

# PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 12, 2025

## New Issue Book-Entry Only

Rating: Moody's "Aa3"

In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the City, interest on the Series 2025 Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, such interest on the Series 2025 Bonds may be taken into account for the purpose of computing the alternative minimum tax imposed on certain corporations. Under existing law and subject to certain exceptions, the Series 2025 Bonds and the income therefrom will be exempt from state, county and municipal taxation in the State of Tennessee. (For an explanation of certain tax consequences which may result from the ownership of the Series 2025 Bonds, see "Tax Matters" herein).

## CITY OF LEXINGTON, TENNESSEE

### \$4,000,000\* ELECTRIC SYSTEM REVENUE BONDS, SERIES 2025

Dated: Date of Delivery

Due: August 1, as shown below\*

The \$4,000,000\* Electric System Revenue Bonds, Series 2025 (the "Series 2025 Bonds") of the City of Lexington, Tennessee (the "City") will be issued in fully registered book-entry only form, without coupons, in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Series 2025 Bonds. Individual purchases of beneficial ownership interests in the Series 2025 Bonds will be made in book-entry form only, in denominations of \$5,000 or multiples thereof through DTC Participants. The Series 2025 Bonds will bear interest at the annual rates shown below, payable semiannually on February 1 and August 1 of each year, commencing on February 1, 2026, calculated on the basis of a 360-day year consisting of twelve 30-day months.

So long as Cede & Co. is the registered owner of the Series 2025 Bonds, as the nominee for DTC, principal and interest with respect to the Series 2025 Bonds shall be payable to Cede & Co., which will in turn remit principal and interest payments on the Series 2025 Bonds to DTC Participants for subsequent disbursement to the beneficial owners of the Series 2025 Bonds. Purchasers will not receive physical delivery of Bonds purchased by them. See "THE SERIES 2025 BONDS-Book-Entry-Only System." U.S. Bank Trust Company, National Association, Nashville, Tennessee, is the registration and paying agent for the Series 2025 Bonds (the "Registration Agent").

The Series 2025 Bonds are limited obligations of the City, payable solely from the Net Revenues (defined herein) of the City's electric transmission and distribution system on a parity and equality of lien with respect to the Net Revenues with the City's outstanding, to the extent outstanding, Electric System Revenue Refunding Bonds, Series 2017, dated March 9, 2017, Electric System Revenue Bonds, Series 2018, dated May 22, 2018, Electric System Revenue Refunding Bonds, Series 2019, dated July 25, 2019, Electric System Revenue Bonds, Series 2023, dated August 31, 2023, Electric System Revenue Bonds, Series 2024, dated October 15, 2024, and any other bonds hereafter issued on a parity therewith in accordance with the Resolution (as defined herein).

NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF TENNESSEE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY, IS PLEDGED TO THE PAYMENT OF THE SERIES 2025 BONDS.

The Series 2025 Bonds are subject to redemption prior to their stated maturities as more fully set forth herein.

Maturity (August 1)*	Principal*	Interest Rate	Price or Yield	CUSIP No.**	Maturity (August 1)*	Principal*	Interest Rate	Price or Yield	CUSIP No.**
2026	\$60,000				2030	\$75,000			
2027	65,000				2031	80,000			
2028	65,000				2032	80,000			
2029	70,000				2033	85,000			

\$285,000 \_\_\_\_% Term Bond due August 1, 2036; Yield: \_\_\_\_%; CUSIP \_\_\_\_  
\$215,000 \_\_\_\_% Term Bond due August 1, 2038; Yield: \_\_\_\_%; CUSIP \_\_\_\_  
\$235,000 \_\_\_\_% Term Bond due August 1, 2040; Yield: \_\_\_\_%; CUSIP \_\_\_\_  
\$695,000 \_\_\_\_% Term Bond due August 1, 2045; Yield: \_\_\_\_%; CUSIP \_\_\_\_  
\$1,990,000 \_\_\_\_% Term Bond due August 1, 2055; Yield: \_\_\_\_%; CUSIP \_\_\_\_

The Series 2025 Bonds are offered when, as and if issued and received by the Underwriter, Robert W. Baird & Co. Incorporated, subject to the approval of the legality by Bass, Berry & Sims PLC, Nashville, Tennessee, Bond Counsel, whose opinion will be delivered with the Series 2025 Bonds. Certain legal matters will be passed upon for the City by Kenneth Walker, Esq., City Attorney, and for the Underwriter by its counsel Pope Flynn, LLC. Guardian Advisors, LLC is serving as municipal advisor to the City. The Series 2025 Bonds, in book-entry form, are expected to be available for delivery through The Depository Trust Company in New York, New York, on or about October \_\_, 2025.\*



GUARDIAN ADVISORS, LLC

Municipal Advisor

Underwriter

September 12, 2025

\*Preliminary, subject to change

\*\* Copyright, American Bankers Association (the "ABA"). CUSIP data herein are provided by CUSIP Global Services, which is managed on behalf of the ABA by S&P Global Market Intelligence, a division of S&P Global Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Series 2025 Bonds and the Issuer makes no representation with respect to such numbers nor undertakes any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2025 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2025 Bonds.

