

LEXINGTON ELECTRIC SYSTEM

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED
JUNE 30, 2025 AND 2024**

LEXINGTON ELECTRIC SYSTEM
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For The Fiscal Years Ended June 30, 2025 and 2024

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.....	43
Schedule of Notes to OPEB Required Supplementary Information – LES Plan.....	44
Schedule of Changes in Net OPEB Liability and Related Ratios – LGOP Plan	45
Schedule of Notes to OPEB Required Supplementary Information – LGOP Plan.....	46
Schedule of Changes in Net Pension Liability and Related Ratios.....	47
Schedule of Plan Contributions.....	48
Schedule of Investment Returns.....	49

Supplementary And Other Information Section

Combining Statements of Net Position	50
Combining Statements of Revenues, Expenses, and Changes in Net Position	52
Combining Statements of Cash Flows.....	53
Schedules of Operating Revenues and Expenses-Electric Division.....	55
Schedules of Operating Revenues and Expenses-Broadband Division	57
Electric Rates in Force	58
Broadband Rates in Force	61
Historical Information - Unaudited	62
Schedule of Long-term Debt.....	63
Schedule of Changes in Long-Term Debt by Individual Issue	64
Schedule of Expenditures of Federal Awards.....	65

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>	66
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	68
Schedule of Findings and Questioned Costs.....	71
Schedule of Prior Year Findings and Questioned Costs.....	73
Management’s Corrective Action Plan.....	74

INTRODUCTORY SECTION

**LEXINGTON ELECTRIC SYSTEM
DIRECTORY**
June 30, 2025

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, PC
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 business-type activities 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, 2025, and 2024, 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, 2025, and 2024, 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, 2025, and 2024, 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 February 24, 2026 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, PC

Jackson, Tennessee
February 24, 2026

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, 2025 and 2024. 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 \$100.17 million and \$2.36 million, respectively, and exceeded liabilities and deferred inflows of resources by \$37.78 million (i.e. net position). Total assets increased by \$13.10 million due primarily to an increase in capital asset additions from the System's ongoing projects and the buildout of the broadband division.
- Net income (loss) was \$1.51 million during the current year, which is an increase from the 2024 change in net position of (\$552) thousand.
- During fiscal year 2025, the System delivered 429.18 million kWh compared to 418.10 million kWh during the fiscal year 2024.
- Operating revenues were \$59.62 million, an increase from fiscal year 2024 in the amount of \$8.57 million or 16.79%.
- Operating expenses were \$56.07 million, an increase from fiscal year 2024 in the amount of \$5.63 million or 11.16%.
- Ratios of operating income to total operating revenue were 5.95, 1.19, and 5.23 for 2025, 2024, and 2023, 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 increased by \$1.51 million and decreased by (\$552) thousand, for the fiscal years ended June 30, 2025, and 2024, 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)

			Increase (Decrease)	
	June 30, 2025	June 30, 2024	\$	%
Current and other assets	\$ 24,774,550	\$ 26,282,229	\$ (1,507,679)	-5.74%
Capital assets	75,397,320	60,789,391	14,607,929	24.03%
Total assets	<u>100,171,870</u>	<u>87,071,620</u>	<u>13,100,250</u>	15.05%
Deferred outflows of resources	2,361,459	2,009,912	351,547	17.49%
Current liabilities	8,938,759	8,132,133	806,626	9.92%
Other liabilities	54,270,938	42,996,265	11,274,673	26.22%
Total liabilities	<u>63,209,697</u>	<u>51,128,398</u>	<u>12,081,299</u>	23.63%
Deferred inflows of resources	1,543,258	1,681,107	(137,849)	-8.20%
Net investment in capital assets	30,132,306	26,627,734	3,504,572	13.16%
Restricted	2,124,856	8,571,338	(6,446,482)	-75.21%
Unrestricted	5,523,212	1,072,955	4,450,257	414.77%
Total net position	<u>\$ 37,780,374</u>	<u>\$ 36,272,027</u>	<u>\$ 1,508,347</u>	4.16%

The System’s capital assets increased by \$14.61 million due to the significant projects going on at the System. Other liabilities increased by \$11.27 million due primarily due to new debt in the current year.

CONDENSED STATEMENT OF NET POSITION (TABLE 1B)

	June 30, 2024	June 30, 2023	Increase (Decrease)	
			\$	%
Current and other assets	\$ 26,282,229	\$ 17,216,713	\$ 9,065,516	52.66%
Capital assets	60,789,391	47,045,030	13,744,361	29.22%
Total assets	87,071,620	64,261,743	22,809,877	35.50%
Deferred outflows of resources	2,009,912	2,501,833	(491,921)	-19.66%
Current liabilities	8,132,133	6,225,533	1,906,600	30.63%
Other liabilities	42,996,265	21,606,428	21,389,837	99.00%
Total liabilities	51,128,398	27,831,961	23,296,437	83.70%
Deferred inflows of resources	1,681,107	2,107,887	(426,780)	-20.25%
Net investment in capital assets	26,627,734	34,730,550	(8,102,816)	-23.33%
Restricted	8,571,338	1,614,118	6,957,220	431.02%
Unrestricted	1,072,955	479,060	593,895	123.97%
Total net position	\$ 36,272,027	\$ 36,823,728	\$ (551,701)	-1.50%

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

	June 30, 2025	June 30, 2024	Increase (Decrease)	
			\$	%
Operating revenues	\$ 59,619,042	\$ 51,049,982	\$ 8,569,060	16.79%
Non-operating revenues	813,868	981,163	(167,295)	-17.05%
Total revenues	60,432,910	52,031,145	8,401,765	16.15%
Cost of sales and service	40,191,311	36,887,284	3,304,027	8.96%
Operations expense	9,371,067	6,796,114	2,574,953	37.89%
Maintenance expense	3,160,900	3,708,764	(547,864)	-14.77%
Depreciation expense	3,032,464	2,771,171	261,293	9.43%
Tax equivalents - including transfers out	1,320,611	1,139,747	180,864	15.87%
Non-operating expenses	1,848,210	1,279,766	568,444	44.42%
Total expenses	58,924,563	52,582,846	6,341,717	12.06%
Change in net position	1,508,347	(551,701)	2,060,048	-373.40%
Beginning net position	36,272,027	36,823,728	(551,701)	-1.50%
Ending net position	\$ 37,780,374	\$ 36,272,027	\$ 1,508,347	4.16%

The System's operating revenues increased by \$8.57 million due mainly to the rate changes coupled with the weather in the current year as well as adding more broadband customers. Cost of sales and service increased by \$3.30 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, 2024	June 30, 2023	Increase (Decrease)	
			\$	%
Operating revenues	\$ 51,049,982	\$ 53,848,315	\$ (2,798,333)	-5.20%
Non-operating revenues	981,163	258,808	722,355	279.11%
Total revenues	52,031,145	54,107,123	(2,075,978)	-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	1,279,766	431,702	848,064	196.45%
Total expenses	52,582,846	52,280,942	301,904	0.58%
Change in net position	(551,701)	1,826,181	(2,377,882)	-130.21%
Beginning net position	36,823,728	34,997,547	1,826,181	5.22%
Ending net position	\$ 36,272,027	\$ 36,823,728	\$ (551,701)	-1.50%

Operating revenues showed a 16.79% increase and a 5.20% decrease from 2024 to 2025 and from 2023 to 2024, respectively. Operating expenses showed a 10.95% increase and a 1.15% decrease from 2024 to 2025 and from 2023 to 2024, respectively. Ending net position increased 4.45% from 2024 to 2025, and decreased 1.50% from 2023 to 2024.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2025, the system had \$75.40 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 \$14.61 million or 24.03% as compared to 2024.

The following tables summarize the System's capital assets, net of accumulated depreciation, and changes therein, for the years ended June 30, 2025, and 2024. These changes are presented in detail in Note 3C to the financial statements.

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

	June 30, 2025	June 30, 2024	Increase (Decrease)	
			\$	%
Distribution plant	\$ 46,179,576	\$ 45,302,238	\$ 877,338	1.94%
General plant	3,183,962	2,890,910	293,052	10.14%
Construction in progress	26,033,782	12,596,243	13,437,539	106.68%
Total capital assets, net	\$ 75,397,320	\$ 60,789,391	\$ 14,607,929	24.03%

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

	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	12,596,243	918,578	11,677,665	1271.28%
Total capital assets, net	<u>\$ 60,789,391</u>	<u>\$ 47,045,030</u>	<u>\$ 13,744,361</u>	29.22%

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 \$44.12 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 2026 budget was approved by the Board in June 2025. 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, 2025 and 2024**

	2025	2024
Assets		
Current assets		
Cash on hand	\$ 2,275	\$ 2,275
Cash and cash equivalents - general	14,376,220	3,573,701
Accounts receivable - trade (net of allowance for uncollectibles)	3,027,417	2,842,515
Accounts receivable - other	3,027,160	9,036,812
Materials and supplies	534,017	460,242
Prepayments and other current assets	75,132	508,621
Total current assets	21,042,221	16,424,166
Noncurrent assets		
Other assets:		
Cash and cash equivalents - restricted	2,754,557	8,993,613
Investments - restricted	100,000	100,000
Unamortized debt expense	608,941	482,806
Meter project costs	30,000	30,000
Notes receivable - TVA Home Insulation Program	238,831	251,644
Total other assets	3,732,329	9,858,063
Capital assets:		
Distribution plant	81,719,094	78,835,318
General plant	9,166,159	8,393,202
Construction in progress	26,033,782	12,596,243
Less: Accumulated depreciation	(41,521,715)	(39,035,372)
Total capital assets (net of accumulated depreciation)	75,397,320	60,789,391
Total noncurrent assets	79,129,649	70,647,454
Total assets	100,171,870	87,071,620
Deferred Outflows of Resources		
Unamortized loss on bond refunding	20,041	23,047
Deferred outflows - OPEB related	966,307	1,031,902
Deferred outflows - pension related	1,375,111	954,963
Total deferred outflows of resources	2,361,459	2,009,912

