1,222,010	(136,724)	-11.19%
Non-operating expenses	<u>431,702</u>	<u>455,787</u>	<u>(24,085)</u>	-5.28%
Total expenses	<u>52,280,942</u>	<u>46,896,283</u>	<u>5,384,659</u>	11.48%
Change in net position	1,826,181	2,410,449	(584,268)	-24.24%
Beginning net position	<u>34,997,547</u>	<u>32,587,098</u>	<u>2,410,449</u>	7.40%
Ending net position	<u>\$ 36,823,728</u>	<u>\$ 34,997,547</u>	<u>\$ 1,826,181</u>	5.22%

Operating revenues showed a 5.20% decrease and an 9.58% increase from 2023 to 2024 and from 2022 to 2023, respectively. Operating expenses showed a 1.15% decrease and a 11.57% increase from 2023 to 2024 and from 2022 to 2023, respectively. Ending net position decreased 1.50% from 2023 to 2024, and increased 5.22% from 2022 to 2023.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2024, the system had \$68.56 million (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, land rights, distribution and transmission systems and their related equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as distribution plant and general plant. This investment represents an overall increase (net of increases and decreases) of \$20.04 million or 41.30% as compared to 2023.

The following tables summarize the System's capital assets, net of accumulated depreciation, and changes therein, for the years ended June 30, 2024 and 2023. These changes are presented in detail in Note 3C to the financial statements.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION (TABLE 3A)

	June 30, 2024	June 30, 2023	Increase (Decrease)	
			\$	%
Distribution plant	\$ 45,302,238	\$ 43,865,742	\$ 1,436,496	3.27%
General plant	2,890,910	2,260,710	630,200	27.88%
Construction in progress	<u>20,364,550</u>	<u>2,392,551</u>	<u>17,971,999</u>	751.16%
Total capital assets, net	<u>\$ 68,557,698</u>	<u>\$ 48,519,003</u>	<u>\$ 20,038,695</u>	41.30%

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION (TABLE 3A)

	June 30, 2024	June 30, 2023	Increase (Decrease)	
			\$	%
Distribution plant	\$ 45,302,238	\$ 43,865,742	\$ 1,436,496	3.27%
General plant	2,890,910	2,260,710	630,200	27.88%
Construction in progress	20,364,550	2,392,551	17,971,999	751.16%
Total capital assets, net	<u>\$ 68,557,698</u>	<u>\$ 48,519,003</u>	<u>\$ 20,038,695</u>	41.30%

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION (TABLE 3B)

	June 30, 2023	June 30, 2022	Increase (Decrease)	
			\$	%
Distribution plant	\$ 43,865,742	\$ 41,730,435	\$ 2,135,307	5.12%
General plant	2,260,710	1,783,632	477,078	26.75%
Construction in progress	2,392,551	1,300,615	1,091,936	83.96%
Total capital assets, net	<u>\$ 48,519,003</u>	<u>\$ 44,814,682</u>	<u>\$ 3,704,321</u>	8.27%

The System had a significant substation project as well as adding a broadband division that made up the majority of additions over the two year period. The System plans on using existing financial resources to keep upgrading existing systems and adding new systems where it sees fit.

Long-term debt

At the end of the current fiscal year, the System had total debt outstanding of \$33.33 million. This amount represents bonds secured solely by specified revenue sources (i.e., revenue bonds). Additional information on the System’s long-term debt can be found in Note 3F beginning on page 25 of this report.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The fiscal year 2025 budget was approved by the Board in June 2024. The City is actively recruiting new industries to the area to make up for past plant closures. Any new industry that comes to the area will increase the System’s power sales and should help the overall financial condition of the System.

CONTACTING THE AUTHORITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the System’s finances for all those with an interest in the System’s finances and to demonstrate the System’s accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the Manager of Lexington Electric System, P.O. Box 219, 92 South Main Street, Lexington, TN, 38351.

**LEXINGTON ELECTRIC SYSTEM
STATEMENTS OF NET POSITION
June 30, 2024 and 2023**

	2024	2023
Assets		
Current assets		
Cash on hand	\$ 2,275	\$ 1,775
Cash and cash equivalents - general	3,573,701	9,663,755
Accounts receivable - trade (net of allowance for uncollectibles)	2,842,515	2,478,715
Accounts receivable - other	452,073	391,558
Materials and supplies	460,242	398,313
Prepayments and other current assets	508,621	452,478
Total current assets	7,839,427	13,386,594
Noncurrent assets		
Other assets:		
Cash and cash equivalents - restricted	8,993,613	1,609,321
Investments - restricted	100,000	100,000
Unamortized debt expense	482,806	259,318
Utilitrak costs	-	42,189
Meter project costs	30,000	30,000
Notes receivable - TVA Home Insulation Program	251,644	315,318
Total other assets	9,858,063	2,356,146
Capital assets:		
Distribution plant	78,835,318	75,563,656
General plant	8,393,202	7,479,442
Construction in progress	20,364,550	2,392,551
Less: Accumulated depreciation	(39,035,372)	(36,916,646)
Total capital assets (net of accumulated depreciation)	68,557,698	48,519,003
Total noncurrent assets	78,415,761	50,875,149
Total assets	86,255,188	64,261,743
Deferred Outflows of Resources		
Unamortized loss on bond refunding	23,047	26,053
Deferred outflows - OPEB related	1,031,902	851,083
Deferred outflows - pension related	954,963	1,624,697
Total deferred outflows of resources	2,009,912	2,501,833

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

**LEXINGTON ELECTRIC SYSTEM
STATEMENTS OF NET POSITION
June 30, 2024 and 2023**

	2024	2023
Liabilities		
Current liabilities:		
Accounts payable	4,118,031	3,904,774
Other accrued expense	21,587	37,236
Customers' deposits	1,235,100	1,119,962
Bonds payable- current portion	1,210,000	855,000
Interest accrued - bonds	522,275	95,203
Compensated absences	208,708	213,358
Total current liabilities	7,315,701	6,225,533
Noncurrent liabilities:		
Bonds payable- noncurrent portion	32,115,000	11,325,000
Advances from Home Insulation Program	251,644	315,318
Unamortized premium	859,704	160,533
Net pension liability	3,594,937	4,034,111
Net OPEB liability	4,730,137	4,304,034
Compensated absences	1,444,843	1,467,432
Total noncurrent liabilities	42,996,265	21,606,428
Total liabilities	50,311,966	27,831,961
Deferred Inflows of Resources		
Deferred inflows - OPEB	1,366,548	1,541,671
Deferred inflows - pensions	314,559	566,216
Total deferred inflows of resources	1,681,107	2,107,887
Net Position		
Net investment in capital assets	35,232,698	36,339,003
Restricted for debt service	8,571,338	1,614,118
Unrestricted	(7,532,009)	(1,129,393)
Total net position	\$ 36,272,027	\$ 36,823,728

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

LEXINGTON ELECTRIC SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2024 and 2023

	2024	2023
Operating revenues		
Charges for sales and services	\$ 49,683,054	\$ 52,495,241
Other electric revenue	1,366,928	1,353,074
Total operating revenues	51,049,982	53,848,315
Operating expenses		
Cost of sales and services	36,887,284	39,250,199
Operations expense	6,796,114	5,849,139
Maintenance expense	3,708,764	2,962,415
Tax equivalent payments to others	277,142	267,453
Provision for depreciation	2,771,171	2,702,201
Total operating expenses	50,440,475	51,031,407
Operating income (loss)	609,507	2,816,908
Nonoperating revenues (expenses)		
Interest income	981,145	258,808
Interest on long-term debt - bonds	(1,210,145)	(362,604)
Amortization of debt accounts	18	(13,279)
Miscellaneous expense	(69,621)	(55,819)
Total nonoperating revenues (expenses)	(298,603)	(172,894)
Income (loss) before transfers	310,904	2,644,014
Transfers		
Transfer out - tax equivalents	(862,605)	(817,833)
Total transfers	(862,605)	(817,833)
Change in net position	(551,701)	1,826,181
Total net position - beginning	36,823,728	34,997,547
Total net position - ending	\$ 36,272,027	\$ 36,823,728

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

**LEXINGTON ELECTRIC SYSTEM
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2024 and 2023**

	2024	2023
Cash flows from operating activities		
Cash received from consumers	\$ 50,625,667	\$ 53,848,315
Cash paid to suppliers of goods and services	(45,325,687)	(45,691,837)
Cash paid to employees for services	(2,242,256)	(1,944,437)
Amounts paid to city - tax equivalents	(862,605)	(817,833)
Miscellaneous expense	(69,621)	(55,819)
Customer deposits received	264,351	275,173
Customer deposits refunded	(149,213)	(143,956)
Net cash provided (used) by operating activities	2,240,636	5,469,606
Cash flows from non-capital financing activities		
Advances from Home Insulation Program	(63,674)	(23,486)
Net cash provided (used) by non-capital financing activities	(63,674)	(23,486)
Cash flows from capital and related financing activities		
Advances from (repayment of) Revenue Bonds	22,000,000	(120,000)
Advances from (repayment of) new Broadband Debt	-	(425,000)
Repayment of Revenue Bonds	(855,000)	(285,000)
Construction and acquisition of plant	(23,377,808)	(6,184,649)
Amortization/(purchases) of Utilitrak	42,189	101,253
Amortization/(bond issue fees)	(223,470)	10,036
Loss on refunding of bonds - amortization	3,006	3,006
(Amortization)/Premium on issuance of bond	699,171	(13,042)
Plant removal cost	(268,716)	(356,354)
Materials salvaged from retirements	836,658	134,481
Net cash provided (used) by capital and related financing activities	(1,143,970)	(7,135,269)
Cash flows from investing activities		
Purchase of investment	(100,000)	(100,000)
Proceeds from sale of investments	100,000	100,000
Notes receivable - TVA Home Insulation Program	63,674	23,486
Interest received	981,145	258,808
Interest paid	(783,073)	(369,220)
Net cash provided (used) by investing activities	261,746	(86,926)
Net increase (decrease) in cash and cash equivalents	1,294,738	(1,776,075)
Cash and cash equivalents - beginning of year	11,274,851	13,050,926
Cash and cash equivalents - end of year	\$ 12,569,589	\$ 11,274,851
Cash and cash equivalents		
Unrestricted cash on hand	\$ 2,275	\$ 1,775
Unrestricted cash and cash equivalents on deposit	3,573,701	9,663,755
Restricted cash and cash equivalents on deposit	8,993,613	1,609,321
Total cash and cash equivalents	\$ 12,569,589	\$ 11,274,851

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

**LEXINGTON ELECTRIC SYSTEM
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2024 and 2023**

	2024	2023
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ 609,507	\$ 2,816,908
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense charged to operations	2,771,171	2,702,201
Amounts paid to City - tax equivalents	(862,605)	(817,833)
Miscellaneous expense	(69,621)	(55,819)
Change in pension related deferred outflows and inflows of resources	418,077	(2,000,716)
Change in OPEB related deferred outflows and inflows of resources	(355,942)	60,908
(Increase) decrease in accounts receivable	(424,315)	566,724
(Increase) decrease in materials and supplies	(61,929)	321,163
(Increase) decrease in prepayments and other assets	(56,143)	(389,511)
Increase (decrease) in accounts payable and accrued expense:	197,608	96,220
Increase (decrease) in net pension liability	(439,174)	2,172,420
Increase (decrease) in compensated absences	(27,239)	67,744
Increase (decrease) in OPEB	426,103	(202,020)
Increase (decrease) in customer deposits	115,138	131,217
	\$ 2,240,636	\$ 5,469,606
Net cash provided (used) by operating activities		
Non-cash disclosure:		
OPEB - (Decrease)Increase in Net Obligation	\$ 426,103	\$ (202,020)

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

LEXINGTON ELECTRIC SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION
June 30, 2024 and 2023

	2024	2023
Assets		
Investments		
Mutual funds - bonds	\$ 3,580,626	\$ 3,535,202
Mutual funds - equities	7,231,819	6,445,821
Total investments	10,812,445	9,981,023
 Net position available for benefits	 10,812,445	 9,981,023
 Liabilities	 -	 -
 Net position restricted for pensions	 \$ 10,812,445	 \$ 9,981,023

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

LEXINGTON ELECTRIC SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
For the Years Ended June 30, 2024 and 2023

	2024	2023
Additions		
Contributions		
Employer	\$ 449,867	\$ 348,791
Employee	138,001	99,184
Total contributions	587,868	447,975
Investment income		
Mutual fund income (loss)	1,441,955	1,069,789
Total additions	2,029,823	1,517,764
Deductions		
Benefit payments	1,194,852	336,568
Administrative and other expenses (refunds)	3,549	3,908
Total deductions	1,198,401	340,476
Change in fiduciary net position	831,422	1,177,288
Net position restricted for pensions		
Beginning of year	9,981,023	8,803,735
End of year	\$ 10,812,445	\$ 9,981,023

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

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

These are proprietary fund financial statements and include only the financial activities of Lexington Electric System (The System). The oversight unit consists of the funds maintained by Lexington, Tennessee. This oversight unit, which is the Board of Alderman, serves as the directors of the System and must approve all bond issues. Therefore, it is not considered a separate legal entity and is considered a proprietary fund of Lexington, Tennessee. The financial statements also include a fiduciary fund related to the System's pension plan.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The System's financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounting policies of the System conform to applicable accounting principles generally accepted in the United States of America as defined in by the *Governmental Accounting Standards Board (GASB)*.