This Preliminary Official Statement and the information contained herein are subject to change, completion or amendment without notice. The Series 2025 Bonds may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Series 2025 Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

This Official Statement has been prepared by:

**GUARDIAN ADVISORS, LLC**

**Municipal Advisor to the City of Lexington, Tennessee**

Guardian Advisors, LLC provides fiduciary services only and does not broker, underwrite or deal in securities. Any investment interest in the Series 2025 Bonds herein described will be referred to the Underwriter.

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document, as the same may be supplemented or amended (collectively, the "Official Statement") by the City of Lexington, Tennessee (the "City") from time to time, may be treated as an Official Statement with respect to the Series 2025 Bonds described herein that is deemed final by the City as of the date hereof (or of any such supplement or amendment). It is subject to completion with certain information to be established at the time of the sale of the Series 2025 Bonds as permitted by Rule 15c2-12 of the Securities and Exchange Commission.

No dealer, broker, salesman or other person has been authorized by the City or by Guardian Advisors, LLC (the "Municipal Advisor") to give any information or make any representations other than those contained in this Official Statement and, if given or made, such information or representations with respect to the City or the Series 2025 Bonds must not be relied upon as having been authorized by the City or the Municipal Advisor. This Official Statement does not constitute an offer to sell, or solicitation of an offer to buy, any securities other than the securities offered hereby to any person in any jurisdiction where such offer or solicitation of such offer would be unlawful.

This Official Statement should be considered in its entirety and no one factor should be considered more or less important than any other by reason of its position in this Official Statement. Where statutes, reports or other documents are referred to herein, reference should be made to such statutes, reports or other documents for more complete information regarding the rights and obligations of parties thereto, facts and opinions contained therein and the subject matter thereof.

The information and expressions of opinion in this Official Statement are subject to change without notice and neither the delivery of this Official Statement nor any sale made under it shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date as of which information is given in this Official Statement.

The information contained in this Official Statement has been obtained from the City, including the Lexington Electric System, public documents and records and other sources considered to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter. The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. In making an investment decision, investors must rely on their own examination of the City, the Electric System and the terms of the offering, including the merits and risks involved.

In connection with the offering of the Series 2025 Bonds, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the Series 2025 Bonds at levels above those which might otherwise prevail in the open market. Such stabilization, if commenced, may be discontinued at any time.

In making an investment decision, investors must rely on their own examination of the City and the terms of the offering, including the merits and risks involved. No registration statement relating to the Series 2025 Bonds has been filed with the Securities and Exchange Commission or with any state securities agency. The Series 2025 Bonds have not been approved or disapproved by the Commission or any state securities agency, nor has the Commission or any state securities agency passed upon the accuracy or adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

*The material contained herein has been obtained from sources believed to be current and reliable, but the accuracy thereof is not guaranteed. The Official Statement contains statements which are based upon estimates, forecasts, and matters of opinion, whether or not expressly so described, and such statements are intended solely as such and not as representations of fact. All summaries of statutes, resolutions, and reports contained herein are made subject to all the provisions of said documents. The Official Statement is not to be construed as a contract with the purchasers of any of the City of Lexington, Tennessee Electric System Revenue Bonds, Series 2025.*

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**CITY OF LEXINGTON, TENNESSEE**

The Honorable Jeff Griggs, Mayor

**Board of Mayor and Aldermen**

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

**City Recorder**

Cody Wood

**Lexington Electric System**

Brad Jones, General Manager  
LeAnn Powers, Accounting Manager

**City Attorney**

Kenneth L. Walker, Esq.  
Lexington, Tennessee

**Municipal Advisor**

Guardian Advisors, LLC  
Hohenwald, Tennessee

**Bond Counsel**

Bass, Berry & Sims PLC  
Nashville, Tennessee

**Registration and Paying Agent**

U.S. Bank Trust Company, National Association  
Nashville, Tennessee

**Underwriter**

Robert W. Baird & Co. Incorporated  
Winston-Salem, North Carolina

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## SUMMARY STATEMENT

*This Summary is expressly qualified by the entire Official Statement which should be viewed in its entirety by potential investors.*