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

**LEXINGTON ELECTRIC SYSTEM
STATEMENTS OF NET POSITION
June 30, 2025 and 2024**

	2025	2024
Liabilities		
Current liabilities:		
Accounts payable	5,086,737	4,934,463
Other accrued expense	60,986	21,587
Customers' deposits	1,380,337	1,235,100
Bonds payable- current portion	1,440,000	1,210,000
Interest accrued - bonds	729,701	522,275
Compensated absences	240,998	208,708
Total current liabilities	8,938,759	8,132,133
Noncurrent liabilities:		
Bonds payable- noncurrent portion	42,675,000	32,115,000
Advances from Home Insulation Program	238,831	251,644
Unamortized premium	1,170,055	859,704
Net pension liability	3,727,598	3,594,937
Net OPEB liability	4,958,561	4,730,137
Compensated absences	1,500,893	1,444,843
Total noncurrent liabilities	54,270,938	42,996,265
Total liabilities	63,209,697	51,128,398
Deferred Inflows of Resources		
Deferred inflows - OPEB	1,091,743	1,366,548
Deferred inflows - pensions	451,515	314,559
Total deferred inflows of resources	1,543,258	1,681,107
Net Position		
Net investment in capital assets	30,132,306	26,627,734
Restricted for debt service	2,124,856	8,571,338
Unrestricted	5,523,212	1,072,955
Total net position	\$ 37,780,374	\$ 36,272,027

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, 2025 and 2024

	2025	2024
Operating revenues		
Charges for sales and services	\$ 57,116,238	\$ 49,683,054
Other electric revenue	2,502,804	1,366,928
Total operating revenues	59,619,042	51,049,982
Operating expenses		
Cost of sales and services	40,191,311	36,887,284
Operations expense	9,371,067	6,796,114
Maintenance expense	3,160,900	3,708,764
Tax equivalent payments to others	314,894	277,142
Provision for depreciation	3,032,464	2,771,171
Total operating expenses	56,070,636	50,440,475
Operating income (loss)	3,548,406	609,507
Nonoperating revenues (expenses)		
Interest income	806,320	981,145
Interest on long-term debt - bonds	(1,782,055)	(1,210,145)
Amortization of debt accounts	7,548	18
Miscellaneous revenue (expense)	(66,155)	(69,621)
Total nonoperating revenues (expenses)	(1,034,342)	(298,603)
Income (loss) before transfers	2,514,064	310,904
Transfers		
Transfer out - tax equivalents	(1,005,717)	(862,605)
Total transfers	(1,005,717)	(862,605)
Change in net position	1,508,347	(551,701)
Total net position - beginning	36,272,027	36,823,728
Total net position - ending	\$ 37,780,374	\$ 36,272,027

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

**LEXINGTON ELECTRIC SYSTEM
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2025 and 2024**

	2025	2024
Cash flows from operating activities		
Cash received from consumers	\$ 59,191,544	\$ 50,625,667
Cash paid to suppliers of goods and services	(50,117,773)	(44,509,255)
Cash paid to employees for services	(2,411,989)	(2,242,256)
Amounts paid to city - tax equivalents	(1,005,717)	(862,605)
Miscellaneous expense	(66,155)	(69,621)
Customer deposits received	295,359	264,351
Customer deposits refunded	(150,122)	(149,213)
Net cash provided (used) by operating activities	5,735,147	3,057,068
Cash flows from non-capital financing activities		
Advances from Home Insulation Program	(12,813)	(63,674)
Net cash provided (used) by non-capital financing activities	(12,813)	(63,674)
Cash flows from capital and related financing activities		
Advances from (repayment of) Revenue Bonds	12,000,000	22,000,000
Repayment of Revenue Bonds	(1,210,000)	(855,000)
Construction and acquisition of plant	(12,210,949)	(24,194,240)
Amortization/(purchases) of Utilitrac	-	42,189
Amortization/(bond issue fees)	(118,587)	(223,470)
Loss on refunding of bonds - amortization	3,006	3,006
(Amortization)/Premium on issuance of bond	310,351	699,171
Plant removal cost	(327,211)	(268,716)
Materials salvaged from retirements	1,150,015	836,658
Net cash provided (used) by capital and related financing activities	(403,375)	(1,960,402)
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	12,813	63,674
Interest received	806,320	981,145
Interest paid	(1,574,629)	(783,073)
Net cash provided (used) by investing activities	(755,496)	261,746
Net increase (decrease) in cash and cash equivalents	4,563,463	1,294,738
Cash and cash equivalents - beginning of year	12,569,589	11,274,851
Cash and cash equivalents - end of year	\$ 17,133,052	\$ 12,569,589
Cash and cash equivalents		
Unrestricted cash on hand	\$ 2,275	\$ 2,275
Unrestricted cash and cash equivalents on deposit	14,376,220	3,573,701
Restricted cash and cash equivalents on deposit	2,754,557	8,993,613
Total cash and cash equivalents	\$ 17,133,052	\$ 12,569,589

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

**LEXINGTON ELECTRIC SYSTEM
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2025 and 2024**

	2025	2024
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ 3,548,406	\$ 609,507
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense charged to operations	3,032,464	2,771,171
Amounts paid to City - tax equivalents	(1,005,717)	(862,605)
Miscellaneous expense	(66,155)	(69,621)
Change in pension related deferred outflows and inflows of resources	(283,192)	418,077
Change in OPEB related deferred outflows and inflows of resources	(209,210)	(355,942)
(Increase) decrease in accounts receivable	(427,498)	(424,315)
(Increase) decrease in materials and supplies	(73,775)	(61,929)
(Increase) decrease in prepayments and other assets	433,489	(56,143)
Increase (decrease) in accounts payable and accrued expenses	191,673	1,014,040
Increase (decrease) in net pension liability	132,661	(439,174)
Increase (decrease) in compensated absences	88,340	(27,239)
Increase (decrease) in OPEB	228,424	426,103
Increase (decrease) in customer deposits	145,237	115,138
	\$ 5,735,147	\$ 3,057,068

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

LEXINGTON ELECTRIC SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION
June 30, 2025 and 2024

	2025	2024
Assets		
Investments		
Mutual funds - bonds	\$ 4,019,946	\$ 3,580,626
Mutual funds - equities	8,473,827	7,231,819
Total investments	12,493,773	10,812,445
 Net position available for benefits	 12,493,773	 10,812,445
 Liabilities	 -	 -
 Net position restricted for pensions	 \$ 12,493,773	 \$ 10,812,445

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, 2025 and 2024

	2025	2024
Additions		
Contributions		
Employer	\$ 440,115	\$ 449,867
Employee	100,917	138,001
Total contributions	541,032	587,868
Investment income		
Mutual fund income (loss)	1,445,085	1,441,955
Total additions	1,986,117	2,029,823
Deductions		
Benefit payments	303,543	1,194,852
Administrative and other expenses (refunds)	1,246	3,549
Total deductions	304,789	1,198,401
Change in fiduciary net position	1,681,328	831,422
Net position restricted for pensions		
Beginning of year	10,812,445	9,981,023
End of year	\$ 12,493,773	\$ 10,812,445

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

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

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, 2025 and 2024

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, 2025 and 2024

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.

Impact of Recently Issued Accounting Pronouncements

In June of 2022, the Governmental Accounting Standards Board issued GASB Statement No. 101 related to Compensated Absences. This Statement improves accounting and financial reporting by state and local governments for Compensated Absences and is effective for fiscal years beginning after December 15, 2023. This Statement establishes standards of accounting and financial reporting for (a) compensated absences and (b) associated salary-related payments, including certain defined contribution pensions and defined contribution other postemployment benefits (OPEB). The requirements of this Statement apply to the financial statements of all state and local governments. This implementation resulted no material adjustments in the current year.

In December of 2023, the Governmental Accounting Standards Board issued GASB Statement No. 102 related to Certain Risk Disclosures. This Statement improves accounting and financial reporting by state and local governments for Certain Risk Disclosures and is effective for fiscal years beginning after June 15, 2024. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or restraints. The requirements of this Statement apply to the financial statements of all state and local governments.

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:

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

- 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 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, 2025, no benefits were payable and not paid. Qualified Plan administrative expenses are paid by the Plan. During the year ended June 30, 2025, \$1,245 of administrative expenses were paid.

Other Postemployment Benefits

The System offers health insurance benefits through a single-employer post-retirement plans as well as the State of Tennessee's LGOP plan (the plans). These plans are considered to be defined benefit plans that are used to provide postemployment benefits other than pensions (OPEB).

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The fiscal year 2026 budget was approved unanimously at the June 2025 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

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

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, 2025 and 2024, all bank deposits were fully collateralized or insured.

Investment-Fiduciary Fund

The following is the asset allocation as of June 30, 2025, and 2024:

	<u>2025</u>		<u>2024</u>	
	Market Value	Percentage of Total	Market Value	Percentage of Total
Fixed Income	\$ 4,019,946	32.18%	\$ 3,580,626	33.12%
Equities	<u>\$ 8,473,827</u>	<u>67.82%</u>	<u>\$ 7,231,819</u>	<u>66.88%</u>
Total	<u>12,493,773</u>	<u>100.00%</u>	<u>\$ 10,812,445</u>	<u>100.00%</u>

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, 2025, and 2024:

	<u>2025</u>	<u>2024</u>
American Funds Investment Fund of America	792,816	652,287
Columbia Diversified Fixed Income	737,993	640,334
Vanguard 500 Index	1,297,796	1,116,524
MFS Growth Fund	754,343	655,269
DC INTL ST	790,373	631,561
Contra	691,902	564,725
BlackRock EAFE Equity Index	792,292	661,631

For the year ended June 30, 2025, and 2024, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 12.40 and 13.87 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, 2025, and 2024, respectively:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	
Investments by fair value level							
Debt Securities							
Pooled separate accounts	\$ 4,019,946	\$ -	\$ -	\$ 4,019,946	\$ -	\$ -	\$ -
Equity Securities							
Pooled separate accounts	<u>\$ 8,473,827</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,473,827</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total investments measure at fair value	<u>\$ 12,493,773</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,493,773</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS

June 30, 2025 and 2024

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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>

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.