Enterprise funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the enterprise fund's principal ongoing operations. The principal operating revenues of the System are charges for sale to customers for sales and service. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Assets, Liabilities, and Equity

Deposits and investments

The System's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the System to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements, and the state's investment pool.

Investments – Pension Plan

Investment policy. Investments are stated at fair market value. The Plan's investments consist of mutual funds. Purchases and sales of mutual funds are recorded on the trade-date basis.

LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

Accounts receivable

Trade receivables result from unpaid billings for electric service to customers and from unpaid billings related to work performed for or materials sold to certain entities. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible customer accounts recorded by the System is based on past history of uncollectible accounts and management's analysis of current accounts.

Inventories and prepaid items

All inventories are valued at the lower of average cost or market, using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Restricted assets

Certain proceeds of the bond issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Capital assets

Capital assets, which include property, plant, equipment, and construction in progress, are defined by the System as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the System is depreciated using the straight line method over the following useful lives:

General plant	5 - 40 years
Transmission plant	28 - 33 years
Distribution plant	16 - 40 years

Compensated absences

It is the System's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay has been accrued and is reflected as both a current and non-current liability on the financial statements. All sick leave has been accrued and is reflected as both a current and non-current liability on the financial statements.

Long-term obligations

The System has capitalized bond issuance cost and is amortizing this cost over the life of the bond issue. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The System will continue to report bond cost as an asset and amortize those over the life of the bonds instead of expensing those costs in the current year in accordance with certain

LEXINGTON ELECTRIC SYSTEM NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

provisions included in GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements*. This option as part of GASB Statement No. 65 is available due to the above mentioned cost being used for rate setting by the System.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The System reports deferred outflows of resources for the System's pension requirements under GASB Statement No. 68, OPEB requirements under GASB Statement No. 75, and their unamortized loss on bond refunding.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The System's deferred inflows of resources are related to the System's pension requirements under GASB Statement No. 68 and the System's OPEB requirements under GASB Statement No. 75.

Net Position Flow Assumption

Sometimes the System will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the System's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Net position

Equity is classified as net position and displayed in the following three components:

- Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.
- Restricted – Consists of net position amounts for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities.
- Unrestricted – All other net position amounts that do not meet the description of the above categories.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System's participation in their single employer defined benefit pension plan, and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the retirement plan. For this purpose, benefits are recognized when

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

due and payable in accordance with the benefit terms of the pension plan. Investments are reported at fair value. Benefits are recorded when the participant has met all of the Plan requirements to receive a benefit. At June 30, 2024, no benefits were payable and not paid. Qualified Plan administrative expenses are paid by the Plan. During the year ended June 30, 2024, \$3,549 of administrative expenses were paid.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The fiscal year 2025 budget was approved unanimously at the June 2024 Board meeting.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial credit risk

The System’s policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the System’s agent in the System’s name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the System to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities and the state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2024 and 2023, all bank deposits were fully collateralized or insured.

Investment-Fiduciary Fund

The following is the asset allocation as of June 30, 2024 and 2023:

	<u>2024</u>		<u>2023</u>	
	Market Value	Percentage of Total	Market Value	Percentage of Total
Fixed Income	\$3,580,626	33.12%	\$3,535,202	35.42%
Equities	\$7,231,819	66.88%	\$6,445,821	64.58%
Total	10,812,445	100.00%	\$9,981,023	100.00%

The following investments represent more than 5% of the fiduciary net position and are not issued or explicitly guaranteed by the U.S. government at June 30, 2024 and 2023:

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
American Funds Investment Fund of America	652,287	545,397
Columbia Diversified Fixed Income	640,334	589,367
Vanguard 500 Index	1,116,524	947,557
MFS Growth Fund	655,269	510,518
DC INTL ST	631,561	618,694
Contra	564,725	-
BlackRock EAFE Equity Index	661,631	626,134

For the year ended June 30, 2024 and 2023, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 13.87 and 12.07 percent respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plan has the following recurring fair value measurements as of June 30, 2024 and 2023, respectively:

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments by fair value level				
Debt Securities				
Pooled separate accounts	\$ 3,580,626	\$ -	\$ 3,580,626	\$ -
Equity Securities				
Pooled separate accounts	\$ 7,231,819	\$ -	\$ 7,231,819	\$ -
Total investments measure at fair value	<u>\$ 10,812,445</u>	<u>\$ -</u>	<u>\$ 10,812,445</u>	<u>\$ -</u>

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments by fair value level				
Debt Securities				
Pooled separate accounts	\$ 3,535,202	\$ -	\$ 3,535,202	\$ -
Equity Securities				
Pooled separate accounts	\$ 6,445,821	\$ -	\$ 6,445,821	\$ -
Total investments measure at fair value	<u>\$ 9,981,023</u>	<u>\$ -</u>	<u>\$ 9,981,023</u>	<u>\$ -</u>

The fair value of the pooled separate accounts for which quoted market prices are not available are valued based on the value of the underlying investments and therefore are Level 2 investments.

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

B. Receivables

Receivables as of the fiscal year ends were made up of the following:

	June 30,	
	2024	2023
Billed services for utility customers	\$ 2,914,457	\$ 2,534,261
Other receivables for utility service	452,073	391,558
Allowance for doubtful accounts	(71,942)	(55,546)
Total	\$ 3,294,588	\$ 2,870,273

C. Capital assets

Capital asset activity during the years was as follows:

Description	Balance at June 30, 2023	Additions	Disposals	Balance at June 30, 2024
Capital assets, not being depreciated				
Distribution plant	\$ 262,996	\$ -	\$ -	\$ 262,996
General plant	32,554	-	-	32,554
Construction in progress	2,392,551	17,971,999	-	20,364,550
Total capital assets not being depreciated	2,688,101	17,971,999	-	20,660,100
Capital assets, being depreciated				
Distribution plant	75,300,660	3,828,261	556,599	78,572,322
General plant	7,446,888	1,109,764	196,004	8,360,648
Total capital assets being depreciated	82,747,548	4,938,025	752,603	86,932,970
Less accumulated depreciation for:				
Distribution plant	31,697,914	2,633,514	798,348	33,533,080
General plant	5,218,732	471,480	187,920	5,502,292
Total accumulated depreciation	36,916,646	3,104,994	986,268	39,035,372
Total capital assets, being depreciated, net	45,830,902	1,833,031	(233,665)	47,897,598
Total capital assets, net	\$ 48,519,003	\$ 19,805,030	\$ (233,665)	\$ 68,557,698

Depreciation expense amounted to \$2,771,171 and \$2,702,201 for the fiscal years ended June 30, 2024 and 2023. Additionally, transportation expense depreciation charged to clearing for the fiscal years ended June 30, 2024 and 2023 was \$333,823 and \$265,494 respectively.

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

Description	Balance at June 30, 2022	Additions	Disposals	Balance at June 30, 2023
Capital assets, not being depreciated				
Distribution plant	\$ 262,996	\$ -	\$ -	\$ 262,996
General plant	32,554	-	-	32,554
Construction in progress	<u>1,300,615</u>	<u>1,091,936</u>	<u>-</u>	<u>2,392,551</u>
Total capital assets not being depreciated	<u>1,596,165</u>	<u>1,091,936</u>	<u>-</u>	<u>2,688,101</u>
 Capital assets, being depreciated				
Distribution plant	71,426,587	4,478,985	604,912	75,300,660
General plant	<u>6,567,664</u>	<u>879,224</u>	<u>-</u>	<u>7,446,888</u>
Total capital assets being depreciated	<u>77,994,251</u>	<u>5,358,209</u>	<u>604,912</u>	<u>82,747,548</u>
 Less accumulated depreciation for:				
Distribution plant	29,959,149	2,565,549	826,784	31,697,914
General plant	<u>4,816,586</u>	<u>402,146</u>	<u>-</u>	<u>5,218,732</u>
Total accumulated depreciation	<u>34,775,735</u>	<u>2,967,695</u>	<u>826,784</u>	<u>36,916,646</u>
 Total capital assets, being depreciated, net	<u>43,218,516</u>	<u>2,390,514</u>	<u>(221,872)</u>	<u>45,830,902</u>
 Total capital assets, net	<u>\$ 44,814,681</u>	<u>\$ 3,482,450</u>	<u>\$ (221,872)</u>	<u>\$ 48,519,003</u>

D. Restricted Assets

Restricted assets for the fiscal year ends were made up of the following:

	June 30,	
	2024	2023
The restricted assets consist of the following:		
Cash and cash equivalents - restricted	\$ 8,993,613	\$ 1,609,321
Investments - restricted	<u>100,000</u>	<u>100,000</u>
	<u>9,093,613</u>	<u>1,709,321</u>
 The total of these funds is represented by:		
Certificates of Deposit and bank accounts	<u>\$ 9,093,613</u>	<u>\$ 1,709,321</u>

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

E. Net Position

Net position represents the difference between assets, liabilities and deferred inflows/outflows of resources. The net position amounts were as follows:

	June 30,	
	2024	2023
Invested in capital assets, net of related debt:		
Net property, plant and equipment in services	\$ 68,557,698	\$ 48,519,003
Less: Debt as disclosed in Note 3F	(33,325,000)	(12,180,000)
	35,232,698	36,339,003
Restricted for debt service:		
Restricted cash and cash equivalents	8,993,613	1,609,321
Restricted investments	100,000	100,000
Interest accrued - bonds	(522,275)	(95,203)
	8,571,338	1,614,118
Unrestricted	(7,532,009)	(1,129,393)
Total net position	\$ 36,272,027	\$ 36,823,728

F. Long-term Debt

Long-term debt is made up of the following:

	June 30,	
	2024	2023
Revenue Bonds:		
Electric Plant Revenue Bonds, Series 2018, interest at 3.00 to 4.00% due serially through 2038	2,305,000	\$ 2,430,000
Electric Plant Revenue Refunding Bonds, Series 2017, interest of 2.00% to 2.75% due serially through 2032	3,845,000	4,280,000
Electric Plant Revenue Refunding Bonds, Series 2019, interest of .05% to 5.00% due serially through 2037	5,175,000	5,470,000
Electric Plant Revenue Refunding Bonds, Series 2023, interest of 4.625% to 5.00% due serially through 2054	22,000,000	-
Total Revenue Bonds	33,325,000	12,180,000
Less current portion Revenue Bonds	(1,210,000)	(855,000)
Total long-term portion Revenue Bonds	\$ 32,115,000	\$ 11,325,000

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

During 2017, City of Lexington issued \$6,810,000 Electric System Revenue Refunding Bonds, Series 2017, for the purpose of re-financing the 2007 Electric System Revenue Bonds. The bonds bear interest at 2.00% to 2.75% and mature serially in varying amounts from \$395,000 in fiscal year 2019 to \$525,000 in fiscal year 2032. The bonds are secured by a pledge of revenues by the System. Expenses incurred by the issuance of the bonds are being amortized by equal charges to operations over the life of the bonds.