ISSUER .....	City of Lexington, Tennessee (the "City").
ISSUE .....	\$4,000,000 <sup>*</sup> Electric System Revenue Bonds, Series 2025 (the "Bonds"), dated October __, 2025 <sup>*</sup> , maturing August 1, 2026, through August 1, 2033, inclusive, and August 1, 2036, August 1, 2038, August 1, 2040, August 1, 2045, and August 1, 2055 <sup>*</sup> , with interest payable each February 1 and August 1, commencing February 1, 2026.
PURPOSE .....	The Series 2025 Bonds are being issued to (i) finance improvements and extensions to the City's electric transmission and distribution system (as more fully defined herein, the "Electric System") and (ii) pay costs incident to the issuance and sale of the Series 2025 Bonds.
OPTIONAL REDEMPTION .....	The Series 2025 Bonds are subject to redemption prior to maturity at the option of the City on and after August 1, 2033, at the price of par plus interest accrued to the redemption date.
SECURITY .....	The Series 2025 Bonds are limited obligations of the City, payable solely from the Net Revenues (defined herein) of the Electric System on a parity and equality of lien with respect to the Net Revenues with the City's outstanding, to the extent outstanding, Electric System Revenue Refunding Bonds, Series 2017, dated March 9, 2017, Electric System Revenue Bonds, Series 2018, dated May 22, 2018, Electric System Revenue Refunding Bonds, Series 2019, dated July 25, 2019, Electric System Revenue Bonds, Series 2023, dated August 31, 2023, Electric System Revenue Bonds, Series 2024, dated October 15, 2024, and any other bonds hereafter issued on a parity therewith in accordance with the Resolution (as defined herein). <b>NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF TENNESSEE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY, IS PLEDGED TO THE PAYMENT OF THE SERIES 2025 BONDS.</b>
RATING .....	<p>The Series 2025 Bonds have been assigned a rating of "Aa3" by Moody's Ratings ("Moody's"), based on documents and other information provided by the City. The rating reflects only the view of Moody's, and none of the City, the Municipal Advisor or the Underwriter makes any representation as to the appropriateness of such rating.</p> <p>There is no assurance that such rating will continue for any given period of time or that it will not be lowered or withdrawn entirely by Moody's if in its judgment circumstances so warrant. Any such downward change in or withdrawal of the rating may have an adverse effect on the secondary market price of the Series 2025 Bonds. Any explanation of the significance of the rating may be obtained from Moody's.</p>
TAX MATTERS .....	Bass, Berry & Sims PLC will provide an unqualified opinion as to the tax exemption of the Series 2025 Bonds discussed under "TAX MATTERS" herein.
REGISTRATION AND PAYING AGENT .....	U.S. Bank Trust Company, National Association, Nashville, Tennessee
MUNICIPAL ADVISOR .....	Guardian Advisors, LLC, Hohenwald, Tennessee
UNDERWRITER .....	Robert W. Baird & Co. Incorporated, Winston-Salem, North Carolina

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<sup>\*</sup> Preliminary, subject to change.

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## OFFICIAL STATEMENT

### CITY OF LEXINGTON, TENNESSEE

#### \$4,000,000\* ELECTRIC SYSTEM REVENUE BONDS, SERIES 2025

The purpose of this Official Statement, including the appendices attached hereto, is to set forth certain information concerning the City of Lexington, a political subdivision of the State of Tennessee (the "City"), and its \$4,000,000\* Electric System Revenue Bonds, Series 2025 (the "Bonds"). The Series 2025 Bonds are being issued pursuant to the authority of Sections 7-34-101 et seq., Tennessee Code Annotated (the "Act"), and a resolution of the Board of Mayor and Aldermen of the City, adopted on February 28, 2022 (the "Resolution"). Pursuant to applicable law and the Resolution, the Electric System is currently operated by the Board of Mayor and Aldermen of the City doing business as the Lexington Electric System ("LES" or the "Board"). The Resolution authorizes and sets forth the terms and conditions of the Series 2025 Bonds and authorizes the issuance of bonds in an aggregate principal amount up to \$50,000,000. The City has previously issued its Series 2023 Bonds and Series 2024 Bonds (as hereinafter defined) in an aggregate principal amount of \$34,000,000 pursuant to the authority provided in the Resolution.

The proceeds from the sale of the Series 2025 Bonds will be used to (i) finance improvements and extensions (the "Projects") to the electric transmission and distribution system of the City (as more fully defined herein, the "Electric System"), and (ii) pay costs incident to the issuance and sale of the Series 2025 Bonds. For a more complete description of the use of Bond proceeds, see the sections entitled "THE SERIES 2025 BONDS – Disposition of Bond Proceeds" and "THE SERIES 2025 BONDS – Plan of Finance" contained herein. The Series 2025 Bonds will be limited obligations of the City, payable solely from the Net Revenues of the Electric System on a parity and equality of lien with respect to the Net Revenues with the City's outstanding, to the extent outstanding, Electric System Revenue Refunding Bonds, Series 2017, dated March 9, 2017 (the "Series 2017 Bonds"), Electric System Revenue Bonds, Series 2018, dated May 22, 2018 (the "Series 2018 Bonds"), Electric System Revenue Refunding Bonds, Series 2019, dated July 25, 2019 (the "Series 2019 Bonds"), Electric System Revenue Bonds, Series 2023, dated August 31, 2023 (the "Series 2023 Bonds"), Electric System Revenue Bonds, Series 2024, dated October 15, 2024 (the "Series 2024 Bonds"), and any other bonds hereafter issued on a parity therewith in accordance with the Resolution.

Included in this Official Statement are descriptions of the Series 2025 Bonds, the Resolution, the Electric System and the City. All references to the Resolution are qualified in their entirety by references to the document itself. All capitalized terms used herein and not otherwise defined have the meanings set forth in Appendix A – Summary of Certain Provisions of the Resolution. Copies of the complete Resolution and any other documents described in this Official Statement may be obtained from the office of the Mayor.