B. Receivables

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

	June 30,	
	2025	2024
Billed services for utility customers	\$ 3,071,693	\$ 2,914,457
Other receivables for utility service	694,669	452,073
Grant receivable	2,332,491	8,584,739
Allowance for doubtful accounts	<u>(44,276)</u>	<u>(71,942)</u>
Total	<u>\$ 6,054,577</u>	<u>\$ 11,879,327</u>

C. Capital assets

Capital asset activity during the years was as follows:

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

Description	Balance at June 30, 2024	Additions	Disposals	Reclass	Balance at June 30, 2025
Capital assets, not being depreciated					
Distribution plant	\$ 262,996	\$ -	\$ -	\$ -	\$ 262,996
General plant	32,554	-	-	-	32,554
Construction in progress	12,596,243	13,437,539	-	-	26,033,782
Total capital assets not being depreciated	<u>12,891,793</u>	<u>13,437,539</u>	<u>-</u>	<u>-</u>	<u>26,329,332</u>
Capital assets, being depreciated					
Distribution plant	78,572,322	3,495,901	612,125	-	81,456,098
General plant	8,360,648	1,110,432	67,785	(269,690)	9,133,605
Total capital assets being depreciated	<u>86,932,970</u>	<u>4,606,333</u>	<u>679,910</u>	<u>(269,690)</u>	<u>90,589,703</u>
Less accumulated depreciation for:					
Distribution plant	33,533,080	2,889,344	882,906	-	35,539,518
General plant	5,502,292	545,582	65,677	-	5,982,197
Total accumulated depreciation	<u>39,035,372</u>	<u>3,434,926</u>	<u>948,583</u>	<u>-</u>	<u>41,521,715</u>
Total capital assets, being depreciated, net	<u>47,897,598</u>	<u>1,171,407</u>	<u>(268,673)</u>	<u>(269,690)</u>	<u>49,067,988</u>
Total capital assets, net	<u>\$ 60,789,391</u>	<u>\$ 14,608,946</u>	<u>\$ (268,673)</u>	<u>\$ (269,690)</u>	<u>\$ 75,397,320</u>

Depreciation expense amounted to \$3,032,464 and \$2,771,171 for the fiscal years ended June 30, 2025, and 2024. Additionally, transportation expense depreciation charged to clearing for the fiscal years ended June 30, 2025, and 2024 was \$402,462 and \$333,823 respectively.

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

Description	Balance at June 30, 2023	Additions	Disposals	Reclass	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	918,578	11,677,665	-	-	12,596,243
Total capital assets not being depreciated	<u>1,214,128</u>	<u>11,677,665</u>	<u>-</u>	<u>-</u>	<u>12,891,793</u>
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	<u>82,747,548</u>	<u>4,938,025</u>	<u>752,603</u>	<u>-</u>	<u>86,932,970</u>
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	<u>36,916,646</u>	<u>3,104,994</u>	<u>986,268</u>	<u>-</u>	<u>39,035,372</u>
Total capital assets, being depreciated, net	<u>45,830,902</u>	<u>1,833,031</u>	<u>(233,665)</u>	<u>-</u>	<u>47,897,598</u>
Total capital assets, net	<u>\$ 47,045,030</u>	<u>\$ 13,510,696</u>	<u>\$ (233,665)</u>	<u>\$ -</u>	<u>\$ 60,789,391</u>

D. Restricted Assets

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

	June 30,	
	<u>2025</u>	<u>2024</u>
The restricted assets consist of the following:		
Cash and cash equivalents - restricted	\$ 2,754,557	\$ 8,993,613
Investments - restricted	<u>100,000</u>	<u>100,000</u>
	<u>2,854,557</u>	<u>9,093,613</u>
The total of these funds is represented by:		
Certificates of Deposit and bank accounts	<u>\$ 2,854,557</u>	<u>\$ 9,093,613</u>

E. Net Position

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

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

	June 30,	
	2025	2024
Invested in capital assets, net of related debt:		
Net property, plant and equipment in services	\$ 75,397,320	\$ 60,789,391
Unamortized loss on bond refunding	20,041	23,047
Less: Debt as disclosed in Note 3F	(44,115,000)	(33,325,000)
Less: Unamortized premium	(1,170,055)	(859,704)
	30,132,306	26,627,734
Restricted for debt service:		
Restricted cash and cash equivalents	2,754,557	8,993,613
Restricted investments	100,000	100,000
Interest accrued - bonds	(729,701)	(522,275)
	2,124,856	8,571,338
Unrestricted	5,523,212	1,072,955
Total net position	\$ 37,780,374	\$ 36,272,027

F. Long-term Debt

Long-term debt is made up of the following:

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

	June 30,	
	2025	2024
Revenue Bonds:		
Electric Plant Revenue Bonds, Series 2018, interest at 3.00 to 4.00% due serially through 2038	\$ 2,175,000	\$ 2,305,000
Electric Plant Revenue Refunding Bonds, Series 2017, interest of 2.00% to 2.75% due serially through 2032	3,400,000	3,845,000
Electric Plant Revenue Refunding Bonds, Series 2019, interest of .05% to 5.00% due serially through 2037	4,870,000	5,175,000
Electric Plant Revenue Bonds, Series 2023, interest of 4.625% to 5.00% due serially through 2054	21,670,000	22,000,000
Electric Plant Revenue Bonds, Series 2024, interest of 4.00% to 5.00% due serially through 2054	12,000,000	-
Total Revenue Bonds	44,115,000	33,325,000
Less current portion Revenue Bonds	(1,440,000)	(1,210,000)
Total long-term portion Revenue Bonds	\$ 42,675,000	\$ 32,115,000

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 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 4.625% to 5.00% and mature serially in varying

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

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.

During 2025, City of Lexington issued \$12,000,000 Electric System Revenue Bonds, Series 2024, for the purpose of financing the improvements and extensions to the system related to the new broadband division. The bonds bear interest at 4.00% to 5.00% and mature serially in varying amounts from \$185,000 in fiscal year 2026 to \$695,000 in fiscal year 2055. 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, 2025, and 2024:

	Balance at			Balance at	Due Within
	<u>June 30, 2024</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2025</u>	<u>One Year</u>
Revenue bonds	\$ 33,325,000	\$ 12,000,000	\$ 1,210,000	\$ 44,115,000	\$ 1,440,000
Compensated absences	<u>1,653,551</u>	<u>224,782</u>	<u>242,740</u>	<u>1,635,593</u>	<u>240,998</u>
	<u>\$ 34,978,551</u>	<u>\$ 12,224,782</u>	<u>\$ 1,452,740</u>	<u>\$ 45,750,593</u>	<u>\$ 1,680,998</u>

	Balance at			Balance at	Due Within
	<u>June 30, 2023</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2024</u>	<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>

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 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, 2025.

The scheduled annual requirements for long-term debt at June 30, 2025, including interest of \$28,781,589 are as follows:

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 1,440,000	\$ 1,729,685	\$ 3,169,685
2027	1,500,000	1,779,159	3,279,159
2028	1,565,000	1,718,834	3,283,834
2029	1,625,000	1,654,459	3,279,459
2030	1,690,000	1,587,334	3,277,334
2031-2035	7,865,000	6,921,598	14,786,598
2036-2040	6,350,000	5,587,665	11,937,665
2041-2045	6,190,000	4,217,890	10,407,890
2046-2050	7,700,000	2,715,325	10,415,325
2051-2055	<u>8,190,000</u>	<u>869,640</u>	<u>9,059,640</u>
	<u>\$ 44,115,000</u>	<u>\$28,781,589</u>	<u>\$ 72,896,589</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 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.

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

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.

At July 1, 2024 and 2023 membership consisted of:

	<u>2024</u>	<u>2023</u>
Retirees and beneficiaries currently receiving benefits	11	10
Terminated employees entitled to deferred benefits	3	3
Active employees:		
Fully or partially vested	23	25
Total	37	38

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

Funded status and funding progress. As of June 30, 2024, the total pension liability for benefits was \$14,540,043 and the net pension liability was \$3,727,598. Total covered payroll was \$1,630,582 and the ratio of net pension liability to covered payroll was 228.61%. As of June 30, 2023, the total pension liability for benefits was \$13,574,552 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%.