During 2018, City of Lexington issued \$3,000,000 Electric System Revenue Bonds, Series 2018, for the purpose of financing the improvements and extensions to the system. The bonds bear interest at 3.00% to 4.00% and mature serially in varying amounts from \$105,000 in fiscal year 2019 to \$200,000 in fiscal year 2038. The bonds are secured by a pledge of revenues by the System.

During 2020, City of Lexington issued \$6,300,000 Electric System Revenue Refunding Bonds, Series 2019, for the purpose of re-financing the 2011 Electric System Revenue Bonds. The bonds bear interest at 0.05% to 5.00% and mature serially in varying amounts from \$270,000 in fiscal year 2021 to \$505,000 in fiscal year 2037. The bonds are secured by a pledge of revenues by the System. Expenses incurred by the issuance of the bonds are being amortized by equal charges to operations over the life of the bonds.

During 2024, City of Lexington issued \$22,000,000 Electric System Revenue Refunding Bonds, Series 2023, for the purpose of financing the improvements and extensions to the system related to the new broadband division. The bonds bear interest at 5.00% and mature serially in varying amounts from \$330,000 in fiscal year 2024 to \$1,335,000 in fiscal year 2054. The bonds are secured by a pledge of revenues by the System.

The following is a summary of long-term debt transactions for the years ended June 30, 2024 and 2023:

	Balance at <u>June 30, 2023</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>June 30, 2024</u>	Due Within <u>One Year</u>
Revenue bonds	\$ 12,180,000	\$22,000,000	\$ 855,000	\$ 33,325,000	\$ 1,210,000
Compensated absences	<u>1,680,790</u>	<u>444,429</u>	<u>471,668</u>	<u>1,653,551</u>	<u>208,708</u>
	<u>\$ 13,860,790</u>	<u>\$22,444,429</u>	<u>\$ 1,326,668</u>	<u>\$ 34,978,551</u>	<u>\$ 1,418,708</u>

	Balance at <u>June 30, 2022</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>June 30, 2023</u>	Due Within <u>One Year</u>
Revenue bonds	\$ 13,010,000	\$ -	\$ 830,000	\$ 12,180,000	\$ 855,000
Compensated absences	<u>1,613,046</u>	<u>441,978</u>	<u>374,234</u>	<u>1,680,790</u>	<u>213,358</u>
	<u>\$ 14,623,046</u>	<u>\$ 441,978</u>	<u>\$ 1,204,234</u>	<u>\$ 13,860,790</u>	<u>\$ 1,068,358</u>

The System complied with all significant debt covenants and restrictions as set forth in the bond agreements.

The bonds contain provisions in the event of default, the lender can exercise one or more of the following options: (1) make all or any of the outstanding payable balance immediately due and

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

accrued interest at highest post maturity interest rate, (2) use any remedy allowed by state or federal law. Bonds of the system are secured by the Systems' revenue and receipts.

There are no unused lines of credit for any of the System at June 30, 2024.

The scheduled annual requirements for long-term debt at June 30, 2024, including interest of \$20,740,197 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 1,210,000	\$ 1,355,134	\$ 2,565,134
2026	1,255,000	1,310,059	2,565,059
2027	1,305,000	1,260,209	2,565,209
2028	1,360,000	1,209,634	2,569,634
2029	1,410,000	1,155,509	2,565,509
2030-2034	6,840,000	4,914,508	11,754,508
2035-2039	5,145,000	3,871,314	9,016,314
2040-2044	3,860,000	2,958,859	6,818,859
2045-2049	4,845,000	1,974,106	6,819,106
2050-2054	<u>6,095,000</u>	<u>730,865</u>	<u>6,825,865</u>
	<u>\$ 33,325,000</u>	<u>\$ 20,740,197</u>	<u>\$ 54,065,197</u>

NOTE 4 – OTHER INFORMATION

A. Pension Plan

General information. The Board of the Lexington Electric System accounts for the activity of the Retirement Income Plan for Employees of Lexington Electric System. The Plan is a single employer public employee retirement System administered by USI Consulting Group, Inc. No employees enter the plan after April 1, 2012.

Benefits Provided. The Plan provides normal retirement benefits at age 60.

Normal form of retirement income. The normal form of retirement income for a single member is a Single Life Annuity with 120 months certain. The normal form of benefit for a married member is an Equivalent 50% Joint and Survivor Annuity.

Normal retirement benefit. Effective March 1, 2000, the monthly annuity is equal to the sum of 2.25% of the members Average Monthly Earnings multiplied by years of Credited Service for the member's first 30 years of Credited Service and 1.85% of the member's Average Monthly Earnings multiplied by years of Credited Service in excess of 30 years. For contributing members as of April 1, 1986, minimum monthly annuity is equal to 3.333% of member's Average Monthly Earnings multiplied by years of Credited Service subject to a maximum of 15 years. A member of the prior plan will receive a benefit no less than 40% of the average of monthly earnings during the period of 5 consecutive years in which his earnings were highest or 40% of his salary at age 64, whichever is greater. Average Monthly Earnings means the greater of (1) the average of monthly compensation for the 5 consecutive years of highest compensation, and (2) monthly compensation during the year

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

immediately preceding the participant's 60th birthday. The maximum annual benefit is \$225,000 as adjusted per IRC Sec. 415 for retirement age other than social security retirement age and annuity form.

Early retirement. Once a member has attained age 50 and completed ten years of service he / she may take an early retirement benefit based on service and earnings at termination, reduced actuarially.

Late retirement. If a member works past normal retirement age his / her normal retirement benefit will be increased eight percent per annum for each year that retirement is deferred.

Death benefit. If a participant dies prior to retirement he / she will receive his / her member contributions credited with interest to the date of death plus the actuarially equivalent value of the member's accrued benefit, if greater than the member contributions with interest.

Benefits upon termination of employment. If a participant is terminated prior to retirement, he / she will receive his / her member contributions credited with interest to the date of termination plus the actuarially equivalent value of the member's accrued benefit, if greater than the member contributions with interest.

Benefits upon disability. A disabled participant will receive a normal retirement benefit calculated at the date of disability reduced by the ratio of years of service at disability to years of service projected to normal retirement date. The benefit will commence the first day of the sixth month following determination of disability under the Social Security Act.

Vested termination benefit. A member who terminates employment with less than five years of credited service may elect to receive, at any time prior to retirement, either a return of member contributions with interest to the date of payment or income payments at retirement provided by his / her own contribution with interest. A member who terminates employment with five or more years of credited service will be entitled to a percentage of the benefit earned based on years of credited service and average monthly earnings at separation from service.

Cost of living feature: Effective July 1, 2018, the Plan has been amended to provide an annual increase for retired participants based on the CPI-U, with a maximum adjustment of 3%.

The percentage is determined from the following table:

Years of Credited Service	Percentage
less than 5	0
5	25
6	40
7	55
8	70
9	85
10 or more	100

Contributions. Lexington Electric System is required to contribute the amounts necessary to fund the Plan, as determined by the actuary. Employees are required to contribute six percent of their monthly earnings.

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

At July 1, 2023 and 2022 membership consisted of:

	2023	2022
Retirees and beneficiaries currently receiving benefits	10	10
Terminated employees entitled to deferred benefits	3	5
Active employees:		
Fully or partially vested	25	27
Total	38	42

Funded status and funding progress. As of June 30, 2023, the total pension liability for benefits was \$14,032,500 and the net pension liability was \$3,594,937. Total covered payroll was \$1,715,768 and the ratio of net pension liability to covered payroll was 209.52%. As of June 30, 2022, the total pension liability for benefits was \$12,836,523 and the net pension liability was \$4,034,111. Total covered payroll was \$1,636,592 and the ratio of net pension liability to covered payroll was 246.49%. As of June 30, 2021, the total pension liability for benefits was \$13,083,856 and the net pension liability was \$1,861,691. Total covered payroll was \$1,952,796 and the ratio of net pension liability to covered payroll was 95.33%.

Net pension liability. The components of the net pension liability of the Retirement Income Plan for Employees of Lexington Electric System at June 30, 2023 and 2022 are detailed in the following tables. The first table is required to be disclosed due to the inclusion of the fiduciary fund statements in the System's financial statements. Total Pension Liability was rolled forward to June 30, 2023, in order to be in compliance with GASB Statement No. 67. The second table shows the net pension liability as of June 30, 2022, which is what is reported in the proprietary financial statements in accordance with GASB Statement No. 68.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 6/30/2022	\$ 12,836,523	\$ 8,802,412	\$ 4,034,111
Service Cost	159,425	-	159,425
Interest	928,966	-	928,966
Changes of benefit items	-	-	-
Differences between actual and expected	(9,802)	-	(9,802)
Changes of assumptions	-	-	-
Contributions - employer	-	348,791	(348,791)
Contributions - employee	-	99,183	(99,183)
Net investment income	-	1,066,530	(1,066,530)
Benefit payments	(340,560)	(340,560)	-
Administrative expense	-	(3,907)	3,907
Other	-	7,166	(7,166)
Net changes	738,029	1,177,203	(439,174)
Balances at 6/30/2023	\$ 13,574,552	\$ 9,979,615	\$ 3,594,937

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2021	\$ 13,083,856	\$ 11,222,165	\$ 1,861,691
Service Cost	191,155	-	191,155
Interest	865,906	-	865,906
Changes of benefit items	233,002	-	233,002
Differences between actual and expected	(200,265)	-	(200,265)
Changes of assumptions	6,547	-	6,547
Contributions - employer	-	359,326	(359,326)
Contributions - employee	-	101,344	(101,344)
Net investment income	-	(1,538,989)	1,538,989
Benefit payments	(1,343,678)	(1,343,678)	-
Administrative expense	-	(4,510)	4,510
Other	-	6,754	(6,754)
Net changes	<u>(247,333)</u>	<u>(2,419,753)</u>	<u>2,172,420</u>
Balances at 6/30/2022	<u>\$ 12,836,523</u>	<u>\$ 8,802,412</u>	<u>\$ 4,034,111</u>

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability calculated using the discount of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	2023		
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Plan's net pension liability	\$ 4,673,900	\$ 3,594,937	\$ 2,666,675

	2022		
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Plan's net pension liability	\$ 5,144,671	\$ 4,034,111	\$ 3,078,976

Net Pension Liability. The System's net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability in the July 1, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

Actuarial cost method	Individual Entry Age Normal, level percentage of pay
Amortization method	Level dollar, closed
Remaining amortization period	30 years as of 7/1/2020
Asset valuation method	Market value of plan assets adjusted to phase in gains and losses over a five-year period at a rate of 20% per year. Assets are further limited to a 20% corridor around market value.
Salary increases	3.00% per annum
Cost of living increases	2.05%
Investment rate of return	7.25%, per annum
Retirement age assumption	100% at Age 60
Mortality	RP-2006 Blue Collar Mortality Generational with Improvement Scale MP-2021
Disabled mortality	RP-2006 Disabled Retiree Mortality Generational with Improvement Scale MP-2021

The actuarial assumptions used in the July 1, 2023, and 2022, valuations were based on the results of actuarial experience studies for the periods July 1, 2014 through June 30, 2019.

Discount rate. The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employees do not contribute to the plan and that contributions from the employer will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the measurement periods ended June 30, 2023 and 2022, the System recognized pension expense (negative pension expense) of \$327,694 and \$520,331. At June 30, 2023 and 2022, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 211,501	\$ 249,579
Changes of assumptions	19,270	64,980
Net difference between projected and actual earnings on pension plan investments	375,401	-
Contributions subsequent to the measurement date of June 30, 2023	348,791	-
Total	<u>\$ 954,963</u>	<u>\$ 314,559</u>

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 299,593	\$ 425,369
Changes of assumptions	31,189	140,847
Net difference between projected and actual earnings on pension plan investments	945,124	-
Contributions subsequent to the measurement date of June 30, 2022	348,791	-
Total	\$ 1,624,697	\$ 566,216

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

Year ended June 30:	
2024	22,548
2025	(11,612)
2026	370,518
2027	(89,839)
2028	(2)
Thereafter	-

B. Other Post-Employment Benefits (OPEB)

1. Lexington Electric System OPEB Plan

Plan Description – Lexington Electric System sponsors a single-employer post-retirement benefit plan. The plan provides medical and death benefits to eligible retirees and their spouses. Since the benefits are the ongoing medical and life insurance benefits of the system, it is administered through the same oversight unit, which is the Board of Aldermen, the directors of the System, as the rest of the operations of the System.