#### THE SERIES 2025 BONDS

##### Description

The Series 2025 Bonds, dated as of October \_\_, 2025\*, will be issued as fully registered book-entry Bonds, without coupons, in denominations of \$5,000 or any integral multiple thereof. The Series 2025 Bonds will mature on the dates and in the amounts set forth on the cover page and bear interest at the rates per annum set forth on the cover page calculated on the basis of a 360-day year, consisting of twelve 30-day months. Interest on the Series 2025 Bonds will be payable semiannually on February 1 and August 1 of each year (herein an "Interest Payment Date"), commencing February 1, 2026.

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\* Preliminary, subject to change.

The Series 2025 Bonds will be initially registered only in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2025 Bonds. U.S. Bank Trust Company, National Association, Nashville, Tennessee (the "Registration Agent"), will make all interest payments with respect to the Series 2025 Bonds on each Interest Payment Date directly to the registered owners as shown on the Bond registration records maintained by the Registration Agent as of the close of business on the fifteenth day of the month next preceding the interest payment date (the "Regular Record Date") by check or draft mailed to such owners at their addresses shown on said registration records, without, except for final payment, the presentation or surrender of such registered Bonds, and all such payments shall discharge the obligations of the City in respect of such Bonds to the extent of the payments so made. Payment of principal of the Series 2025 Bonds shall be made upon presentation and surrender of such Bonds to the Registration Agent as the same shall become due and payable. In the event the Series 2025 Bonds are no longer registered in the name of DTC or its successor or assigns, if requested by the Owner of at least \$1,000,000 in aggregate principal amount of the Series 2025 Bonds, payment of interest on such Bonds shall be paid by wire transfer to a bank within the continental United States or deposited to a designated account if such account is maintained with the Registration Agent and written notice of any such election and designated account is given to the Registration Agent prior to the record date.

Any interest on any Bond which is payable but is not punctually paid or duly provided for on any interest payment date (hereinafter "Defaulted Interest") shall forthwith cease to be payable to the registered owner on the relevant Regular Record Date; and, in lieu thereof, such Defaulted Interest shall be paid by the City to the persons in whose names the Series 2025 Bonds are registered at the close of business on a date (the "Special Record Date") for the payment of such Defaulted Interest, which shall be fixed in the following manner: The City shall notify the Registration Agent in writing of the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment, and at the same time the City shall deposit with the Registration Agent an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Registration Agent for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the persons entitled to such Defaulted Interest. Thereupon, not less than ten (10) days after the receipt by the Registration Agent of the notice of the proposed payment, the Registration Agent shall fix a Special Record Date for the payment of such Defaulted Interest which date shall not be more than fifteen (15) nor less than ten (10) days prior to the date of the proposed payment to the registered owners. The Registration Agent shall promptly notify the City of such Special Record Date and, in the name and at the expense of the City, not less than ten (10) days prior to such Special Record Date, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first class postage prepaid, to each registered owner at the address thereof as it appears in the Bond registration records maintained by the Registration Agent as of the date of such notice. Nothing contained in the Resolution or in the Series 2025 Bonds shall impair any statutory or other rights in law or in equity of any registered owner arising as a result of the failure of the City to punctually pay or duly provide for the payment of principal of and interest on the Series 2025 Bonds when due.

### **Optional Redemption**

The Series 2025 Bonds shall be subject to redemption prior to maturity at the option of the City on August 1, 2033, and thereafter as a whole or in part at any time at the redemption price of par, plus interest accrued to the redemption date.

If less than all the Series 2025 Bonds shall be called for redemption, the maturities to be redeemed shall be selected by the Board of Mayor and Aldermen of the City in its discretion. If less than all of the Series 2025 Bonds within a single maturity shall be called for redemption, the interest within the maturity to be redeemed shall be selected as follows:

- (i) if the Series 2025 Bonds are being held under a Book-Entry System by DTC, or a successor Depository, the Series 2025 Bonds to be redeemed shall be determined by DTC, or such

successor Depository, by lot or such other manner as DTC, or such successor Depository, shall determine; or

- (ii) if the Series 2025 Bonds are not being held under a Book-Entry System by DTC, or a successor Depository, the Series 2025 Bonds within the maturity to be redeemed shall be selected by the Registration Agent by lot or such other random manner as the Registration Agent in its discretion shall determine.

### **Mandatory Redemption**

Subject to the credit hereinafter provided, the City shall redeem Bonds maturing August 1, 20\_\_ on the redemption dates set forth below opposite the maturity dates, in aggregate principal amounts equal to the respective dollar amounts set forth below opposite the respective redemption dates at a price of par plus accrued interest thereon to the date of redemption. DTC, or such Person as shall then be serving as the securities depository for the Series 2025 Bonds, shall determine the interest of each Participant in the Series 2025 Bonds to be redeemed using its procedures generally in use at that time. If DTC or another securities depository is no longer serving as securities depository for the Series 2025 Bonds, the Series 2025 Bonds to be redeemed within a maturity shall be selected by the Registration Agent by lot or such other random manner as the Registration Agent in its discretion shall select. The dates of redemption and principal amount of Bonds to be redeemed on said dates are as follows:

<u>Final Maturity</u>	<u>Redemption Date</u>	<u>Principal Amount of Bonds Redeemed</u>
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\*Final Maturity

At its option, to be exercised on or before the forty-fifth (45th) day next preceding any such redemption date, the City may (i) deliver to the Registration Agent for cancellation Bonds maturing August 1, 20\_\_ to be redeemed, in any aggregate principal amount desired, and/or (ii) receive a credit in respect of its redemption obligation under this mandatory redemption provision for any Bonds of the maturity to be redeemed which prior to said date have been purchased or redeemed (otherwise than through the operation of this mandatory sinking fund redemption provision) and canceled by the Registration Agent and not theretofore applied as a credit against any redemption obligation under this mandatory sinking fund provision. Each Bond maturing August 1, 20\_\_ so delivered or previously purchased or redeemed shall be credited by the Registration Agent at 100% of the principal amount thereof on the obligation of the City on such payment date and any excess shall be credited on future redemption obligations in chronological order, and the principal amount of Bonds to be redeemed by operation of this mandatory sinking fund provision shall be accordingly reduced.

### **Notice of Redemption**

Notice of call for redemption, whether optional or mandatory, shall be given by the Registration Agent on behalf of the City not less than twenty (20) nor more than sixty (60) days prior to the date fixed for redemption by sending an appropriate notice to the registered owners of the Series 2025 Bonds to be redeemed by first-class mail or certified mail, postage prepaid, at the addresses shown on the Bond registration records of the Registration Agent as of the date of the notice; but neither failure to mail such notice nor any defect in any such notice so mailed shall affect the sufficiency of the proceedings for redemption of any of the Series 2025 Bonds for which proper notice was given. The notice may state that it is conditioned upon the deposit of moneys in an amount equal to the amount necessary to effect the redemption with the Registration Agent no later than the redemption date ("Conditional Redemption"). As long as DTC, or a successor Depository, is the registered owner of the Series 2025 Bonds, all redemption notices

shall be mailed by the Registration Agent to DTC, or such successor Depository, as the registered owner of the Series 2025 Bonds, as and when above provided, and neither the City nor the Registration Agent shall be responsible for mailing notices of redemption to DTC Participants, or Beneficial Owners. Failure of DTC, or any successor Depository, to provide notice to any DTC Participant or Beneficial Owner will not affect the validity of such redemption. The Registration Agent shall mail said notices as and when directed by the City pursuant to written instructions from an authorized representative of the City (other than for a mandatory sinking fund redemption, if applicable), notices of which shall be given at least forty-five (45) days prior to the redemption date (unless a shorter notice period shall be satisfactory to the Registration Agent). From and after the redemption date, all Bonds called for redemption shall cease to bear interest if funds are available at the office of the Registration Agent for the payment thereof and if notice has been duly provided. In the case of a Conditional Redemption, the failure of the City to make funds available in part or in whole on or before the redemption date shall not constitute an event of default, and the Registration Agent shall give immediate notice to the Depository, if applicable, or the affected Bondholders that the redemption did not occur and that the Series 2025 Bonds called for redemption and not so paid remain outstanding.

### **Book-Entry-Only System**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2025 Bonds. The Series 2025 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). Only one fully-registered Bond certificate will be issued in the aggregate principal amount of each maturity of the Series 2025 Bonds, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with Direct Participants, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2025 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Series 2025 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Series 2025 Bonds, except in the event that use of the book-entry system for the Series 2025 Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2025 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited,

which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Series 2025 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Series 2025 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2025 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2025 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC, the Registration Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City or the Registration Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2025 Bonds at any time by giving reasonable notice to the City or the Registration Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

**THE CITY AND THE REGISTRATION AGENT HAVE NO RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF OR INTEREST ON THE SERIES 2025 BONDS; (III) THE DELIVERY OR TIMELINESS OF DELIVERY BY ANY PARTICIPANT OR ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO BONDHOLDERS; OR (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR CEDE & CO. AS BONDHOLDER.**

## Sources and Uses of Funds

The following tables set forth the estimated sources and uses of the funds in connection with the issuance of the Series 2025 Bonds.

Sources:	Bond Proceeds	\$ _____
	Original Issue (Discount) Premium	_____
	Total	<u>\$ _____</u>
Uses:	Deposit to Construction Fund	\$ _____
	Underwriter's Discount	_____
	Costs of Issuance	_____
	Total	<u>\$ _____</u>

## Plan of Finance

A portion of the proceeds of the Series 2025 Bonds will be used to pay costs of issuance and sale of the Series 2025 Bonds. The remaining proceeds of the Series 2025 Bonds will be deposited in a Construction Fund established pursuant to the Resolution (the "Construction Fund") to be held and invested by LES and used to pay costs of the Projects. Monies in the Construction Fund may be invested as permitted by Tennessee law.