Net pension liability. The components of the net pension liability of the Retirement Income Plan for Employees of Lexington Electric System at June 30, 2024, and 2023 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, 2024, in order to be in compliance with GASB Statement No. 67. The second table shows the net pension liability as of June 30, 2023, 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 6/30/2023	\$ 13,574,552	\$ 9,979,615	\$ 3,594,937
Service Cost	161,378	-	161,378
Interest	953,960	-	953,960
Changes of benefit items	-	-	-
Differences between actual and expected	463,748	-	463,748
Changes of assumptions	583,398	-	583,398
Contributions - employer	-	486,791	(486,791)
Contributions - employee	-	101,077	(101,077)
Net investment income	-	1,439,067	(1,439,067)
Benefit payments	(1,196,993)	(1,196,993)	-
Administrative expense	-	(3,549)	3,549
Other	-	6,437	(6,437)
Net changes	<u>965,491</u>	<u>832,830</u>	<u>132,661</u>
Balances at 6/30/2024	<u>\$ 14,540,043</u>	<u>\$ 10,812,445</u>	<u>\$ 3,727,598</u>

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
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	<u>738,029</u>	<u>1,177,203</u>	<u>(439,174)</u>
Balances at 6/30/2023	<u>\$ 13,574,552</u>	<u>\$ 9,979,615</u>	<u>\$ 3,594,937</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:

	2024		
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Interest Rate			
Plan's net pension liability	\$ 5,222,382	\$ 3,727,598	\$ 2,461,927

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

Net Pension Liability. The System's net pension liability was measured as of June 30, 2024, 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, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Individual Entry Age Normal, level percentage of pay
Amortization method	Level dollar, closed

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

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, 2024, and 2023, 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, 2024, and 2023, the System recognized pension expense (negative pension expense) of \$427,584 and \$327,694. At June 30, 2024, and 2023, 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	\$ 479,606	\$ 113,150
Changes of assumptions	455,390	5,460
Net difference between projected and actual earnings on pension plan investments	-	332,905
Contributions subsequent to the measurement date of June 30, 2024	440,115	-
Total	<u>\$ 1,375,111</u>	<u>\$ 451,515</u>

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

	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	\$ 954,963	\$ 314,559

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:	
2025	83,902
2026	466,032
2027	5,673
2028	(72,126)
2029	-
Thereafter	-

B. Other Post-Employment Benefits (OPEB)

Aggregate of OPEB Plans

The following table shows the aggregate amounts for the System when both OPEB plans are considered together:

	<u>LES Plan</u>	<u>LGOP Plan</u>	<u>Aggregate</u>
Net OPEB Liability	\$ 3,864,598	\$ 1,093,963	\$ 4,958,561
Deferred Outflows of Resources	520,113	446,194	966,307
Deferred Inflows of Resources	671,177	420,566	1,091,743
OPEB expense/(income)	312,605	40,891	353,496

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, 2025, and 2024 are detailed in the following tables. The table below shows the net OPEB liability as of June 30, 2025, 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, 2025 and 2024

Changes in Total OPEB Liability

	<u>Total OPEB Liability (TOL)</u>
Total OPEB Liability (TOL) June 30, 2024	\$ 3,762,316
Service Cost	187,545
Interest	150,639
Difference Between Expected and Actual Experience	-
Changes in assumptions and other inputs	-
Actual System Contributions	
Benefit Payments	(235,902)
Other Changes	-
Net Changes	<u>102,282</u>
Total OPEB Liability (TOL) June 30, 2025	<u>\$ 3,864,598</u>
	<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 of assumptions	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>

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

	<u>2024</u>	<u>2023</u>
Number of Participants		
Actives	51	51
Inactives Not Receiving Benefits	-	-
Inactives Receiving Benefits	<u>10</u>	<u>10</u>
Total Participants	<u>61</u>	<u>61</u>

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

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, 2025, and 2024, respectively:

	1% Decrease	Current	1% Increase
	6.00% decreasing .5% until 4.00% is reached	7.0% decreasing .5% until 5.0% is reached	8.0% decreasing .5% until 6.00% is reached
Total OPEB Liability	\$ 3,424,794	\$ 3,864,598	\$ 4,389,105
	1% Decrease	Current	1% Increase
	6.5% decreasing 0.5% until 4.00% is reached	7.5% decreasing 0.5% until 5.00% is reached	8.5% decreasing 0.5% until 6.00% is reached
Total OPEB Liability	\$ 3,367,312	\$ 3,762,316	\$ 4,230,690

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

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, 2025, and 2024, respectively:

	1% Decrease (2.93%)	Current (3.93%)	1% Increase (4.93%)
Total OPEB Liability	\$ 4,200,598	\$ 3,864,598	\$ 3,559,627

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

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, 2025, no benefits were payable and not paid. Qualified Plan administrative expenses are paid by the Plan. During the years ended June 30, 2025, and 2024, administrative expenses paid were \$0.

For the measurement periods ended June 30, 2025, and 2024, the System recognized OPEB expense of \$312,605 and \$306,289. At June 30, 2025 and 2024, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

2025

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 61,309	\$ 454,262
Changes of assumptions	458,804	216,915
Total	\$ 520,113	\$ 671,177

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

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

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:	
2026	(25,579)
2027	(25,579)
2028	(19,825)
2029	(56,288)
2030	(86,988)
Thereafter	63,195

**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 single-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, 2024, and 2023, the following employees of the System were covered by the benefit terms of the plan:

	2024	2023
Inactive employees currently receiving benefit payments	11	9
Inactive employees entitled to but not yet receiving benefit payments	-	-
Active employees	52	51
	63	60

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, 2025 and 2024

using actuarial and statistical techniques to establish premium rates. For the fiscal year ended June 30, 2024, the System paid \$57,197 to the LGOP for OPEB benefits as they came due.

Total OPEB Liability

Actuarial assumptions

The total OPEB liability in the June 30, 2024, 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	10.68% for pre-65 in 2025, decreasing annually over a 10 year period to an ultimate rate of 4.5%. 13.44% for post-65 in 2025, 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, 2024, valuations were the same as those employed in the July 1, 2023, 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 3.93 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.

Changes in the Total OPEB Liability

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

	Total OPEB liability
Balance at June 30, 2024	<u>\$ 967,821</u>
Changes for the year	
Service cost	35,196
Interest	35,576
Changes of benefit terms	-
Differences between expected and actual experience	91,163
Changes of assumptions	21,404
Benefit payments	<u>(57,197)</u>
Net change	126,142
Balance at June 30, 2025	<u>\$ 1,093,963</u>
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>\$ 967,821</u>

Changes of assumptions

The discount rate was changed from 3.65% as of the beginning of the measurement period to 3.93% as of June 30, 2025. 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, 2025, and 2024, respectively.

	1% Decrease (2.93%)	Discount Rate (3.93%)	1% Increase (4.93%)
2025			
Total OPEB liability	\$ 1,169,653	\$ 1,093,963	\$ 1,024,024
2024			
Total OPEB liability	\$ 1,038,097	\$ 967,821	\$ 902,755

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

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, 2025 and 2024, respectively.

2025	1% Decrease	Trend Rate	1% Increase
Total OPEB Liability	\$ 1,009,529	\$ 1,093,963	\$ 1,192,350

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

OPEB expense – For the fiscal years ended June 30, 2025, and 2024, the System recognized OPEB expense of \$40,891 and \$17,022, respectively.

Deferred outflows of resources and deferred inflows of resources - For the fiscal years ended June, 30, 2025, and 2024, the System reported the following deferred outflows of resources and deferred inflows of resources related to OPEB benefits in the plan:

2025	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 216,742	\$ 106,839
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in assumptions	131,072	313,727
Contributions/benefits paid after the measurement date	98,380	-
Total	<u>\$ 446,194</u>	<u>\$ 420,566</u>

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	57,197	-
Total	<u>\$ 400,564</u>	<u>\$ 558,567</u>

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):

**LEXINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

<u>Year Ended June 30:</u>	
2026	\$ (29,881)
2027	(44,170)
2028	(38,014)
2029	(7,283)
2030	16,567
Thereafter	30,029

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

For fiscal year end June 30, 2025, the System recognized total OPEB expense of \$353,496.

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, 2025, and 2024, 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.

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 \$154,656 to the plan in 2025 and \$115,142 in 2024. 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, 2025

	2025	2024	2023	2022	2021	2020	2019	2018
Total OPEB Liability								
Service cost	\$ 187,545	\$ 192,857	\$ 149,970	\$ 187,514	\$ 188,791	\$ 186,686	\$ 144,058	\$ 160,992
Interest	150,639	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	(235,902)	(192,811)	(276,123)	(268,277)	(208,245)	(163,422)	(111,924)	(75,047)
Other changes	-	(28,591)	-	-	-	-	-	-
Net Change in Total OPEB Liability	102,282	370,302	(5,419)	(1,048,003)	530,552	420,941	(34,099)	194,169
Total OPEB Liability - beginning	3,762,316	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	\$ 3,864,598	\$ 3,762,316	\$ 3,392,014	\$ 3,397,433	\$ 4,445,436	\$ 3,914,884	\$ 3,493,943	\$ 3,528,042
Covered Employee Payroll	\$ 3,551,187	\$ 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	108.83%	108.59%	115.77%	118.85%	139.58%	125.99%	113.80%	117.79%

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.

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, 2025

Notes to OPEB Required Supplementary Information

Valuation Date: Actuarially determined contribution rates for 2025 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 Benefit 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 3.93% as of June 30, 2024, and 3.93% as of June 30, 2025. 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, 2025

	2025	2024	2023	2022	2021	2020	2019	2018
Total OPEB Liability								
Service cost	35,196	\$ 29,850	\$ 38,450	\$ 54,280	\$ 41,240	\$ 48,646	\$ 52,367	\$ 56,714
Interest	35,576	31,730	23,865	29,531	50,997	45,234	43,133	35,654
Changes of benefit terms	-	-	-	-	-	-	-	-
Differences between expected and actual experience	91,163	(13,591)	(18,108)	181,382	(264,756)	176,325	118,949	-
Changes of assumptions	21,404	99,713	(155,911)	(416,883)	111,023	18,774	(120,880)	(57,076)
Benefits payments and refunds	(57,197)	(91,901)	(84,897)	(43,064)	(92,810)	(63,860)	(40,467)	(40,282)
Net Change in Total OPEB Liability	126,142	55,801	(196,601)	(194,754)	(154,306)	225,119	53,102	(4,990)
Total OPEB Liability - beginning	967,821	912,020	1,108,621	1,303,375	1,457,681	1,232,562	1,179,460	1,184,450
Total OPEB Liability - ending	\$ 1,093,963	\$ 967,821	\$ 912,020	\$ 1,108,621	\$ 1,303,375	\$ 1,457,681	\$ 1,232,562	\$ 1,179,460
Covered Employee Payroll	\$ 3,551,187	\$ 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	30.81%	27.93%	31.13%	38.78%	40.92%	46.91%	40.15%	39.38%

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.