Annual OPEB Cost and Net OPEB Obligation – Changes in the System's net OPEB liability measured at June 30, 2024 and 2023 are detailed in the following tables. The table below shows the net OPEB liability as of June 30, 2024, which is what is reported in the financial statements in accordance with GASB Statement No. 75.

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

Changes in Total OPEB Liability

	<u>Total OPEB Liability (TOL)</u>
Total OPEB Liability (TOL) June 30, 2023	\$ 3,392,014
Service Cost	192,857
Interest	139,011
Difference Between Expected and Actual Experience	(60,642)
Changes in assumptions and other inputs	320,478
Actual System Contributions	
Benefit Payments	(192,811)
Other Changes	<u>(28,591)</u>
Net Changes	<u>370,302</u>
Total OPEB Liability (TOL) June 30, 2024	<u>\$ 3,762,316</u>
	<u>Total OPEB Liability (TOL)</u>
Total OPEB Liability (TOL) June 30, 2022	\$ 3,397,433
Service Cost	149,970
Interest	120,734
Difference Between Expected and Actual Experience	-
Net Investment Income	-
Changes of assumptions	-
Benefit Payments	<u>(276,123)</u>
Net Changes	<u>(5,419)</u>
Total OPEB Liability (TOL) June 30, 2023	<u>\$ 3,392,014</u>

Actuarial Methods and Assumptions

The valuation was based on information provided by Lexington Electric System as of July 1, 2023 and only those not frozen in the defined benefit plan.

Plan Membership

Number of Participants	<u>2023</u>	<u>2022</u>
Actives	51	49
Inactives Not Receiving Benefits	-	
Inactives Receiving Benefits	<u>10</u>	<u>9</u>
Total Participants	<u>61</u>	<u>58</u>

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

Benefits Provided

Eligibility is attained at age 60. The System pays 100% of the employee premium until Medicare eligible. The Utility also provides a life insurance benefit of \$10,000 to eligible employees.

Actuarial assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2023, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	3.93% based on S&P Municipal Bond 20 Year High Grade Index for June 2024
Health Trend	Health Trend rate is 8.0% starting in 2023 reduced each year by 0.5% until 5.0% is reached The sex distinct mortality rates are from the PUB-2010 Headcount-weighted Fully Generational Mortality Table with projection scale MP-2021.
Mortality	
Coverage Assumptions	It was assumed that 100% of the current active employees covered under the active plan on the day before retirement would enroll in the retiree medical plan upon retirement.

The actuarial assumptions used in the June 30, 2024 measurement were based on the results of an actuarial experience study for the period ending July 1, 2023. The salary increases are assumed to be 3.50% annually with an annual payroll growth rate of 2.50%.

Sensitivity of Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following represents the Net OPEB Liability calculated using the stated health care cost trend assumption, as well as what the OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage-point lower or 1-percentage point higher than the assumed trend rate for the measurement periods of June 30, 2024 and 2023, respectively:

	1% Decrease	Current	1% Increase
	6.50% decreasing .5% until 4.00% is reached	7.5% decreasing .5% until 5.0% is reached	8.5% decreasing .5% until 6.00% is reached
Total OPEB Liability	\$ 3,367,312	\$ 3,762,316	\$ 4,230,690
	1% Decrease	Current	1% Increase
	5.0% decreasing 1.0% until 3.5% is reached	6.0% decreasing 1.0% until 4.5% is reached	7.0% decreasing 1.0% until 5.5% is reached
Total OPEB Liability	\$ 3,023,471	\$ 3,392,014	\$ 3,828,034

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

Sensitivity of Net OPEB Liability to Changes in the Discount Rate

The following represents the Net OPEB Liability calculated using the stated discount rate, as well as what the Net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1-percentage point higher than the current rate for the measurement periods of June 30, 2024 and 2023, respectively:

	1% Decrease (2.93%)	Current (3.93%)	1% Increase (4.93%)
Total OPEB Liability	\$ 4,087,167	\$ 3,762,316	\$ 3,467,115

	1% Decrease (2.54%)	Current (3.54%)	1% Increase (4.54%)
Total OPEB Liability	\$ 3,664,653	\$ 3,392,014	\$ 3,142,219

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to discount, trend rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

Benefits are recorded when the participant has met all of the Plan requirements to receive a benefit. At June 30, 2024, no benefits were payable and not paid. Qualified Plan administrative expenses are paid by the Plan. During the years ended June 30, 2024 and 2023, administrative expenses paid were \$0.

For the measurement periods ended June 30, 2024 and 2023, the System recognized OPEB expense of \$306,289 and \$220,669. At June 30, 2023, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

2024

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 81,882	\$ 542,825
Changes of assumptions	549,456	265,156
Total	\$ 631,338	\$ 807,981

2023

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 102,455	\$ 570,746
Changes of assumptions	319,630	287,948
Total	\$ 422,085	\$ 858,694

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

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

Year ended June 30:	
2025	(25,579)
2026	(25,579)
2027	(25,579)
2028	(19,825)
2029	(56,288)
Thereafter	(23,793)

**2. State LGOP OPEB Plan
Plan Description**

Employees of the Lexington Electric System are provided with pre-65 retiree health insurance benefits through the Local Government OPEB Plan (LGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. All eligible pre-65 retired employees and disability participants of local governments, who choose coverage, participate in the LGOP.

Benefits provided

The System offers the LGOP to provide health insurance coverage to eligible pre-65 retirees and disabled participants of local governments. Insurance coverage is the only postemployment benefit provided to retirees. An insurance committee created in accordance with TCA 8-27-701 establishes and amends the benefit terms of the LGOP. All members have the option of choosing between the premier preferred provider organization (PPO), standard PPO, limited PPO or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members, of the LGOP, receive the same plan benefits as active employees, at a blended premium rate that considers the cost of all participants. This creates an implicit subsidy for retirees. Participating employers determine their own policy related to direct subsidies provided for the retiree premiums. The LGOP is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

Employees covered by benefit terms - At July 1, 2023 and 2022, the following employees of the System were covered by the benefit terms of the plan:

	2023	2022
Inactive employees currently receiving benefit payments	9	13
Inactive employees entitled to but not yet receiving benefit payments	-	-
Active employees	51	50
	60	63

An insurance committee, created in accordance with TCA 8-27-701, establishes the required payments to the LGOP by member employers and employees through the blended premiums established for active and retired employees. Claims liabilities of the plan are periodically computed

LEXINGTON ELECTRIC SYSTEM NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

using actuarial and statistical techniques to establish premium rates. For the fiscal year ended June 30, 2023, the System paid \$91,901 to the LGOP for OPEB benefits as they came due.

Total OPEB Liability

Actuarial assumptions

The total OPEB liability in the June 30, 2023, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Entry Age Normal
Inflation	2.25 percent
Salary increases	Graded salary ranges from 3.44 to 8.72 percent based on age, including inflation, averaging 4 percent
Healthcare cost trend rate	10.3% for pre-65 in 2024, decreasing annually over a 10 year period to an ultimate rate of 4.5%. 12.4% for post-65 in 2024, decreasing annually over a 10 year period to an ultimate rate of 4.50%.
Mortality	Pre-retirement tables are PUB-2010 Headcount-Weighted Employee mortality table for General Employees projected generationally with MP-2021 from 2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load for females, projected generationally from 2010 with MP-2021. Disabled: Reflects those used by TCRS and are taken from the gender distinct table published in the IRS Revenue Ruling 96-7 for disabled lives with a 10% load, projected generationally from 2018 with MP-2021.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2023, valuations were the same as those employed in the July 1, 2022, Pension Actuarial Valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2016 – June 30, 2021. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the PUB-2010 Headcount-Weighted Employee mortality table for General Employees for non-disabled pre-retirement mortality, with mortality improvement projected generationally with MP-2021 from 2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load for females, projected generationally from 2010 with MP-2021. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load, projected generationally from 2018 with MP-2021.

Discount rate

The discount rate used to measure the total OPEB liability was 3.65 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Bond Buyer 20-year Municipal GO AA index.

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

Changes in the Total OPEB Liability

	Total OPEB liability
Balance at June 30, 2023	<u>\$ 912,020</u>
Changes for the year	
Service cost	29,850
Interest	31,730
Changes of benefit terms	-
Differences between expected and actual experience	(13,591)
Changes of assumptions	99,713
Benefit payments	<u>(91,901)</u>
Net change	55,801
Balance at June 30, 2024	<u><u>\$ 967,821</u></u>
Balance at June 30, 2022	<u>\$ 1,108,621</u>
Changes for the year	
Service cost	38,450
Interest	23,865
Changes of benefit terms	-
Differences between expected and actual experience	(18,108)
Changes of assumptions	(155,911)
Benefit payments	<u>(84,897)</u>
Net change	(196,601)
Balance at June 30, 2023	<u><u>\$ 912,020</u></u>

Changes of assumptions

The discount rate was changed from 3.54% as of the beginning of the measurement period to 3.65% as of June 30, 2024. This change in assumption increased the total OPEB liability. Other changes in assumptions include adjustments to initial per capita costs and health trend rates.

Sensitivity of total OPEB liability to changes in the discount rate - The following presents the total OPEB liability related to the plan, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate for the fiscal years ended June 30, 2024, and 2023, respectively.

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

2024	1% Decrease (2.65%)	Discount Rate (3.65%)	1% Increase (4.65%)
Total OPEB liability	\$ 1,038,097	\$ 967,821	\$ 902,755

2023	1% Decrease (2.54%)	Discount Rate (3.54%)	1% Increase (4.54%)
Total OPEB liability	\$ 974,095	\$ 912,020	\$ 854,475

Sensitivity of total OPEB liability to changes in the healthcare cost trend rate - The following presents the total OPEB liability related to the LGOP, as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rate for the years ended June 30, 2024 and 2023, respectively.

2024	1% Decrease	Trend Rate	1% Increase
Total OPEB Liability	\$ 888,409	\$ 967,821	\$ 1,060,090

2023	1% Decrease	Trend Rate	1% Increase
Total OPEB Liability	\$ 840,975	\$ 912,020	\$ 994,423

OPEB expense – For the fiscal years ended June 30, 2024 and 2023, the System recognized OPEB expense of \$17,022 and \$6,423, respectively.

Deferred outflows of resources and deferred inflows of resources - For the fiscal years ended June, 30, 2024 and 2023, the System reported the following deferred outflows of resources and deferred inflows of resources related to OPEB benefits in the plan:

2024	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 200,015	\$ 146,830
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in assumptions	143,352	411,737
Contributions/benefits paid after the measurement date	<u>57,197</u>	<u>-</u>
Total	<u>\$ 400,564</u>	<u>\$ 558,567</u>

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

2023	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 262,565	\$ 173,230
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in assumptions	74,532	509,747
Contributions/benefits paid after the measurement date	91,901	-
Total	\$ 428,998	\$ 682,977

The amounts shown above for "Employer payments subsequent to the measurement date" will be included as a reduction to total OPEB liability in the subsequent fiscal period.

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

Year Ended June 30:

2025	(44,558)
2026	(44,558)
2027	(58,847)
2028	(52,691)
2029	(21,960)
Thereafter	\$ 7,414

In the table above, positive amounts will increase OPEB expense while negative amounts will decrease OPEB expense.

C. Power Contract

The System has a power contract with the Tennessee Valley Authority (TVA) whereby the electric system purchases all its electric power from TVA and is subject to certain restrictions and conditions as provided for in the power contract. Such restrictions include, but are not limited to, prohibitions against furnishings, advancing, lending, pledging or otherwise diverting System funds, revenues or property to other operations of the city and the purchase or payment of, or providing security for indebtedness on other obligations applicable to such other operations.