The Projects will largely consist of the purchase and installation of fiber-based communications infrastructure (the "Fiber Infrastructure"). The Fiber Infrastructure will primarily benefit the Electric System and will be recorded as an asset of the Electric System. The Fiber Infrastructure will provide collector points and is intended to connect, directly or indirectly, to electric meters of the Electric System that will be installed within the footprint of the Fiber Infrastructure for the purpose of enhancing the quality and efficiency of the Electric System's electric service by, among other things, (i) allowing the Electric System to read electric meters remotely, (ii) allowing the Electric System to remotely connect and disconnect meters, (iii) providing real-time outage reports, thereby enabling the Electric System to respond more quickly to power outages, (iv) providing real-time usage reports that will allow the Electric System's customers to tailor their electric power needs more effectively and (v) allowing the Electric System to better manage its peak power load, thereby reducing the demand for additional electric generation facilities and reducing costs to the Electric System's customers.

The Fiber Infrastructure is also expected to be used by a broadband system (the "Broadband System") established by LES as an entity separate from the Electric System. The Broadband System is expected to offer high-speed internet services that are unrelated to the transmission and distribution of electricity. The Broadband System will be permitted to use the Fiber Infrastructure (and any other assets of the Electric System) only upon the payment by the Broadband System to the Electric System of a monthly use charge equal to not less than the portion of the cost of the Fiber Infrastructure (and other assets) allocable to the Broadband System. The portion of the Fiber Infrastructure allocable to the Broadband System is expected to continue to grow as customers are added to the Broadband System. This allocation will be based upon the actual number of customers utilizing the services of the Broadband System and will be periodically reallocated to assure proper division of costs.

In August 2024, LES loaned \$2,600,000 in Electric System funds to the Broadband System for the purpose of funding certain capital and working capital costs of the Broadband System. This loan bears interest at a rate of 3%, and is required to be repaid by the Broadband System to the Electric System no later than 2042. The Broadband System began making monthly loan repayments to the Electric System in September 2024. Neither the City nor LES can predict or guarantee the future success of the Broadband System. If the Broadband System is unsuccessful, it may have difficulty making scheduled monthly use payments and/or loan payments to the Electric System. Accordingly, neither the City nor LES can guarantee the amount of monthly use payments or loan payments that will be made by the Broadband System to the Electric System. Any monthly use charges and any loan interest payable to

the Electric System by the Broadband System will be treated as revenues of the Electric System. However, revenues derived from sales of the services of the Broadband System will not constitute revenues of the Electric System and will not be available for the payment of or the security for the Bonds.

For additional information regarding the financing of the Projects, see the section entitled "Future Bonds" herein.

### Defeasance

If the City shall pay and discharge the indebtedness evidenced by any of the Series 2025 Bonds in any one or more of the following ways:

(a) By paying or causing to be paid, by deposit of sufficient funds as and when required with the Registration Agent, the principal of and interest on such Bonds as and when the same become due and payable;

(b) By depositing or causing to be deposited with any trust company or financial institution whose deposits are insured by the Federal Deposit Insurance Corporation or similar federal agency and which has trust powers (an "Agent"; which Agent may be the Registration Agent) in trust or escrow, on or before the date of maturity or redemption, sufficient money or Federal Obligations, as hereafter defined, the principal of and interest on which, when due and payable, will provide sufficient moneys to pay or redeem such Bonds and to pay interest thereon when due until the maturity or redemption date (provided, if such Bonds are to be redeemed prior to maturity thereof, proper notice of such redemption shall have been given or adequate provision shall have been made for the giving of such notice);

(c) By delivering such Bonds to the Registration Agent, for cancellation by it;

and if the City shall also pay or cause to be paid all other sums payable under the Resolution by the City with respect to such Bonds, or make adequate provision therefor, and by resolution of the Governing Body instruct any such Agent to pay amounts when and as required to the Registration Agent for the payment of principal of and interest on such Bonds when due, then and in that case the indebtedness evidenced by such Bonds shall be discharged and satisfied and all covenants, agreements and obligations of the City to the holders of such Bonds shall be fully discharged and satisfied and shall thereupon cease, terminate and become void.

If the City shall pay and discharge the indebtedness evidenced by any of the Series 2025 Bonds in the manner provided in either clause (a) or clause (b) above, then the registered owners thereof shall thereafter be entitled only to payment out of the money or Federal Obligations deposited as aforesaid.

Except as otherwise provided in the Resolution, neither Federal Obligations nor moneys deposited with the Registration Agent nor principal or interest payments on any such Federal Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal and interest on said Bonds; provided that any cash received from such principal or interest payments on such Federal Obligations deposited with the Registration Agent, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the City as received by the Registration Agent and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Federal Obligations maturing at times and in amounts sufficient to pay when due the principal and interest to become due on said Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the City, as received by the Registration Agent. Federal Obligations means direct obligations of, or obligations, the principal of and interest on which are guaranteed by, the United States of America, or any agency thereof, obligations of any agency or instrumentality of the United States or any other obligations at the time of the purchase thereof are permitted investments under Tennessee law for the defeasance of bonds, which bonds or other

obligations shall not be subject to redemption prior to their maturity other than at the option of the registered owner thereof.