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, 2025

Valuation Date:	July 1, 2024
Measurement Date:	June 30, 2024
Actuarial Cost Method	Entry Age Normal
Inflation	2.25%
Discount Rate	3.93% 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, 2024, 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, 2024, 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 10.68 for pre-65 retirees in the 2025 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, 2024 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 3.65% to 3.93%

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, 2025

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
Total pension liability										
Service cost	\$ 161,378	\$ 159,425	\$ 191,155	\$ 192,049	\$ 189,353	\$ 207,244	\$ 224,008	\$ 230,698	\$ 212,645	\$ 215,316
Interest	953,960	928,966	865,906	862,569	832,035	825,492	822,895	781,193	771,286	706,762
Changes in benefit terms	-	-	233,002	-	-	-	780,756	-	-	-
Differences between actual & expected experience	463,748	(9,802)	(200,265)	418,622	69,222	(373,305)	(325,344)	(335,078)	32,345	819,077
Change of assumptions	583,398	-	6,547	(14,610)	(12,173)	68,445	(481,164)	-	-	159,411
Benefit payments, including refunds of employee contributions	(1,196,993)	(340,560)	(1,343,678)	(146,696)	(856,610)	(1,286,458)	(90,184)	(356,983)	(1,148,256)	(233,539)
Net change in total pension liability	965,491	738,029	(247,333)	1,311,934	221,827	(558,582)	930,967	319,830	(131,980)	1,667,027
Total pension liability - beginning	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
Total pension liability - ending (a)	14,540,043	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
Plan fiduciary net position										
Contributions - employer	\$ 486,791	\$ 348,791	\$ 359,326	\$ 359,290	\$ 202,081	\$ 204,174	\$ 225,475	\$ 305,704	\$ 663,487	\$ 663,487
Contributions - employee	101,077	99,183	101,344	114,708	121,016	124,285	131,456	133,538	137,893	138,780
Other contributions	-	-	-	-	-	-	-	-	-	-
Net investment income	1,439,067	1,066,530	(1,538,989)	2,625,513	(107,583)	497,713	717,418	1,037,995	15,848	135,350
Benefit payments, including refunds of employee contributions	(1,196,993)	(340,560)	(1,343,678)	(146,696)	(856,610)	(1,286,458)	(90,184)	(356,983)	(1,148,256)	(233,539)
Administrative expense	(3,549)	(3,907)	(4,510)	(4,296)	(3,945)	(3,853)	(2,878)	(3,410)	(425)	(295)
Other	6,437	7,166	6,754	6,122	6,105	-	-	-	-	-
Net change in plan fiduciary net position	832,830	1,177,203	(2,419,753)	2,954,641	(638,936)	(464,139)	981,287	1,116,844	(331,453)	703,783
Plan fiduciary net position - beginning	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
Plan fiduciary net position - ending (b)	10,812,445	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
Net pension liability - ending (a) - (b)	3,727,598	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
Plan fiduciary net position as a percentage of the total pension liability	74.36%	73.52%	68.57%	85.77%	70.23%	77.11%	77.39%	75.05%	66.98%	69.19%
Covered-employee payroll	\$ 1,630,582	\$ 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
Net pension liability (asset) as a percentage of covered-employee payroll	228.61%	209.52%	246.49%	95.33%	173.97%	131.39%	120.81%	120.68%	150.76%	144.63%

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, 2025

Measurement Period Ended	June 30, 2025	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
Actuarially determined contribution	\$ 472,023	\$ 350,045	\$ 283,291	\$ 275,995	\$ 359,490	\$ 202,081	\$ 190,885	\$ 170,322	\$ 241,669	\$ 305,704
Contributions made	440,115	486,791	348,791	359,326	359,290	202,081	204,174	225,475	305,704	663,487
Contribution excess (deficiency)	\$ (31,908)	\$ 136,746	\$ 65,500	\$ 83,331	\$ (200)	\$ -	\$ 13,289	\$ 55,153	\$ 64,035	\$ 357,783
Covered-employee payroll	\$ 1,791,481	\$ 1,630,582	\$ 1,715,768	\$ 1,636,592	\$ 1,637,000	\$ 2,014,329	\$ 2,012,123	\$ 2,266,450	\$ 2,310,481	\$ 2,378,246
Contributions as a percentage of covered-employee payroll	24.57%	29.85%	20.33%	21.96%	21.95%	10.03%	10.15%	9.95%	13.23%	27.90%

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,

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Annual money-weighted rate of return, net of investment expense	12.40%	13.87%	12.07%	-14.89%	31.25%	-1.22%	5.75%	8.42%	14.48%	0.23%

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, 2025

	<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	10,734,786	3,641,434	-	14,376,220
Accounts receivable - trade (net of allowance for uncollectibles)	3,003,160	24,257	-	3,027,417
Accounts receivable - other	3,027,160	-	-	3,027,160
Investment in LexNet	5,110,848	-	(5,110,848)	-
Materials and supplies	534,017	-	-	534,017
Prepayments and other current assets	75,132	-	-	75,132
Total current assets	<u>22,487,378</u>	<u>3,665,691</u>	<u>(5,110,848)</u>	<u>21,042,221</u>
Noncurrent assets				
Other assets:				
Cash and cash equivalents - restricted	2,754,557	-	-	2,754,557
Investments - restricted	100,000	-	-	100,000
Unamortized debt expense	608,941	-	-	608,941
Meter project costs	30,000	-	-	30,000
Notes receivable - TVA Home Insulation Program	238,831	-	-	238,831
Total other assets	<u>3,732,329</u>	<u>-</u>	<u>-</u>	<u>3,732,329</u>
Capital assets:				
Distribution plant	81,719,094	-	-	81,719,094
General plant	9,143,356	22,803	-	9,166,159
Construction in progress	23,860,902	2,172,880	-	26,033,782
Less: Accumulated depreciation	(41,515,665)	(6,050)	-	(41,521,715)
Total capital assets (net of accumulated depreciation)	<u>73,207,687</u>	<u>2,189,633</u>	<u>-</u>	<u>75,397,320</u>
Total noncurrent assets	<u>76,940,016</u>	<u>2,189,633</u>	<u>-</u>	<u>79,129,649</u>
Total assets	<u>99,427,394</u>	<u>5,855,324</u>	<u>(5,110,848)</u>	<u>100,171,870</u>
Deferred Outflows of Resources				
Unamortized loss on bond refunding	20,041	-	-	20,041
Deferred outflows - OPEB related	966,307	-	-	966,307
Deferred outflows - pension related	1,375,111	-	-	1,375,111
Total deferred outflows of resources	<u>2,361,459</u>	<u>-</u>	<u>-</u>	<u>2,361,459</u>

See independent auditor's report.

LEXINGTON ELECTRIC SYSTEM
COMBINING STATEMENTS OF NET POSITION
June 30, 2025

	<u>Electric Division</u>	<u>Broadband Division</u>	<u>Eliminations</u>	<u>Combined</u>
Liabilities				
Current liabilities:				
Accounts payable	\$ 5,085,219	\$ 1,518	\$ -	\$ 5,086,737
Other accrued expense	59,003	1,983	-	60,986
Customers' deposits	1,380,337	-	-	1,380,337
Bonds payable- current portion	1,440,000	-	-	1,440,000
Interest accrued - bonds	729,701	-	-	729,701
Compensated absences	<u>238,863</u>	<u>2,135</u>	<u>-</u>	<u>240,998</u>
Total current liabilities	<u>8,933,123</u>	<u>5,636</u>	<u>-</u>	<u>8,938,759</u>
Noncurrent liabilities:				
Bonds payable- noncurrent portion	42,675,000	-	-	42,675,000
Notes Payable	-	5,110,848	(5,110,848)	-
Advances from Home Insulation Program	238,831	-	-	238,831
Unamortized premium	1,170,055	-	-	1,170,055
Net pension liability	3,727,598	-	-	3,727,598
Net OPEB liability	4,958,561	-	-	4,958,561
Compensated absences	<u>1,495,816</u>	<u>5,077</u>	<u>-</u>	<u>1,500,893</u>
Total noncurrent liabilities	<u>54,265,861</u>	<u>5,115,925</u>	<u>(5,110,848)</u>	<u>54,270,938</u>
Total liabilities	<u>63,198,984</u>	<u>5,121,561</u>	<u>(5,110,848)</u>	<u>63,209,697</u>
Deferred Inflows of Resources				
Deferred inflows - OPEB	1,091,743	-	-	1,091,743
Deferred inflows - pensions	<u>451,515</u>	<u>-</u>	<u>-</u>	<u>451,515</u>
Total deferred inflows of resources	<u>1,543,258</u>	<u>-</u>	<u>-</u>	<u>1,543,258</u>
Net Position				
Net investment in capital assets	27,942,673	2,189,633	-	30,132,306
Restricted for debt service	2,124,856	-	-	2,124,856
Unrestricted	<u>6,979,082</u>	<u>(1,455,870)</u>	<u>-</u>	<u>5,523,212</u>
Total net position	<u>\$ 37,046,611</u>	<u>\$ 733,763</u>	<u>\$ -</u>	<u>\$ 37,780,374</u>

See independent auditor's report.