D. Risk Management

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended June 30, 2024 and 2023, the System purchased commercial insurance for all of the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in the amount of coverage provided.

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

E. Defined Contribution Plan

The System began offering a 403(b) defined contribution plan, titled the Lexington Electric System 403(b) plan, to their eligible employees hired after April 1, 2012. The System matches their employee's contributions, which can be up to 6% of the employee's annual compensation as determined by the Retirement Committee. The employer's contributions are not vested until after five annual periods in the plan. If an employee leaves the System before the five year vesting period, the amount of unvested contributions reduce the System's cash outlay in the following period. The System made contributions of \$115,142 to the plan in 2024 and \$85,907 in 2023. The Retirement Committee of the Lexington Electric System serves as the administrator. John Hancock, in conjunction with Edward Jones, serves as the investment firm of the plan.

REQUIRED SUPPLEMENTARY INFORMATION

LEXINGTON ELECTRIC SYSTEM
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS - LES PLAN
For the Year Ended June 30, 2024

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability							
Service cost	\$ 192,857	\$ 149,970	\$ 187,514	\$ 188,791	\$ 186,686	\$ 144,058	\$ 160,992
Interest	139,011	120,734	82,676	140,015	135,614	132,283	108,224
Changes of benefit terms	-	-	-	-	-	-	-
Differences between expected and actual experience	(60,642)	-	(734,990)	-	184,747	-	-
Changes of assumptions	320,478	-	(314,926)	409,991	77,316	(198,516)	-
Benefits payments and refunds	(192,811)	(276,123)	(268,277)	(208,245)	(163,422)	(111,924)	(75,047)
Other changes	(28,591)	-	-	-	-	-	-
Net Change in Total OPEB Liability	370,302	(5,419)	(1,048,003)	530,552	420,941	(34,099)	194,169
Total OPEB Liability - beginning	3,392,014	3,397,433	4,445,436	3,914,884	3,493,943	3,528,042	3,333,873
Total OPEB Liability - ending	\$ 3,762,316	\$ 3,392,014	\$ 3,397,433	\$ 4,445,436	\$ 3,914,884	\$ 3,493,943	\$ 3,528,042
Covered Employee Payroll	\$ 3,464,573	\$ 2,929,964	\$ 2,858,501	\$ 3,184,897	\$ 3,107,217	\$ 3,070,151	\$ 2,995,269
Net OPEB Liability as a % of covered-employee payroll	108.59%	115.77%	118.85%	139.58%	125.99%	113.80%	117.79%

These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years which information is available.

See independent auditor's report.

LEXINGTON ELECTRIC SYSTEM
SCHEDULE OF NOTES TO OPEB REQUIRED SUPPLEMENTARY INFORMATION - LES PLAN
For the Year Ended June 30, 2024

Notes to OPEB Required Supplementary Information

Valuation Date: Actuarially determined contribution rates for 2024 were calculated based on the July 1, 2023 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Total OPEB Liability (TOL)	The TOL is determined by calculating the Present Value of Projected Benefits at that date, and subtracting the Present Value of future Service Costs.
Interest:	Rate if trust fund is not established - 3.5% per year compounded annually, net of expenses.
Discount Rate	The discount rate was 3.65% as of June 30, 2023, and 3.93% as of June 30, 2024. The discount rate is based on the Bond Buyer's 20 Bond Index.
Salary Increase:	3.5% per year
Assumption Changes	Health Trend rate is 8.0% starting in 2023 reduced each year by 0.5% until 5.0% in years 2029 and later. The mortality tables were updated to the PUB-2010 tables.
Age Related Health Trend	Based on discussion with the System, retirees' claims do not increase the premiums; therefore no implicit active subsidy of retiree premiums
Coverage Assumption	70% new retirees will select Employee/Spouse Coverage
Mortality	PUB-2010 headcount-weighted fully generational mortality table with projection scale MP-2021

There are no funds accumulating in a trust related to the OPEB plan.

See independent auditor's report.

LEXINGTON ELECTRIC SYSTEM
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS - LGOP PLAN
For the Year Ended June 30, 2024

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability							
Service cost	\$ 29,850	\$ 38,450	\$ 54,280	\$ 41,240	\$ 48,646	\$ 52,367	\$ 56,714
Interest	31,730	23,865	29,531	50,997	45,234	43,133	35,654
Changes of benefit terms	-	-	-	-	-	-	-
Differences between expected and actual experience	(13,591)	(18,108)	181,382	(264,756)	176,325	118,949	-
Changes of assumptions	99,713	(155,911)	(416,883)	111,023	18,774	(120,880)	(57,076)
Benefits payments and refunds	(91,901)	(84,897)	(43,064)	(92,810)	(63,860)	(40,467)	(40,282)
Net Change in Total OPEB Liability	55,801	(196,601)	(194,754)	(154,306)	225,119	53,102	(4,990)
Total OPEB Liability - beginning	912,020	1,108,621	1,303,375	1,457,681	1,232,562	1,179,460	1,184,450
Total OPEB Liability - ending	\$ 967,821	\$ 912,020	\$ 1,108,621	\$ 1,303,375	\$ 1,457,681	\$ 1,232,562	\$ 1,179,460
Covered Employee Payroll	\$ 3,464,573	\$ 2,929,964	\$ 2,858,501	\$ 3,184,897	\$ 3,107,217	\$ 3,070,151	\$ 2,995,269
Net OPEB Liability as a % of covered-employee payroll	27.93%	31.13%	38.78%	40.92%	46.91%	40.15%	39.38%

These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years which information is available.

The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

See independent auditor's report.

LEXINGTON ELECTRIC SYSTEM
SCHEDULE OF NOTES TO OPEB REQUIRED SUPPLEMENTARY INFORMATION - LGOP PLAN
For the Year Ended June 30, 2024

Valuation Date:	July 1, 2023
Measurement Date:	June 30, 2023
Actuarial Cost Method	Entry Age Normal
Inflation	2.25%
Discount Rate	3.65% based on Bond Buyer GO 20-Bond Municipal Bond Index
Salary Increases	Assumed salary increases are the same as used by TCRS: 8.72% at age 20 graded to 3.44% at age 70 (with 4.00% weighted average).
Retirement Age	Retirement rates used in the July 1, 2023, actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). They are based on the results of a statewide experience study (undertaken on behalf of TCRS).
Demographic Assumptions	Demographic assumptions used in the July 1, 2023, actuarial evaluation of the Tennessee Consolidated Retirement System (TCRS). They are based on the results of a statewide experience study (undertaken on behalf of TCRS).
Healthcare Cost Trend Rates	Based on the Getzen Model, with trend starting at 10.3 for pre-65 retirees in the 2024 calendar year, and gradually decreasing over a 10 year period to an ultimate trend rate of 4.5 percent.

Other Information:

Notes	See the Actuarial Valuation Report as of July 1, 2023 There were no benefit changes during the measurement period. There have been no method changes since the prior year.
Assumption changes	The discount rate increased from 3.54% to 3.65%

There are no assets accumulating, in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

See independent auditor's report.

LEXINGTON ELECTRIC SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2024

Measurement Period Ended	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Total pension liability										
Service cost	\$ 159,425	\$ 191,155	\$ 192,049	\$ 189,353	\$ 207,244	\$ 224,008	\$ 230,698	\$ 212,645	\$ 215,316	\$ 207,035
Interest	928,966	865,906	862,569	832,035	825,492	822,895	781,193	771,286	706,762	700,229
Changes in benefit terms	-	233,002	-	-	-	780,756	-	-	-	-
Differences between actual & expected experience	(9,802)	(200,265)	418,622	69,222	(373,305)	(325,344)	(335,078)	32,345	819,077	-
Change of assumptions	-	6,547	(14,610)	(12,173)	68,445	(481,164)	-	-	159,411	-
Benefit payments, including refunds of employee contributions	(340,560)	(1,343,678)	(146,696)	(856,610)	(1,286,458)	(90,184)	(356,983)	(1,148,256)	(233,539)	(1,402,188)
Net change in total pension liability	738,029	(247,333)	1,311,934	221,827	(558,582)	930,967	319,830	(131,980)	1,667,027	(494,924)
Total pension liability - beginning	12,836,523	13,083,856	11,771,922	11,550,095	12,108,677	11,177,710	10,857,880	10,989,860	9,322,833	9,817,757
Total pension liability - ending (a)	13,574,552	12,836,523	13,083,856	11,771,922	11,550,095	12,108,677	11,177,710	10,857,880	10,989,860	9,322,833
Plan fiduciary net position										
Contributions - employer	\$ 348,791	\$ 359,326	\$ 359,290	\$ 202,081	\$ 204,174	\$ 225,475	\$ 305,704	\$ 663,487	\$ 663,487	\$ 663,487
Contributions - employee	99,183	101,344	114,708	121,016	124,285	131,456	133,538	137,893	138,780	148,508
Other contributions	-	-	-	-	-	-	-	-	-	-
Net investment income	1,066,530	(1,538,989)	2,625,513	(107,583)	497,713	717,418	1,037,995	15,848	135,350	1,088,227
Benefit payments, including refunds of employee contributions	(340,560)	(1,343,678)	(146,696)	(856,610)	(1,286,458)	(90,184)	(356,983)	(1,148,256)	(233,539)	(1,402,188)
Administrative expense	(3,907)	(4,510)	(4,296)	(3,945)	(3,853)	(2,878)	(3,410)	(425)	(295)	(505)
Other	7,166	6,754	6,122	6,105	-	-	-	-	-	-
Net change in plan fiduciary net position	1,177,203	(2,419,753)	2,954,641	(638,936)	(464,139)	981,287	1,116,844	(331,453)	703,783	497,529
Plan fiduciary net position - beginning	8,802,412	11,222,165	8,267,524	8,906,460	9,370,599	8,389,312	7,272,468	7,603,921	6,900,138	6,402,609
Plan fiduciary net position - ending (b)	9,979,615	8,802,412	11,222,165	8,267,524	8,906,460	9,370,599	8,389,312	7,272,468	7,603,921	6,900,138
Net pension liability - ending (a) - (b)	3,594,937	4,034,111	1,861,691	3,504,398	2,643,635	2,738,078	2,788,398	3,585,412	3,385,939	2,422,695
Plan fiduciary net position as a percentage of the total pension liability	73.52%	68.57%	85.77%	70.23%	77.11%	77.39%	75.05%	66.98%	69.19%	74.01%
Covered-employee payroll	\$ 1,715,768	\$ 1,636,592	\$ 1,952,796	\$ 2,014,329	\$ 2,012,123	\$ 2,266,450	\$ 2,310,481	\$ 2,378,246	\$ 2,341,064	\$ 2,412,526
Net pension liability (asset) as a percentage of covered-employee payroll	209.52%	246.49%	95.33%	173.97%	131.39%	120.81%	120.68%	150.76%	144.63%	100.42%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively.

See independent auditor's report.

LEXINGTON ELECTRIC SYSTEM
SCHEDULE OF PLAN CONTRIBUTIONS
June 30, 2024

Measurement Period Ended	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Actuarially determined contribution	\$ 338,007	\$ 273,548	\$ 266,503	\$ 359,490	\$ 202,081	\$ 190,885	\$ 170,322	\$ 241,669	\$ 305,704	\$ 366,403
Contributions made	348,791	348,791	359,326	359,290	202,081	204,174	225,475	305,704	663,487	663,487
Contribution excess (deficiency)	\$ 10,784	\$ 75,243	\$ 92,823	\$ (200)	\$ -	\$ 13,289	\$ 55,153	\$ 64,035	\$ 357,783	\$ 297,084
Covered-employee payroll	\$ 1,836,096	\$ 1,715,768	\$ 1,636,592	\$ 1,637,000	\$ 2,014,329	\$ 2,012,123	\$ 2,266,450	\$ 2,310,481	\$ 2,378,246	\$ 2,341,064
Contributions as a percentage of covered-employee payroll	19.00%	20.33%	21.96%	21.95%	10.03%	10.15%	9.95%	13.23%	27.90%	28.34%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively.