## **SECURITY AND SOURCE OF PAYMENT**

### **General**

The Series 2025 Bonds are limited revenue obligations of the City and are payable solely from the Net Revenues of the Electric System on a parity and equality of lien with respect to the Net Revenues with the City's outstanding, to the extent outstanding, Series 2017 Bonds, Series 2018 Bonds, Series 2019 Bonds, Series 2023 Bonds, Series 2024 Bonds and any other Parity Bonds hereafter issued. The Series 2025 Bonds do not constitute a charge, lien or encumbrance upon any other property of the City.

**NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF TENNESSEE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY, IS PLEDGED TO THE PAYMENT OF THE SERIES 2025 BONDS.**

### **Pledge of Net Revenues**

Under the terms of the Resolution, the Series 2025 Bonds, Series 2024 Bonds, Series 2023 Bonds, Series 2019 Bonds, Series 2018 Bonds, Series 2017 Bonds and any other Parity Bonds hereafter issued are secured by a pledge of and lien on the Net Revenues of the Electric System. "Net Revenues", "Gross Earnings", "Operating Expenses" and the "Electric System" are defined in the Resolution as follows:

"Net Revenues" are defined in the Resolution as (i) Gross Earnings, excluding any profits or losses on the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets and further excluding non-cash or non-recurring items, including but not limited to, contributions in aid of construction, less (ii) Operating Expenses.

"Gross Earnings" are defined in the Resolution as all revenues, rentals, earnings and income of the Electric System from whatever source, determined in accordance with generally accepted accounting principles; proceeds from the sale of System property; proceeds of System-related insurance and condemnation awards and compensation for damages, to the extent not applied to the payment of the cost of repairs, replacements and improvements; and all amounts realized from the investment of funds of the Electric System, including money in any accounts and funds created by the Resolution, and resolutions authorizing any Parity Bonds or subordinate lien bonds (excluding any investment earnings from construction or improvement funds created for the deposit of bond proceeds pending use, to the extent such income is applied to the purposes for which the Series 2025 Bonds were issued, and funds created to defease any outstanding obligations of the Electric System); provided, however, at the election of the Board, the term "Gross Earnings" as used shall not include any revenues, rentals, earnings or other income received from the operation of an Acquired System, and any bonds or other obligations issued in connection with such Acquired System shall not be payable from or secured by Net Revenues or be deemed to be Parity Bonds.

"Operating Expenses" are defined in the Resolution as including, but not limited to, expenses for ordinary repairs, removals and replacements of the Electric System, salaries and wages, employees' health, hospitalization, pension and retirement expenses, fees for services, materials and supplies, rents, administrative and general expenses (including legal, engineering, accounting and financial advisory fees and expenses and costs of other consulting or technical services not funded with proceeds of bonds, notes or other debt obligations), insurance expenses, taxes and other governmental charges, the imposition or amount of which is not subject to control of LES or the City, any payments made by LES during any Fiscal Year to purchase electrical power for distribution and sale during or after the end of that Fiscal Year, and other payments made under any electrical power supply contract or commodity swap or other hedging mechanism, to the extent not inconsistent with generally accepted accounting principles. Operating



Expenses do not include payments in lieu of taxes or other similar payments to the City, depreciation or obsolescence charges or reserves therefore, amortization of intangibles or other bookkeeping entries of a similar nature, on bonds, notes or other debt obligations of the Electric System payable from Net Revenues of the Electric System, costs or charges made therefor, capital additions, replacements, betterments, extensions or improvements to or retirement from the Electric System which under generally accepted accounting principles are properly chargeable to the capital account or the reserve for depreciation, and do not include losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of the Electric System, nor such property items, including taxes and fuels, which are capitalized pursuant to the then existing accounting practices of LES or expenses of an Acquired System if revenues of the Acquired System are not included in Gross Earnings at the election of the Board.

"Electric System" or "System" as defined in the Resolution means the electrical power transmission and distribution system operated by LES, any electrical power distribution and/or transmission system hereafter acquired, constructed or otherwise established, including all improvements and extensions made by LES while the Series 2025 Bonds remain outstanding, and including all real and personal property of every nature comprising part of or used or useful in connection with the foregoing, and including all appurtenances, contracts, leases, franchises, and other intangibles; provided, however, at the election of the Board, an Acquired System may be included within the Electric System as defined herein and become a part thereof or, at the election of the Board, not become a part of the Electric System but be operated as a separate and independent system by LES with the continuing right, upon the election of the Board, to incorporate such separately Acquired System within the Electric System.

See Appendix A for a "Summary of Certain Provisions of the Resolution" and Appendix D for information regarding the City, the Electric System, the Electric System's service area and the Electric System's debt service obligations.

### **Flow of Funds**

Pursuant to the Resolution, the City has covenanted to deposit all revenues or Gross Earnings derived from the operation of the Electric System into the Revenue Fund established under the Resolution. After satisfying its obligations to pay Operating Expenses of the Electric System from funds on deposit in the Revenue Fund, periodic deposits are made to the Bond Fund established under the Resolution from which principal and interest payments on the Series 2025 Bonds are made when due. Thereafter, to the extent the Debt Service Reserve Fund applicable to the Series 2017 Bonds, the Series 2018 Bonds and the Series 2019 Bonds (the "Reserve Fund") is not funded in the amount of the Debt Service Reserve Requirement for such Bonds, deposits are made to the Reserve Fund. After satisfying any deficiency in the Reserve Fund, remaining monies may be used to pay principal and interest on subordinate lien debt and then for any lawful purpose of the Electric System. (See Appendix A – Summary of Certain Provisions of the Resolution.)