LEXINGTON ELECTRIC SYSTEM
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2025

	<u>Electric Division</u>	<u>Broadband Division</u>	<u>Eliminations</u>	<u>Combined</u>
Operating revenues				
Charges for sales and services	\$ 53,996,953	3,119,285	-	57,116,238
Other electric revenue	<u>2,502,804</u>	-	-	<u>2,502,804</u>
Total operating revenues	<u>56,499,757</u>	<u>3,119,285</u>	-	<u>59,619,042</u>
Operating expenses				
Cost of sales and services	40,011,300	180,011	-	40,191,311
Operations expense	6,926,315	2,444,752	-	9,371,067
Maintenance expense	3,158,157	2,743	-	3,160,900
Tax equivalent payments to others	314,894	-	-	314,894
Provision for depreciation	<u>3,032,099</u>	<u>365</u>	-	<u>3,032,464</u>
Total operating expenses	<u>53,442,765</u>	<u>2,627,871</u>	-	<u>56,070,636</u>
Operating income (loss)	<u>3,056,992</u>	<u>491,414</u>	-	<u>3,548,406</u>
Nonoperating revenues (expenses)				
Interest income	676,957	129,363	-	806,320
Interest on long-term debt - bonds and loans	(1,718,085)	(63,970)	-	(1,782,055)
Amortization of debt accounts	7,548	-	-	7,548
Miscellaneous revenue (expense)	<u>(113,099)</u>	<u>46,944</u>	-	<u>(66,155)</u>
Total nonoperating revenues (expenses)	<u>(1,146,679)</u>	<u>112,337</u>	-	<u>(1,034,342)</u>
Income (loss) before transfers	<u>1,910,313</u>	<u>603,751</u>	-	<u>2,514,064</u>
Transfers				
Transfer out - tax equivalents	<u>(1,005,717)</u>	-	-	<u>(1,005,717)</u>
Total transfers	<u>(1,005,717)</u>	-	-	<u>(1,005,717)</u>
Change in net position	904,596	603,751	-	1,508,347
Total net position - beginning	<u>36,142,015</u>	<u>130,012</u>	-	<u>36,272,027</u>
Total net position - ending	<u>\$ 37,046,611</u>	<u>\$ 733,763</u>	<u>\$ -</u>	<u>\$ 37,780,374</u>

See independent auditor's report.

LEXINGTON ELECTRIC SYSTEM
COMBINING STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2025

	<u>Electric Division</u>	<u>Broadband Division</u>	<u>Eliminations</u>	<u>Combined</u>
Cash flows from operating activities				
Cash received from consumers	\$ 56,093,316	\$ 3,098,228	\$ -	\$ 59,191,544
Cash paid to suppliers of goods and services	(48,085,681)	(2,032,092)	-	(50,117,773)
Cash paid to employees for services	(1,824,879)	(587,110)	-	(2,411,989)
Amounts paid to city - tax equivalents	(1,005,717)	-	-	(1,005,717)
Miscellaneous revenue (expense)	(113,099)	46,944	-	(66,155)
Customer deposits received	295,359	-	-	295,359
Customer deposits refunded	(150,122)	-	-	(150,122)
Net cash provided (used) by operating activities	<u>5,209,177</u>	<u>525,970</u>	<u>-</u>	<u>5,735,147</u>
Cash flows from non-capital financing activities				
Advances from Home Insulation Program	(12,813)	-	-	(12,813)
Net cash provided (used) by non-capital financing activities	<u>(12,813)</u>	<u>-</u>	<u>-</u>	<u>(12,813)</u>
Cash flows from capital and related financing activities				
Advances from (repayment of) Revenue Bonds	12,000,000	-	-	12,000,000
Advances from (repayment of) new Broadband Debt	-	2,510,848	(2,510,848)	-
Repayment of Revenue Bonds	(1,210,000)	-	-	(1,210,000)
Construction and acquisition of plant	(10,023,059)	(2,187,890)	-	(12,210,949)
Amortization/(bond issue fees)	(118,587)	-	-	(118,587)
Loss on refunding of bonds - amortization	3,006	-	-	3,006
(Amortization)/Premium on issuance of bond	310,351	-	-	310,351
Plant removal cost	(327,211)	-	-	(327,211)
Materials salvaged from retirements	1,150,015	-	-	1,150,015
Net cash provided (used) by capital and related financing activities	<u>1,784,515</u>	<u>322,958</u>	<u>(2,510,848)</u>	<u>(403,375)</u>
Cash flows from investing activities				
Purchase of investment	(2,610,848)	-	2,510,848	(100,000)
Proceeds from sale of investments	100,000	-	-	100,000
Notes receivable - TVA Home Insulation Program	12,813	-	-	12,813
Interest received	676,957	129,363	-	806,320
Interest paid	(1,510,659)	(63,970)	-	(1,574,629)
Net cash provided (used) by investing activities	<u>(3,331,737)</u>	<u>65,393</u>	<u>2,510,848</u>	<u>(755,496)</u>
Net increase (decrease) in cash and cash equivalents	3,649,142	914,321	-	4,563,463
Cash and cash equivalents - beginning of year	<u>9,842,476</u>	<u>2,727,113</u>	<u>-</u>	<u>12,569,589</u>
Cash and cash equivalents - end of year	<u>\$ 13,491,618</u>	<u>\$ 3,641,434</u>	<u>\$ -</u>	<u>\$ 17,133,052</u>
Cash and cash equivalents				
Unrestricted cash on hand	\$ 2,275	\$ -	\$ -	\$ 2,275
Unrestricted cash and cash equivalents on deposit	10,734,786	3,641,434	-	14,376,220
Restricted cash and cash equivalents on deposit	<u>2,754,557</u>	<u>-</u>	<u>-</u>	<u>2,754,557</u>
Total cash and cash equivalents	\$ 13,491,618	\$ 3,641,434	\$ -	\$ 17,133,052

See independent auditor's report.

LEXINGTON ELECTRIC SYSTEM
COMBINING STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2025

	<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)	\$ 3,056,992	\$ 491,414	\$ -	\$ 3,548,406
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation expense charged to operations	3,032,099	365	-	3,032,464
Amounts paid to City - tax equivalents	(1,005,717)	-	-	(1,005,717)
Miscellaneous expense	(113,099)	46,944	-	(66,155)
Change in pension related deferred outflows and inflows of resources	(283,192)	-	-	(283,192)
Change in OPEB related deferred outflows and inflows of resources	(209,210)	-	-	(209,210)
(Increase) decrease in accounts receivable	(406,441)	(21,057)	-	(427,498)
(Increase) decrease in materials and supplies	(73,775)	-	-	(73,775)
(Increase) decrease in prepayments and other assets	433,489	-	-	433,489
Increase (decrease) in accounts payable and accrued expenses	188,273	3,400	-	191,673
Increase (decrease) in net pension liability	132,661	-	-	132,661
Increase (decrease) in compensated absences	83,436	4,904	-	88,340
Increase (decrease) in OPEB	228,424	-	-	228,424
Increase (decrease) in customer deposits	145,237	-	-	145,237
Net cash provided (used) by operating activities	\$ 5,209,177	\$ 525,970	\$ -	\$ 5,735,147

See independent auditor's report.

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

For the Years Ended June 30, 2025 and 2024

	<u>2025</u>		<u>2024</u>	
	<u>Actual</u>	<u>Percent</u>	<u>Actual</u>	<u>Percent</u>
Operating revenues				
Charges for sales and services:				
Residential sales	\$ 29,271,532	51.81	\$ 26,846,085	52.85
Small lighting and power sales	6,999,051	12.39	6,371,191	12.54
Large lighting and power sales	16,994,914	30.08	15,543,017	30.60
General power credit	(879,974)	(1.56)	(892,241)	(1.76)
Street and athletic lighting sales	402,144	0.71	387,236	0.76
Outdoor lighting	1,221,286	2.16	1,215,613	2.39
Uncollectible accounts	(12,000)	(0.02)	(45,000)	(0.09)
Total charges for sales and services	<u>53,996,953</u>	<u>95.57</u>	<u>49,425,901</u>	<u>97.29</u>
Other revenues:				
Forfeited discounts	266,723	0.47	248,755	0.49
Miscellaneous service revenue	271,579	0.48	260,810	0.53
Rent from electric property	1,964,502	3.48	857,363	1.69
Total other revenues	<u>2,502,804</u>	<u>4.43</u>	<u>1,366,928</u>	<u>2.71</u>
Total operating revenues	<u>\$ 56,499,757</u>	<u>100.00</u>	<u>\$ 50,792,829</u>	<u>100.00</u>
Operating expenses				
Cost of sales and services:				
Purchased power	\$ 40,011,300	70.82	\$ 36,844,944	72.54
Operations expenses:				
Distribution expenses:				
Supervision and engineering	113,285	0.20	128,820	0.25
Station expense	49,533	0.09	52,382	0.10
Overhead line expense	1,248,866	2.21	1,272,593	2.51
Street lighting and signal system	-	-	9,510	0.02
Meter expense	299,071	0.53	253,823	0.50
Consumer installations	553,924	0.98	529,590	1.04
Rent expense	1,197,727	2.12	536,877	1.06
Total distribution expenses	<u>3,462,406</u>	<u>6.13</u>	<u>2,783,595</u>	<u>5.48</u>
Customer accounts expenses:				
Meter reading	61,540	0.11	52,125	0.10
Consumer records and collection expense	914,186	1.62	971,301	1.91
Total customer accounts expenses	<u>975,726</u>	<u>1.73</u>	<u>1,023,426</u>	<u>2.01</u>

See independent auditor's report.