LEXINGTON ELECTRIC SYSTEM
SCHEDULE OF INVESTMENT RETURNS
 Fiscal Years Ending June 30,

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expense	13.87%	12.07%	-14.89%	31.25%	-1.22%	5.75%	8.42%	14.48%	0.23%	1.91%

These schedules are presented to illustrate the requirement to show information for 10 years.

See independent auditor's report.

**SUPPLEMENTARY AND OTHER
INFORMATION SECTION**

LEXINGTON ELECTRIC SYSTEM
COMBINING STATEMENTS OF NET POSITION
June 30, 2024

	<u>Electric Division</u>	<u>Broadband Division</u>	<u>Eliminations</u>	<u>Combined</u>
Assets				
Current assets				
Cash on hand	\$ 2,275	\$ -	\$ -	\$ 2,275
Cash and cash equivalents - general	846,588	2,727,113	-	3,573,701
Accounts receivable - trade (net of allowance for uncollectibles)	2,839,315	3,200	-	2,842,515
Accounts receivable - other	452,073	-	-	452,073
Investments	2,600,000	-	(2,600,000)	-
Materials and supplies	460,242	-	-	460,242
Prepayments and other current assets	508,621	-	-	508,621
Total current assets	<u>7,709,114</u>	<u>2,730,313</u>	<u>(2,600,000)</u>	<u>7,839,427</u>
Noncurrent assets				
Other assets:				
Cash and cash equivalents - restricted	8,993,613	-	-	8,993,613
Investments - restricted	100,000	-	-	100,000
Unamortized debt expense	482,806	-	-	482,806
Utilitrak costs	-	-	-	-
Meter project costs	30,000	-	-	30,000
Notes receivable - TVA Home Insulation Program	251,644	-	-	251,644
Total other assets	<u>9,858,063</u>	<u>-</u>	<u>-</u>	<u>9,858,063</u>
Capital assets:				
Distribution plant	78,835,318	-	-	78,835,318
General plant	8,391,094	2,108	-	8,393,202
Construction in progress	20,364,550	-	-	20,364,550
Less: Accumulated depreciation	(39,035,372)	-	-	(39,035,372)
Total capital assets (net of accumulated depreciation)	<u>68,555,590</u>	<u>2,108</u>	<u>-</u>	<u>68,557,698</u>
Total noncurrent assets	<u>78,413,653</u>	<u>2,108</u>	<u>-</u>	<u>78,415,761</u>
Total assets	<u>86,122,767</u>	<u>2,732,421</u>	<u>(2,600,000)</u>	<u>86,255,188</u>
Deferred Outflows of Resources				
Unamortized loss on bond refunding	23,047	-	-	23,047
Deferred outflows - OPEB related	1,031,902	-	-	1,031,902
Deferred outflows - pension related	954,963	-	-	954,963
Total deferred outflows of resources	<u>2,009,912</u>	<u>-</u>	<u>-</u>	<u>2,009,912</u>

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

LEXINGTON ELECTRIC SYSTEM
COMBINING STATEMENTS OF NET POSITION
June 30, 2024

	<u>Electric Division</u>	<u>Broadband Division</u>	<u>Eliminations</u>	<u>Combined</u>
Liabilities				
Current liabilities:				
Accounts payable	\$ 4,118,031	\$ -	\$ -	\$ 4,118,031
Other accrued expense	21,486	101	-	21,587
Customers' deposits	1,235,100	-	-	1,235,100
Bonds payable- current portion	1,210,000	-	-	1,210,000
Interest accrued - bonds	522,275	-	-	522,275
Compensated absences	207,323	1,385	-	208,708
Total current liabilities	<u>7,314,215</u>	<u>1,486</u>	<u>-</u>	<u>7,315,701</u>
Noncurrent liabilities:				
Bonds payable- noncurrent portion	32,115,000	-	-	32,115,000
Notes Payable	-	2,600,000	(2,600,000)	-
Advances from Home Insulation Program	251,644	-	-	251,644
Unamortized premium	859,704	-	-	859,704
Net pension liability	3,594,937	-	-	3,594,937
Net OPEB liability	4,730,137	-	-	4,730,137
Compensated absences	1,443,920	923	-	1,444,843
Total noncurrent liabilities	<u>42,995,342</u>	<u>2,600,923</u>	<u>(2,600,000)</u>	<u>42,996,265</u>
Total liabilities	<u>50,309,557</u>	<u>2,602,409</u>	<u>(2,600,000)</u>	<u>50,311,966</u>
Deferred Inflows of Resources				
Deferred inflows - OPEB	1,366,548	-	-	1,366,548
Deferred inflows - pensions	314,559	-	-	314,559
Total deferred inflows of resources	<u>1,681,107</u>	<u>-</u>	<u>-</u>	<u>1,681,107</u>
Net Position				
Net investment in capital assets	35,230,590	2,108	-	35,232,698
Restricted for debt service	8,571,338	-	-	8,571,338
Unrestricted	(7,659,913)	127,904	-	(7,532,009)
Total net position	<u>\$ 36,142,015</u>	<u>\$ 130,012</u>	<u>\$ -</u>	<u>\$ 36,272,027</u>

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

LEXINGTON ELECTRIC SYSTEM
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2024

	<u>Electric Division</u>	<u>Broadband Divison</u>	<u>Eliminations</u>	<u>Combined</u>
Operating revenues				
Charges for sales and services	\$ 49,425,901	257,153	-	49,683,054
Other electric revenue	1,366,928	-	-	1,366,928
Total operating revenues	<u>50,792,829</u>	<u>257,153</u>	<u>-</u>	<u>51,049,982</u>
Operating expenses				
Cost of sales and services	36,844,944	42,340	-	36,887,284
Operations expense	6,708,279	87,835	-	6,796,114
Maintenance expense	3,708,764	-	-	3,708,764
Tax equivalent payments to others	277,142	-	-	277,142
Provision for depreciation	2,771,171	-	-	2,771,171
Total operating expenses	<u>50,310,300</u>	<u>130,175</u>	<u>-</u>	<u>50,440,475</u>
Operating income (loss)	<u>482,529</u>	<u>126,978</u>	<u>-</u>	<u>609,507</u>
Nonoperating revenues (expenses)				
Interest income	980,049	1,096	-	981,145
Interest on long-term debt - bonds	(1,210,145)	-	-	(1,210,145)
Amortization of debt accounts	18	-	-	18
Miscellaneous revenue (expense)	(71,559)	1,938	-	(69,621)
Total nonoperating revenues (expenses)	<u>(301,637)</u>	<u>3,034</u>	<u>-</u>	<u>(298,603)</u>
Income (loss) before transfers	<u>180,892</u>	<u>130,012</u>	<u>-</u>	<u>310,904</u>
Transfers				
Transfer out - tax equivalents	(862,605)	-	-	(862,605)
Total transfers	<u>(862,605)</u>	<u>-</u>	<u>-</u>	<u>(862,605)</u>
Change in net position	(681,713)	130,012	-	(551,701)
Total net position - beginning	<u>36,823,728</u>	<u>-</u>	<u>-</u>	<u>36,823,728</u>
Total net position - ending	<u>\$ 36,142,015</u>	<u>\$ 130,012</u>	<u>\$ -</u>	<u>\$ 36,272,027</u>

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

LEXINGTON ELECTRIC SYSTEM
COMBINING STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2024

	<u>Electric Devison</u>	<u>Broadband Devison</u>	<u>Eliminations</u>	<u>Combined</u>
Cash flows from operating activities				
Cash received from consumers	\$ 50,371,714	\$ 253,953	\$ -	\$ 50,625,667
Cash paid to suppliers of goods and services	(45,265,101)	(60,586)	-	(45,325,687)
Cash paid to employees for services	(2,175,076)	(67,180)	-	(2,242,256)
Amounts paid to city - tax equivalents	(862,605)	-	-	(862,605)
Miscellaneous expense	(71,559)	1,938	-	(69,621)
Customer deposits received	264,351	-	-	264,351
Customer deposits refunded	(149,213)	-	-	(149,213)
Net cash provided (used) by operating activities	<u>2,112,511</u>	<u>128,125</u>	<u>-</u>	<u>2,240,636</u>
Cash flows from non-capital financing activities				
Advances from Home Insulation Program	(63,674)	-	-	(63,674)
Net cash provided (used) by non-capital financing activities	<u>(63,674)</u>	<u>-</u>	<u>-</u>	<u>(63,674)</u>
Cash flows from capital and related financing activities				
Advances from (repayment of) Revenue Bonds	22,000,000	-	-	22,000,000
Advances from (repayment of) new Broadband Debt	-	2,600,000	(2,600,000)	-
Repayment of Revenue Bonds	(855,000)	-	-	(855,000)
Construction and acquisition of plant	(23,375,700)	(2,108)	-	(23,377,808)
Amortization/(purchases) of Utilitrak	42,189	-	-	42,189
Amortization/(bond issue fees)	(223,470)	-	-	(223,470)
Loss on refunding of bonds - amortization	3,006	-	-	3,006
(Amortization)/Premium on issuance of bond	699,171	-	-	699,171
Plant removal cost	(268,716)	-	-	(268,716)
Materials salvaged from retirements	836,658	-	-	836,658
Net cash provided (used) by capital and related financing activities	<u>(1,141,862)</u>	<u>2,597,892</u>	<u>(2,600,000)</u>	<u>(1,143,970)</u>
Cash flows from investing activities				
Purchase of investment	(2,700,000)	-	2,600,000	(100,000)
Proceeds from sale of investments	100,000	-	-	100,000
Notes receivable - TVA Home Insulation Program	63,674	-	-	63,674
Interest received	980,049	1,096	-	981,145
Interest paid	(783,073)	-	-	(783,073)
Net cash provided (used) by investing activities	<u>(2,339,350)</u>	<u>1,096</u>	<u>2,600,000</u>	<u>261,746</u>
Net increase (decrease) in cash and cash equivalents	(1,432,375)	2,727,113	-	1,294,738
Cash and cash equivalents - beginning of year	<u>11,274,851</u>	<u>-</u>	<u>-</u>	<u>11,274,851</u>
Cash and cash equivalents - end of year	<u>\$ 9,842,476</u>	<u>\$ 2,727,113</u>	<u>\$ -</u>	<u>\$ 12,569,589</u>
Cash and cash equivalents				
Unrestricted cash on hand	\$ 2,275	\$ -	\$ -	\$ 2,275
Unrestricted cash and cash equivalents on deposit	846,588	2,727,113	-	3,573,701
Restricted cash and cash equivalents on deposit	8,993,613	-	-	8,993,613
Total cash and cash equivalents	<u>\$ 9,842,476</u>	<u>\$ 2,727,113</u>	<u>\$ -</u>	<u>\$ 12,569,589</u>

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

LEXINGTON ELECTRIC SYSTEM
COMBINING STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2024

	<u>Electric Division</u>	<u>Broadband Division</u>	<u>Eliminations</u>	<u>Combined</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 482,529	\$ 126,978	\$ -	\$ 609,507
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation expense charged to operations	2,771,171	-	-	2,771,171
Amounts paid to City - tax equivalents	(862,605)	-	-	(862,605)
Miscellaneous expense	(71,559)	1,938	-	(69,621)
Change in pension related deferred outflows and inflows of resources	418,077	-	-	418,077
Change in OPEB related deferred outflows and inflows of resources	(355,942)	-	-	(355,942)
(Increase) decrease in accounts receivable	(421,115)	(3,200)	-	(424,315)
(Increase) decrease in materials and supplies	(61,929)	-	-	(61,929)
(Increase) decrease in prepayments and other assets	(56,143)	-	-	(56,143)
Increase (decrease) in accounts payable and accrued expenses	197,507	101	-	197,608
Increase (decrease) in net pension liability	(439,174)	-	-	(439,174)
Increase (decrease) in compensated absences	(29,547)	2,308	-	(27,239)
Increase (decrease) in OPEB	426,103	-	-	426,103
Increase (decrease) in customer deposits	115,138	-	-	115,138
Net cash provided (used) by operating activities	<u>\$ 2,112,511</u>	<u>\$ 128,125</u>	<u>\$ -</u>	<u>\$ 2,240,636</u>
Non-cash disclosure:				
OPEB - (Decrease)Increase in Net Obligation	<u>\$ 426,103</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 426,103</u>

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

LEXINGTON ELECTRIC SYSTEM
SCHEDULES OF OPERATING REVENUES AND EXPENSES
ELECTRIC DIVISION

For the Years Ended June 30, 2024 and 2023

	<u>2024</u>		<u>2023</u>	
	<u>Actual</u>	<u>Percent</u>	<u>Actual</u>	<u>Percent</u>
Operating revenues				
Charges for sales and services:				
Residential sales	\$ 26,846,085	52.85	\$ 28,451,247	52.84
Small lighting and power sales	6,371,191	12.54	6,248,535	11.60
Large lighting and power sales	15,543,017	30.60	16,805,052	31.21
General power credit	(892,241)	(1.76)	(694,625)	(1.29)
Street and athletic lighting sales	387,236	0.76	400,892	0.74
Outdoor lighting	1,215,613	2.39	1,284,140	2.38
Uncollectible accounts	(45,000)	(0.09)	-	-
Total charges for sales and services	<u>49,425,901</u>	<u>97.29</u>	<u>52,495,241</u>	<u>97.48</u>
Other revenues:				
Forfeited discounts	248,755	0.49	272,658	0.51
Miscellaneous service revenue	260,810	0.53	263,764	0.50
Rent from electric property	857,363	1.69	816,652	1.51
Total other revenues	<u>1,366,928</u>	<u>2.71</u>	<u>1,353,074</u>	<u>2.52</u>
Total operating revenues	<u>\$ 50,792,829</u>	<u>100.00</u>	<u>\$ 53,848,315</u>	<u>100.00</u>
Operating expenses				
Cost of sales and services:				
Purchased power	\$ 36,844,944	72.54	\$ 39,250,199	72.89
Operations expenses:				
Distribution expenses:				
Supervision and engineering	128,820	0.25	96,103	0.18
Station expense	52,382	0.10	97,822	0.18
Overhead line expense	1,272,593	2.51	971,508	1.80
Street lighting and signal system	9,510	0.02	19,218	0.04
Meter expense	253,823	0.50	213,393	0.40
Consumer installations	529,590	1.04	419,193	0.78
Rent expense	536,877	1.06	504,512	0.94
Total distribution expenses	<u>2,783,595</u>	<u>5.48</u>	<u>2,321,749</u>	<u>4.32</u>
Customer accounts expenses:				
Meter reading	52,125	0.10	48,706	0.09
Consumer records and collection expense	971,301	1.91	890,410	1.65
Total customer accounts expenses	<u>1,023,426</u>	<u>2.01</u>	<u>939,116</u>	<u>1.74</u>

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

**LEXINGTON ELECTRIC SYSTEM
SCHEDULES OF OPERATING REVENUES AND
EXPENSES ELECTRIC DIVISION**

For the Years Ended June 30, 2024 and 2023

	<u>2024</u>		<u>2023</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Sales expenses:				
Customer assistance	20,452	0.04	22,765	0.04
Total sales expenses	<u>20,452</u>	<u>0.04</u>	<u>22,765</u>	<u>0.04</u>
Administrative expenses:				
Salaries	785,637	1.55	640,601	1.19
Office supplies and expense	161,428	0.32	169,226	0.31
Outside services	123,430	0.24	117,250	0.22
Property insurance	202,273	0.40	172,999	0.32
Injuries and damages	174,061	0.34	126,159	0.23
Employee pension and benefits	1,128,038	2.22	1,085,511	2.02
Payroll taxes	261,401	0.51	218,325	0.41
Duplicate charges	(33,980)	(0.07)	(32,847)	(0.06)
Miscellaneous	78,518	0.15	68,285	0.13
Total administrative expenses	<u>2,880,806</u>	<u>5.66</u>	<u>2,565,509</u>	<u>4.77</u>
Total operations expense	<u>6,708,279</u>	<u>13.19</u>	<u>5,849,139</u>	<u>10.87</u>
Maintenance expenses:				
Distribution expenses:				
Supervision and engineering	61,513	0.12	51,822	0.10
Station equipment	242,189	0.48	204,206	0.38
Overhead and underground lines	3,288,844	6.48	2,562,309	4.76
Right-of-way	31,628	0.06	49,367	0.09
Line transformers	24,340	0.05	28,044	0.05
Meters	29,763	0.06	30,637	0.06
Total distribution expenses	<u>3,678,277</u>	<u>7.25</u>	<u>2,926,385</u>	<u>5.44</u>
General plant and equipment	<u>30,487</u>	<u>0.06</u>	<u>36,030</u>	<u>0.07</u>
Total maintenance expenses	<u>3,708,764</u>	<u>7.31</u>	<u>2,962,415</u>	<u>5.51</u>
Depreciation	<u>2,771,171</u>	<u>5.46</u>	<u>2,702,201</u>	<u>5.02</u>
Tax equivalent payments to others	<u>277,142</u>	<u>0.55</u>	<u>267,453</u>	<u>0.50</u>
Total operating expenses	<u>\$ 50,310,300</u>	<u>99.05</u>	<u>\$ 51,031,407</u>	<u>94.79</u>

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

LEXINGTON ELECTRIC SYSTEM
SCHEDULES OF OPERATING REVENUES AND EXPENSES
BROADBAND DIVISION

For the Years Ended June 30, 2024 and 2023

	2024		2023	
	Amount	Percent	Amount	Percent
Operating revenues				
Charges for sales and services				
Data-Residential	\$ 251,579	97.83	\$ -	-
Data-Business	4,863	1.89	-	-
Other sales	711	0.28	-	-
Total charges for sales and services	257,153	100.00	-	-
Total operating revenue	\$ 257,153	100.00	\$ -	-
Operating expenses				
Cost of sales and services				
Wholesale Data	\$ 29,724	11.56	\$ -	-
Wholesale Phone	12,616	4.91	-	-
Total cost of sales and services	42,340	16.46	-	-
Administrative and general expenses				
Salaries	\$ 64,965	25.26	-	-
Advertising and Marketing	1,400	0.54	-	-
Office supplies and expense	9,145	3.56	-	-
Federal Income Tax	4,845	1.88	-	-
Insurance	4,956	1.93	-	-
Employee pension and benefits	2,215	0.86	-	-
Miscellaneous	309	0.12	-	-
Total administrative and general expenses	87,835	34.16	-	-
Total operating expenses	\$ 130,175	50.62	\$ -	-

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

**LEXINGTON ELECTRIC SYSTEM
ELECTRIC RATES IN FORCE**

June 30, 2024

Residential rate schedule

Customer charge - per delivery point per month	\$	15.56
Energy charge - cents per kWh		0.10512

General power schedule

GSA1

Customer charge - per delivery point per month		17.96
Energy charge - cents per kWh		0.11878

GSA2

Customer charge per delivery point per month		89.03
Demand charges - per kW per month		
First 50 kW		No charge
Excess over 50 kW		14.91
Energy charge - cents per kWh		
First 15,000 kWh per month		0.11878
Additional kWh per month		0.06965

GSA3

Customer charge per delivery point per month		223.58
First 1000 kW		14.60
Excess over 1000 kW		17.31
Energy charge - cents per kWh		0.07139

GSB

Customer charge per delivery point per month		1,500.00
Administrative charge		350.00
Demand charges		
OnPeak:		
All kW - per kW per month		11.35
Energy charge - cents per kWh		
use of metered demand per month		0.08670
OffPeak:		
All kW - per kW per month		11.35
Energy charge - First 200 HUD		0.06066
Next 200 HUD		0.02453
Additional HUD		0.02096

GSC

Customer charge per delivery point per month		1,500.00
Administrative charge		350.00
Demand charges		
OnPeak:		
All kW - per kW per month		11.35
Energy charge - cents per kWh		
use of metered demand per month		0.08670
OffPeak:		
All kW - per kW per month		4.87
Energy charge - First 200 HUD		0.06066
Next 200 HUD		0.02453
Additional HUD		0.02096

See independent auditor's report

**LEXINGTON ELECTRIC SYSTEM
ELECTRIC RATES IN FORCE**

June 30, 2024

GSD	
Customer charge per delivery point per month	1,500.00
Administrative charge	350.00
Demand charges	
OnPeak:	
All kW - per kW per month	11.35
Energy charge - cents per kWh	
use of metered demand per month	0.08670
OffPeak:	
All kW - per kW per month	4.76
Energy charge - First 200 HUD	0.06066
Next 200 HUD	0.02334
Additional HUD	0.02096
MSB	
Customer charge per delivery point per month	1,500.00
Administrative charge	350.00
Demand charges	
OnPeak:	
All kW - per kW per month	10.70
Energy charge - cents per kWh	
use of metered demand per month	0.07850
OffPeak:	
All kW - per kW per month	2.29
Energy charge - First 200 HUD	0.05237
Next 200 HUD	0.02135
Additional HUD	0.01869
MSC	
Customer charge per delivery point per month	1,500.00
Administrative charge	350.00
Demand charges	
OnPeak:	
All kW - per kW per month	10.70
Energy charge - cents per kWh	
use of metered demand per month	0.07733
OffPeak:	
All kW - per kW per month	1.78
Energy charge - First 200 HUD	0.05119
Next 200 HUD	0.02283
Additional HUD	0.02283

See independent auditor's report

**LEXINGTON ELECTRIC SYSTEM
ELECTRIC RATES IN FORCE**

June 30, 2024

MSD	
Customer charge per delivery point per month	1,500.00
Administrative charge	350.00
Demand charges	
OnPeak:	
All kW - per kW per month	10.70
Energy charge - cents per kWh	
use of metered demand per month	0.07496
OffPeak:	
All kW - per kW per month	1.67
Energy charge - First 200 HUD	0.04883
Next 200 HUD	0.02105
Additional HUD	0.02044
OL	
Customer charge per delivery point per month	17.75
Energy Charge	0.07143

See independent auditor's report

**LEXINGTON ELECTRIC SYSTEM
BROADBAND RATES IN FORCE**

June 30, 2024

Basic Internet Connection 300Mbps	\$ 59.99
Premium Internet Connection 600Mbps	\$ 69.99
Ultimate Internet Connection 1.2Gpbs	\$ 99.99
Business Pro Basic Internet Connection 300MB	\$ 149.99
Business Pro Premium Internet Connection 600Mbps	\$ 249.99
Business Pro Ultimate Internet Conncection 1.2 Gpbs	\$ 399.99
Business Phone-Bundled	\$ 39.99
Business Phone-Additional Line	\$ 20.00
Business Phone Toll Free Number	\$ 10.00