LEXINGTON ELECTRIC SYSTEM
SCHEDULES OF OPERATING REVENUES AND EXPENSES
ELECTRIC DIVISION

For the Years Ended June 30, 2025 and 2024

	2025		2024	
	Amount	Percent	Amount	Percent
Sales expenses:				
Customer assistance	20,855	0.04	20,452	0.04
Total sales expenses	<u>20,855</u>	<u>0.04</u>	<u>20,452</u>	<u>0.04</u>
Administrative expenses:				
Salaries	569,896	1.01	785,637	1.55
Office supplies and expense	88,443	0.16	161,428	0.32
Outside services	153,762	0.27	123,430	0.24
Property insurance	210,351	0.37	202,273	0.40
Injuries and damages	157,964	0.28	174,061	0.34
Employee pension and benefits	979,965	1.73	1,128,038	2.22
Payroll taxes	275,018	0.49	261,401	0.51
Duplicate charges	(43,724)	(0.08)	(33,980)	(0.07)
Miscellaneous	75,653	0.13	78,518	0.15
Total administrative expenses	<u>2,467,328</u>	<u>4.36</u>	<u>2,880,806</u>	<u>5.66</u>
Total operations expense	<u>6,926,315</u>	<u>12.26</u>	<u>6,708,279</u>	<u>13.19</u>
Maintenance expenses:				
Distribution expenses:				
Supervision and engineering	402,125	0.71	61,513	0.12
Station equipment	155,087	0.27	242,189	0.48
Overhead and underground lines	2,436,127	4.31	3,288,844	6.48
Right-of-way	26,532	0.05	31,628	0.06
Line transformers	29,900	0.05	24,340	0.05
Meters	37,214	0.07	29,763	0.06
Total distribution expenses	<u>3,086,985</u>	<u>5.46</u>	<u>3,678,277</u>	<u>7.25</u>
General plant and equipment	<u>71,172</u>	<u>0.13</u>	<u>30,487</u>	<u>0.06</u>
Total maintenance expenses	<u>3,158,157</u>	<u>5.59</u>	<u>3,708,764</u>	<u>7.31</u>
Depreciation	<u>3,032,099</u>	<u>5.37</u>	<u>2,771,171</u>	<u>5.46</u>
Tax equivalent payments to others	<u>314,894</u>	<u>0.56</u>	<u>277,142</u>	<u>0.55</u>
Total operating expenses	<u>\$ 53,442,765</u>	<u>94.60</u>	<u>\$ 50,310,300</u>	<u>99.05</u>

See independent auditor's report.

LEXINGTON ELECTRIC SYSTEM
SCHEDULES OF OPERATING REVENUES AND EXPENSES
BROADBAND DIVISION

For the Years Ended June 30, 2025 and 2024

	2025		2024	
	Amount	Percent	Amount	Percent
Operating revenues				
Charges for sales and services				
Data-Residential	\$ 2,978,246	95.48	\$ 251,579	97.83
Data-Business	141,039	4.52	4,863	1.89
Other sales	-	-	711	0.28
Total charges for sales and services	3,119,285	100.00	257,153	100.00
Total operating revenue	\$ 3,119,285	100.00	\$ 257,153	100.00
Operating expenses				
Cost of sales and services				
Wholesale Data	\$ 130,338	4.18	\$ 29,724	11.56
Wholesale Phone	49,673	1.59	12,616	4.91
Total cost of sales and services	180,011	5.77	42,340	16.47
Administrative and general expenses				
Salaries	\$ 452,042	14.49	64,965	25.26
Advertising and Marketing	38,824	1.24	1,400	0.54
Office supplies and expense	315,341	10.11	9,145	3.56
Federal Income Tax	11,474	0.37	4,845	1.88
Insurance	89,520	2.87	4,956	1.93
Rents	1,087,125	34.85	-	-
Employee pension and benefits	135,068	4.33	2,215	0.86
Miscellaneous	56,181	1.80	309	0.12
Network Operations Center	107,140	3.43	-	-
Remote Professional Services	152,037	4.87	-	-
Total administrative and general expenses	2,444,752	78.36	87,835	34.15
Total operations expense	2,624,763	84.13	130,175	50.62
Maintenance expenses:				
General plant and equipment	2,743	0.09	-	-
Total maintenance expenses	2,743	0.09	-	-
Depreciation	365	0.01	-	-
Total operating expenses	\$ 2,627,871	84.23	\$ 130,175	50.62

See independent auditor's report.

**LEXINGTON ELECTRIC SYSTEM
ELECTRIC RATES IN FORCE**

June 30, 2025

Residential rate schedule

Customer charge - per delivery point per month	\$	17.71
Energy charge - cents per kWh		0.11745

General power schedule

GSA1

Customer charge - per delivery point per month		20.11
Energy charge - cents per kWh		0.13091

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		15.55
Energy charge - cents per kWh		
First 15,000 kWh per month		0.13339
Additional kWh per month		0.08210

GSA3

Customer charge per delivery point per month		223.58
First 1000 kW		15.26
Excess over 1000 kW		18.12
Energy charge - cents per kWh		0.08362

GSB

Customer charge per delivery point per month		1,500.00
Administrative charge		350.00
Demand charges		
OnPeak:		
All kW - per kW per month		11.95
Energy charge - cents per kWh		
use of metered demand per month		0.09758
OffPeak:		
All kW - per kW per month		11.95
Energy charge - First 200 HUD		0.07017
Next 200 HUD		0.32150
Additional HUD		0.02839

GSC

Customer charge per delivery point per month		1,500.00
Administrative charge		350.00
Demand charges		
OnPeak:		
All kW - per kW per month		11.95
Energy charge - cents per kWh		
use of metered demand per month		0.09758
OffPeak:		
All kW - per kW per month		5.07
Energy charge - First 200 HUD		0.07017
Next 200 HUD		0.03215
Additional HUD		0.02839

See independent auditor's report

**LEXINGTON ELECTRIC SYSTEM
ELECTRIC RATES IN FORCE**

June 30, 2025

GSD	
Customer charge per delivery point per month	1,500.00
Administrative charge	350.00
Demand charges	
OnPeak:	
All kW - per kW per month	11.95
Energy charge - cents per kWh	
use of metered demand per month	0.09758
OffPeak:	
All kW - per kW per month	4.96
Energy charge - First 200 HUD	0.07017
Next 200 HUD	0.03089
Additional HUD	0.02839
MSB	
Customer charge per delivery point per month	1,500.00
Administrative charge	350.00
Demand charges	
OnPeak:	
All kW - per kW per month	11.27
Energy charge - cents per kWh	
use of metered demand per month	0.08975
OffPeak:	
All kW - per kW per month	2.33
Energy charge - First 200 HUD	0.06225
Next 200 HUD	0.02961
Additional HUD	0.02680
MSC	
Customer charge per delivery point per month	1,500.00
Administrative charge	350.00
Demand charges	
OnPeak:	
All kW - per kW per month	11.27
Energy charge - cents per kWh	
use of metered demand per month	0.08852
OffPeak:	
All kW - per kW per month	1.82
Energy charge - First 200 HUD	0.06101
Next 200 HUD	0.03115
Additional HUD	0.03115

See independent auditor's report

**LEXINGTON ELECTRIC SYSTEM
ELECTRIC RATES IN FORCE**

June 30, 2025

MSD	
Customer charge per delivery point per month	1,500.00
Administrative charge	350.00
Demand charges	
OnPeak:	
All kW - per kW per month	11.27
Energy charge - cents per kWh	
use of metered demand per month	0.08602
OffPeak:	
All kW - per kW per month	1.71
Energy charge - First 200 HUD	0.05852
Next 200 HUD	0.02929
Additional HUD	0.02864
OL	
Customer charge per delivery point per month	17.75
Energy Charge	0.08136

See independent auditor's report

**LEXINGTON ELECTRIC SYSTEM
BROADBAND RATES IN FORCE**

June 30, 2025

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 Connection 1.2 Gbps	\$ 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,

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Revenue										
Residential	\$ 32,249,778	\$ 27,097,664	\$ 28,451,247	\$ 26,133,755	\$ 24,631,583	\$ 24,729,725	\$ 25,905,666	\$ 25,513,546	\$ 25,288,503	\$ 23,886,123
Commercial	7,140,090	6,376,054	6,248,535	5,851,534	5,406,205	5,344,055	5,548,179	5,429,997	5,356,461	5,052,055
Industrial	16,114,940	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
Street and outdoor lighting	1,623,430	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
Other operating	2,490,804	1,322,639	1,353,074	1,346,781	1,105,197	1,002,204	950,900	935,979	837,809	788,774
Interest and other revenue	806,320	981,145	258,808	167,909	63,310	96,564	120,316	73,648	52,611	79,373
	<u>\$ 60,425,362</u>	<u>\$ 52,031,127</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>
Expense										
Electric power costs	40,191,311	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
Other operating expenses	12,531,967	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
Provision for depreciation	3,032,464	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
Tax equivalents and transfers	1,320,611	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
Interest and other expense	1,840,662	1,279,748	431,702	455,787	485,325	490,163	518,800	541,139	531,470	874,911
	<u>58,917,015</u>	<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>
Net Income (Loss)	<u>\$ 1,508,347</u>	<u>\$ (551,701)</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>
Financial										
Plant in service (at original cost)	<u>\$ 116,919,035</u>	<u>\$ 99,824,763</u>	<u>\$ 83,961,676</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>
Power in use - KWH										
Residential	233,417,178	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
Commercial	47,292,910	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
Industrial	138,023,736	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
Other Customers	10,449,862	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
Total	<u>429,183,686</u>	<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>
Peak KW demand	<u>113,540</u>	<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>
Number of customers										
Residential	18,014	17,883	17,863	17,810	17,712	17,624	17,700	17,769	17,790	17,897
Small commercial	5,122	4,977	4,747	4,606	4,485	4,325	4,268	4,227	4,167	4,101
Large commercial	251	241	248	233	237	238	233	235	232	242
Street and athletic	61	62	60	56	53	55	55	55	55	55
Outdoor lighting - Code 78	244	244	248	250	243	251	242	243	259	264
Broadband	5,229	-	-	-	-	-	-	-	-	-
	<u>28,921</u>	<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>
Line Loss	<u>5.33%</u>	<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>