See independent auditor's report

**LEXINGTON ELECTRIC SYSTEM
HISTORICAL INFORMATION - UNAUDITED**

For The Fiscal Years Ended June 30,

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Revenue										
Residential	\$ 26,846,085	\$ 28,451,247	\$ 26,133,755	\$ 24,631,583	\$ 24,729,725	\$ 25,905,666	\$ 25,513,546	\$ 25,288,503	\$ 23,886,123	\$ 24,520,913
Commercial	6,371,191	6,248,535	5,851,534	5,406,205	5,344,055	5,548,179	5,429,997	5,356,461	5,052,055	5,176,973
Industrial	14,650,776	16,110,427	14,261,944	13,200,349	13,880,494	14,614,626	14,488,949	14,896,122	14,462,881	14,958,059
Street and outdoor lighting	1,602,849	1,685,032	1,544,809	1,389,648	1,391,221	1,412,187	1,432,301	1,433,215	1,369,646	1,389,870
Other operating	1,366,928	1,353,074	1,346,781	1,105,197	1,002,204	950,900	935,979	837,809	788,774	819,413
Interest and other revenue	981,145	258,808	167,909	63,310	96,564	120,316	73,648	52,611	79,373	101,769
	<u>\$ 51,818,974</u>	<u>\$ 54,107,123</u>	<u>\$ 49,306,732</u>	<u>\$ 45,796,292</u>	<u>\$ 46,444,263</u>	<u>\$ 48,551,874</u>	<u>\$ 47,874,420</u>	<u>\$ 47,864,721</u>	<u>\$ 45,638,852</u>	<u>\$ 46,966,997</u>
Expense										
Electric power costs	36,887,284	39,250,199	35,277,594	32,463,628	34,163,658	36,232,964	35,995,468	35,701,316	34,507,088	35,789,227
Other operating expenses	10,504,878	8,811,554	7,256,421	8,020,214	9,048,024	7,533,356	7,342,275	7,038,526	6,953,004	6,298,850
Provision for depreciation	2,771,171	2,702,201	2,684,471	2,614,543	2,372,981	2,307,349	2,366,788	2,299,570	2,205,545	1,886,421
Tax equivalents and transfers	1,139,747	1,085,286	1,222,010	1,216,737	1,080,041	1,089,503	1,088,604	1,073,969	1,094,271	1,099,373
Interest and other expense	1,279,748	431,702	455,787	485,325	490,163	518,800	541,139	531,470	874,911	600,015
	<u>52,582,828</u>	<u>52,280,942</u>	<u>46,896,283</u>	<u>44,800,447</u>	<u>47,154,867</u>	<u>47,681,972</u>	<u>47,334,274</u>	<u>46,644,851</u>	<u>45,634,819</u>	<u>45,673,886</u>
Net Income (Loss)	<u>\$ (763,854)</u>	<u>\$ 1,826,181</u>	<u>\$ 2,410,449</u>	<u>\$ 995,845</u>	<u>\$ (710,604)</u>	<u>\$ 869,902</u>	<u>\$ 540,146</u>	<u>\$ 1,219,870</u>	<u>\$ 4,033</u>	<u>\$ 1,293,111</u>
Financial										
Plant in service (at original cost)	<u>\$ 107,593,070</u>	<u>\$ 85,435,649</u>	<u>\$ 79,590,417</u>	<u>\$ 80,177,042</u>	<u>\$ 79,295,243</u>	<u>\$ 72,083,834</u>	<u>\$ 69,462,520</u>	<u>\$ 68,187,811</u>	<u>\$ 66,527,554</u>	<u>\$ 64,559,407</u>
Power in use - KWH										
Residential	226,503,002	226,920,682	229,196,584	228,892,999	228,569,100	236,747,050	234,493,873	230,321,894	227,840,670	235,062,450
Commercial	45,490,499	42,571,775	43,239,757	41,857,692	41,245,612	42,797,291	42,236,856	41,489,627	40,214,060	41,341,206
Industrial	135,017,325	140,144,255	138,259,283	134,689,342	134,221,827	141,438,614	138,958,359	145,711,964	146,688,174	152,445,808
Other Customers	11,086,299	11,478,409	12,160,783	12,270,642	12,247,415	12,261,016	12,304,474	12,298,532	12,258,742	12,299,306
Total	<u>418,097,125</u>	<u>421,115,121</u>	<u>422,856,407</u>	<u>417,710,675</u>	<u>416,283,954</u>	<u>433,243,971</u>	<u>427,993,562</u>	<u>429,822,017</u>	<u>427,001,646</u>	<u>441,148,770</u>
Peak KW demand	<u>113,500</u>	<u>115,000</u>	<u>118,611</u>	<u>109,943</u>	<u>113,257</u>	<u>116,958</u>	<u>110,900</u>	<u>103,498</u>	<u>111,752</u>	<u>112,391</u>
Number of customers										
Residential	17,883	17,863	17,810	17,712	17,624	17,700	17,769	17,790	17,897	17,785
Small commercial	4,977	4,747	4,606	4,485	4,325	4,268	4,227	4,167	4,101	4,050
Large commercial	241	248	233	237	238	233	235	232	242	233
Street and athletic	62	60	56	53	55	55	55	55	55	47
Outdoor lighting - Code 78	244	248	250	243	251	242	243	259	264	37
	<u>23,407</u>	<u>23,166</u>	<u>22,955</u>	<u>22,730</u>	<u>22,493</u>	<u>22,498</u>	<u>22,529</u>	<u>22,503</u>	<u>22,559</u>	<u>22,152</u>
Line Loss	<u>6.11%</u>	<u>4.54%</u>	<u>5.72%</u>	<u>5.62%</u>	<u>5.47%</u>	<u>5.09%</u>	<u>6.64%</u>	<u>4.93%</u>	<u>5.82%</u>	<u>6.00%</u>

See independent auditor's report

**LEXINGTON ELECTRIC SYSTEM
SCHEDULE OF LONG-TERM DEBT
June 30, 2024**

Year Ended June 30,	Revenue Refunding Bond Series 2017		Revenue Refunding Bond Series 2019		Revenue Bond Series 2018		Revenue Bonds Series 2023		Total	Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2025	\$ 445,000	\$ 94,831	\$ 305,000	\$ 150,760	\$ 130,000	\$ 75,218	\$ 330,000	\$ 1,034,325	\$ 1,210,000	\$ 1,355,134	\$ 2,565,134
2026	450,000	85,931	320,000	136,660	140,000	70,018	345,000	1,017,450	1,255,000	1,310,059	2,565,059
2027	460,000	75,806	335,000	120,285	145,000	64,418	365,000	999,700	1,305,000	1,260,209	2,565,209
2028	475,000	65,456	350,000	103,160	150,000	60,068	385,000	980,950	1,360,000	1,209,634	2,569,634
2029	485,000	53,581	370,000	85,160	150,000	55,568	405,000	961,200	1,410,000	1,155,509	2,565,509
2030	495,000	41,456	390,000	66,160	155,000	51,068	425,000	940,450	1,465,000	1,099,134	2,564,134
2031	510,000	28,463	410,000	46,160	160,000	46,418	445,000	918,700	1,525,000	1,039,741	2,564,741
2032	525,000	14,438	430,000	27,310	165,000	41,618	470,000	895,825	1,590,000	979,191	2,569,191
2033	-	-	445,000	9,810	170,000	36,668	495,000	871,700	1,110,000	918,178	2,028,178
2034	-	-	455,000	796	175,000	31,143	520,000	846,325	1,150,000	878,264	2,028,264
2035	-	-	455,000	569	180,000	25,455	545,000	819,700	1,180,000	845,724	2,025,724
2036	-	-	455,000	341	190,000	19,605	570,000	791,825	1,215,000	811,771	2,026,771
2037	-	-	455,000	114	195,000	13,430	600,000	762,575	1,250,000	776,119	2,026,119
2038	-	-	-	-	200,000	6,800	635,000	731,700	835,000	738,500	1,573,500
2039	-	-	-	-	-	-	665,000	699,200	665,000	699,200	1,364,200
2040	-	-	-	-	-	-	700,000	665,075	700,000	665,075	1,365,075
2041	-	-	-	-	-	-	735,000	629,200	735,000	629,200	1,364,200
2042	-	-	-	-	-	-	770,000	591,575	770,000	591,575	1,361,575
2043	-	-	-	-	-	-	810,000	554,606	810,000	554,606	1,364,606
2044	-	-	-	-	-	-	845,000	518,403	845,000	518,403	1,363,403
2045	-	-	-	-	-	-	885,000	480,006	885,000	480,006	1,365,006
2046	-	-	-	-	-	-	925,000	439,281	925,000	439,281	1,364,281
2047	-	-	-	-	-	-	965,000	396,756	965,000	396,756	1,361,756
2048	-	-	-	-	-	-	1,010,000	352,319	1,010,000	352,319	1,362,319
2049	-	-	-	-	-	-	1,060,000	305,744	1,060,000	305,744	1,365,744
2050	-	-	-	-	-	-	1,110,000	256,225	1,110,000	256,225	1,366,225
2051	-	-	-	-	-	-	1,160,000	203,731	1,160,000	203,731	1,363,731
2052	-	-	-	-	-	-	1,215,000	148,809	1,215,000	148,809	1,363,809
2053	-	-	-	-	-	-	1,275,000	91,228	1,275,000	91,228	1,366,228
2054	-	-	-	-	-	-	1,335,000	30,872	1,335,000	30,872	1,365,872
	<u>\$ 3,845,000</u>	<u>\$ 459,962</u>	<u>\$ 5,175,000</u>	<u>\$ 747,285</u>	<u>\$ 2,305,000</u>	<u>\$ 597,495</u>	<u>\$ 22,000,000</u>	<u>\$ 18,935,455</u>	<u>\$ 33,325,000</u>	<u>\$ 20,740,197</u>	<u>\$ 54,065,197</u>

See independent auditor's report

LEXINGTON ELECTRIC SYSTEM
SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE
For the Year Ended June 30, 2024

Description of Indebtedness	Original amount of issue	Interest rate	Date of issue	Last maturity date	Outstanding 7/1/2023	Issued during period	Paid and/or matured during period	Refunded during period	Outstanding 6/30/2024
Bonds Payable									
Revenue Refunding Bond- Series 2023	\$ 22,000,000	5%	August 17, 2023	August 1, 2033	\$ -	\$ 22,000,000	\$ -	\$ -	\$ 22,000,000
Revenue Refunding Bond - Series 2017	6,810,000	2% - 2.75%	March 1, 2017	March 1, 2028	4,280,000	-	435,000	-	3,845,000
Revenue Refunding Bond - Series 2019	6,300,000	.05% - 5%	July 25, 2019	September 1, 2036	5,470,000	-	295,000	-	5,175,000
Electric Revenue Bonds - Series 2018	<u>3,000,000</u>	3% - 4%	May 22, 2018	June 1, 2038	<u>2,430,000</u>	-	<u>125,000</u>	-	<u>2,305,000</u>
Total Bonds Payable	<u>\$ 38,110,000</u>				<u>12,180,000</u>	<u>22,000,000</u>	<u>855,000</u>	<u>-</u>	<u>33,325,000</u>

See independent auditor's report

LEXINGTON ELECTRIC SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2024

	Assistance		
	Listing	Contract	
	Number	Number	Expenses
Federal Grantor/PassThrough Grantor			
U.S. Department of Treasury/ Federal Emergency Management Agency Passed through the State of Tennessee Department of Human Services Coronavirus Relief Fund			
	21.027 *	1568	<u>\$ 6,730,691</u>
Total Federal Awards			<u>\$ 6,730,691</u>

* Denotes major program

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the System under programs of the federal government for the year ended June 30, 2024. 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 (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, changes in financial position, or cash flows of the System.

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting whereby expenditures are recorded when the related liability is incurred. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The System has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

INTERNAL CONTROL AND COMPLIANCE SECTION



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

Board of Directors
Lexington Electric System
Lexington, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of the Lexington Electric System (the System), funds of the City of Lexington, Tennessee, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated October 30, 2024.

Report on Internal Control Over Financial Reporting

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System'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 result of that testing, and not to provide an opinion on the effectiveness of the System'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ATA, PLLC

Jackson, Tennessee
October 30, 2024



**Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

Board of Directors
Lexington Electric System
Lexington, Tennessee

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Lexington Electric System's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended June 30, 2024. Lexington Electric System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Lexington Electric System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Lexington Electric System's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*,

and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Lexington Electric System's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Lexington Electric System's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Lexington Electric System's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Lexington Electric System's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

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

ATA, PLLC

Jackson, Tennessee
October 30, 2024

LEXINGTON ELECTRIC SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2024

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____ yes	_____ x	no
Significant deficiency(ies) identified?	_____ yes	_____ x	none reported
Noncompliance material to financial statements noted?	_____ yes	_____ x	no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____ yes	_____ x	no
Significant deficiency(ies) identified?	_____ yes	_____ x	none reported

Type of auditor's report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 CFR 200.516(a) _____ yes _____ x no

Identification of major programs:

Assistance Listing Number	Name of Federal Program or Cluster
21.027	Coronavirus Relief Fund

Dollar Threshold used to distinguish between Type A and type B programs \$ 750,000

Auditee qualified as a low-risk auditee _____ yes _____ x no

Section II - Financial Statement Findings

None reported.

Section III - Federal Award Findings and Questioned Costs

None reported.

LEXINGTON ELECTRIC SYSTEM
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
For the Year Ended June 30, 2024

Financial Statement Findings

There were no prior findings reported.