See independent auditor's report

**LEXINGTON ELECTRIC SYSTEM
SCHEDULE OF LONG-TERM DEBT
June 30, 2025**

Year Ended June 30,	Revenue Refunding Bond Series 2017		Revenue Refunding Bond Series 2019		Revenue Bond Series 2018		Revenue Bonds Series 2023		Revenue Bonds Series 2024		Total Principal	Total Interest	Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest			
2026	\$ 450,000	\$ 85,931	\$ 320,000	\$ 136,660	\$ 140,000	\$ 70,018	\$ 345,000	\$ 1,017,450	\$ 185,000	\$ 419,626	\$ 1,440,000	\$ 1,729,685	\$ 3,169,685
2027	460,000	75,806	335,000	120,285	145,000	64,418	365,000	999,700	195,000	518,950	1,500,000	1,779,159	3,279,159
2028	475,000	65,456	350,000	103,160	150,000	60,068	385,000	980,950	205,000	509,200	1,565,000	1,718,834	3,283,834
2029	485,000	53,581	370,000	85,160	150,000	55,568	405,000	961,200	215,000	498,950	1,625,000	1,654,459	3,279,459
2030	495,000	41,456	390,000	66,160	155,000	51,068	425,000	940,450	225,000	488,200	1,690,000	1,587,334	3,277,334
2031	510,000	28,463	410,000	46,160	160,000	46,418	445,000	918,700	235,000	476,950	1,760,000	1,516,691	3,276,691
2032	525,000	14,438	430,000	27,310	165,000	41,618	470,000	895,825	250,000	465,200	1,840,000	1,444,391	3,284,391
2033	-	-	445,000	9,810	170,000	36,668	495,000	871,700	260,000	452,700	1,370,000	1,370,878	2,740,878
2034	-	-	455,000	796	175,000	31,143	520,000	846,325	275,000	439,700	1,425,000	1,317,964	2,742,964
2035	-	-	455,000	569	180,000	25,455	545,000	819,700	290,000	425,950	1,470,000	1,271,674	2,741,674
2036	-	-	455,000	341	190,000	19,605	570,000	791,825	305,000	411,450	1,520,000	1,223,221	2,743,221
2037	-	-	455,000	114	195,000	13,430	600,000	762,575	320,000	396,200	1,570,000	1,172,319	2,742,319
2038	-	-	-	-	200,000	6,800	635,000	731,700	335,000	380,200	1,170,000	1,118,700	2,288,700
2039	-	-	-	-	-	-	665,000	699,200	355,000	363,450	1,020,000	1,062,650	2,082,650
2040	-	-	-	-	-	-	700,000	665,075	370,000	345,700	1,070,000	1,010,775	2,080,775
2041	-	-	-	-	-	-	735,000	629,200	390,000	327,200	1,125,000	956,400	2,081,400
2042	-	-	-	-	-	-	770,000	591,575	410,000	307,700	1,180,000	899,275	2,079,275
2043	-	-	-	-	-	-	810,000	554,606	430,000	287,200	1,240,000	841,806	2,081,806
2044	-	-	-	-	-	-	845,000	518,403	450,000	270,000	1,295,000	788,403	2,083,403
2045	-	-	-	-	-	-	885,000	480,006	465,000	252,000	1,350,000	732,006	2,082,006
2046	-	-	-	-	-	-	925,000	439,281	485,000	233,400	1,410,000	672,681	2,082,681
2047	-	-	-	-	-	-	965,000	396,756	505,000	214,000	1,470,000	610,756	2,080,756
2048	-	-	-	-	-	-	1,010,000	352,319	525,000	193,800	1,535,000	546,119	2,081,119
2049	-	-	-	-	-	-	1,060,000	305,744	545,000	172,800	1,605,000	478,544	2,083,544
2050	-	-	-	-	-	-	1,110,000	256,225	570,000	151,000	1,680,000	407,225	2,087,225
2051	-	-	-	-	-	-	1,160,000	203,731	590,000	128,200	1,750,000	331,931	2,081,931
2052	-	-	-	-	-	-	1,215,000	148,809	615,000	104,600	1,830,000	253,409	2,083,409
2053	-	-	-	-	-	-	1,275,000	91,228	640,000	80,000	1,915,000	171,228	2,086,228
2054	-	-	-	-	-	-	1,335,000	30,872	665,000	54,400	2,000,000	85,272	2,085,272
2055	-	-	-	-	-	-	-	-	695,000	27,800	695,000	27,800	722,800
	<u>\$ 3,400,000</u>	<u>\$ 365,131</u>	<u>\$ 4,870,000</u>	<u>\$ 596,525</u>	<u>\$ 2,175,000</u>	<u>\$ 522,277</u>	<u>\$ 21,670,000</u>	<u>\$ 17,901,130</u>	<u>\$ 12,000,000</u>	<u>\$ 9,396,526</u>	<u>\$ 44,115,000</u>	<u>\$ 28,781,589</u>	<u>\$ 72,896,589</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, 2025

Description of Indebtedness	Original amount of issue	Interest rate	Date of issue	Last maturity date	Outstanding 7/1/2024	Issued during period	Paid and/or matured during period	Refunded during period	Outstanding 6/30/2025
Bonds Payable									
Revenue Refunding Bond- Series 2024	\$ 12,000,000	4% - 5%	October 15, 2024	August 1, 2054	\$ -	\$ 12,000,000	\$ -	\$ -	\$ 12,000,000
Revenue Refunding Bond- Series 2023	22,000,000	4.625% - 5.0%	August 17, 2023	August 1, 2054	22,000,000	-	330,000	-	21,670,000
Revenue Refunding Bond - Series 2017	6,810,000	2% - 2.75%	March 1, 2017	March 1, 2028	3,845,000	-	445,000	-	3,400,000
Revenue Refunding Bond - Series 2019	6,300,000	.05% - 5%	July 25, 2019	September 1, 2036	5,175,000	-	305,000	-	4,870,000
Electric Revenue Bonds - Series 2018	<u>3,000,000</u>	3% - 4%	May 22, 2018	June 1, 2038	<u>2,305,000</u>	-	<u>130,000</u>	-	<u>2,175,000</u>
Total Bonds Payable	<u>\$ 50,110,000</u>				<u>\$ 33,325,000</u>	<u>\$ 12,000,000</u>	<u>\$ 1,210,000</u>	<u>\$ -</u>	<u>\$ 44,115,000</u>

See independent auditor's report

LEXINGTON ELECTRIC SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2025

	Assistance	Contract	Expenditures
Federal Grantor/PassThrough Grantor	Listing	Number	Number
	Number	Number	Number
U.S. Department of Treasury			
Coronavirus State and Local Fiscal Recovery Funds	21.027 *	15331	\$ 3,153,515
Coronavirus State and Local Fiscal Recovery Funds	21.027 *	15333	3,334,318
Coronavirus State and Local Fiscal Recovery Funds	21.027 *	15334	<u>2,602,833</u>
			<u>\$ 9,090,666</u>
 Total Federal Awards			

* 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, 2025. 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.

Note: There were no funds passed to subrecipients.

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, 2025, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated February 24, 2026.

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, PC

Jackson, Tennessee
February 24, 2026



**Independent Auditor's Report on Compliance for Each Major Program
and Report 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, 2025. 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, 2025.

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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over

compliance described in the accompanying schedule of findings and questioned costs as item 2025-001 to be a material weakness.

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.

Government Auditing Standards requires the auditor to perform limited procedures on the Utility's response to the internal control over compliance findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Utility's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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, PC

Jackson, Tennessee
February 24, 2026

**LEXINGTON ELECTRIC SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2025**

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 <u> x </u> no
Significant deficiency(ies) identified?	_____ yes <u> x </u> none reported
Noncompliance material to financial statements noted?	_____ yes <u> x </u> no

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u> x </u> yes _____ no
Significant deficiency(ies) identified?	_____ yes <u> x </u> none reported

Type of auditor's report issued on compliance for major programs	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with Title 2 CFR 200.516(a)	_____ yes <u> x </u> no
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Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
21.027	Coronavirus State and Local Fiscal Recovery Funds

Dollar Threshold used to distinguish between

Type A and type B programs	<u> \$ 750,000 </u>
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Auditee qualified as a low-risk auditee	_____ yes <u> x </u> no
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SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2025-001 Inaccurate Grant Reporting (Material Weakness)

Condition:

During our audit, it was noted that there were claim for reimbursements that should have been accrued for as accounts receivable and reported as federal grant expenditures in the current year that were not.

Criteria:

In accordance with 2 CFR §200.403 and 7 CFR §210.8, costs charged to federal programs must be accurately reported and supported by accounting records.

Cause:

The condition noted above occurred because the Utility was recording the revenues as claims were received instead of accruing for the receivables as the expenditures were paid.

Effect:

As a result, the Utility's schedule of expenditures of federal awards was not reporting expenditures in the proper period.

Questioned Cost: None

Recommendation:

The Utility should strengthen internal controls over the preparation and review of the schedule of expenditures of federal awards. Specifically, cutoff surrounding expenditures should be paid close attention to in order to ensure proper recording on the schedule of expenditures of federal awards.

Response:

The controls surrounding cutoff, specifically the accruals for reimbursements, are going to be paid close attention to in the future. There were no funds missing, but they were being reported in a later period. Controls are being put in place to ensure this does not happen in the future.

LEXINGTON ELECTRIC SYSTEM
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2025

Financial Statement Findings

There were no prior findings reported.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**2024-001 Inaccurate Grant Reporting (Material Weakness) - Repeated
(original finding #2023-001)**

MANAGEMENT'S CORRECTIVE ACTION PLAN

June 30, 2025

Lexington Electric System respectfully submits the following corrective action plan for the year ended June 30, 2025.

Name and address of independent public accounting firm:

ATA, PC
227 Oil Well Road
Jackson, TN 38305

Audit period:

June 30, 2025

Lexington Electric System Responsible Persons:

LeAnn Powers, Finance Director

The findings from the June 30, 2025, schedule of findings and responses are discussed below. The findings are numbered consistently with the number assigned in the schedule. Findings are required to be reported in accordance with Governmental Auditing Standards.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS: 2025-001 Inaccurate Grant Reporting (Material Weakness)

Response and Corrective Action Plan prepared by: LeAnn Powers

Person Responsible for Implementing the Corrective Action: LeAnn Powers

Anticipated Completion Date of Corrective Action: June 30, 2026

Planned Corrective Action: The controls surrounding cutoff, specifically the accruals for reimbursements, are going to be paid close attention to in the future. There were no funds missing, but they were being reported in a later period. Controls are being put in place to ensure this does not happen in the future.


LeAnn Powers, Director of Finance