### **Bond Fund and Reserve Fund**

The City has established the Bond Fund and the Reserve Fund under the Resolution. Monies are deposited to the Bond Fund as described in the Resolution to be used solely to pay the principal of and interest on the Series 2025 Bonds, Series 2024 Bonds, Series 2023 Bonds, Series 2019 Bonds, Series 2018 Bonds, Series 2017 Bonds and any other Parity Bonds as the same become due. The money on deposit in the Reserve Fund will be used to pay the principal of and interest on the Series 2017 Bonds, Series 2018 Bonds, the Series 2019 Bonds, and, if applicable, any future Parity Bonds secured by the Reserve Fund in the event that amounts on deposit in the Bond Fund are insufficient. The Series 2025 Bonds shall not be secured by the Reserve Fund, and the Series 2025 Bonds shall not be payable from the Reserve Fund unless all Series of Bonds covered by the Reserve Fund are paid in full. Likewise, the Series 2023 Bonds and Series 2024 Bonds are not secured by the Reserve Fund, and the Series 2023 Bonds and Series 2024 Bonds are not payable from the Reserve Fund unless all Series of Bonds covered by the Reserve Fund are paid in full. See Appendix A – Summary of Certain Provisions of the Resolution.

## **Senior Lien Bonds; Parity Bonds**

The Resolution prohibits the City from issuing bonds, notes or other obligations payable from or secured by a senior lien on the Net Revenues of the Electric System. The City may, from time to time, issue additional Parity Bonds under the specific terms of the Resolution. Such Parity Bonds will have a lien on the Net Revenues of the Electric System on a parity with the lien on the Net Revenues of the Electric System securing the Series 2025 Bonds, Series 2024 Bonds, Series 2023 Bonds, Series 2019 Bonds, Series 2018 Bonds and Series 2017 Bonds. See Appendix A for the conditions under which such Parity Bonds may be issued.

## **Rate Covenant**

Prior to the commencement of each Fiscal Year, LES will cause to be made an estimate of the revenues and expenditures for the upcoming Fiscal Year, based on rates then in effect, and, based on such estimate, LES will adjust rates to the extent necessary to produce Net Revenues for the upcoming Fiscal Year (i) equal to not less than 1.20 times the amount of principal and interest payable during the upcoming Fiscal Year on the outstanding Series 2017 Bonds, the outstanding Series 2018 Bonds, the outstanding Series 2019 Bonds, the outstanding Series 2023 Bonds, the outstanding Series 2024 Bonds, the outstanding Series 2025 Bonds and other Parity Bonds, if any, whether by maturity or mandatory redemption, and (ii) sufficient, in addition, to pay debt service on any subordinate lien bonds and to provide for any required deposits during the upcoming Fiscal Year to the Reserve Fund and any other funds established by the City pursuant to the Resolution and the resolutions authorizing any subordinate lien bonds or pursuant to sound and prudent operating practices as determined by LES and approved by the Board.

## **FUTURE BONDS**

Within the next Fiscal Year, the City expects to construct additional improvements and extensions to the Electric System, including improvements that may be used by the Broadband System in the manner described in the section entitled "Plan of Finance" hereinabove. The City issued its Series 2023 Bonds and Series 2024 Bonds for the purpose of financing a portion of the Projects referenced herein, and the City intends to apply the proceeds of the Series 2025 Bonds, along with grant monies received and to be received by the City, towards the completion of such Projects. Circumstances may change, however, and no assurances may be made as to the costs or timing of the future Projects, the amount of grant monies to be received or the amount of any future borrowing by the City secured and payable by Net Revenues in connection therewith. Pursuant to the Bond Resolution, the City is authorized to issue up to approximately \$12 million in additional electric system revenue bonds, after issuance of the Series 2025 Bonds, to finance improvements and extensions to the Electric System.

## **BONDHOLDERS' RISKS**

### **General**

Set forth below are certain risks purchasers of the Series 2025 Bonds should consider when making an investment decision. All potential risks are not included, and the discussion is not intended to be exhaustive.

### **Enforceability of Remedies**

The remedies available to the owners of the Series 2025 Bonds upon an event of default under the Resolution are in many respects dependent upon judicial actions, which are often subject to discretion and delay. The enforceability of remedies or rights with respect to the Series 2025 Bonds may be limited by state and federal laws, rulings and decisions affecting remedies and by bankruptcy, insolvency or other laws affecting creditors' rights or remedies heretofore or hereafter enacted. Under existing constitutional and statutory law and judicial decisions, certain remedies specified by the Resolution may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2025 Bonds will be qualified as to the

enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

### **Additional Obligations**

The City may issue Parity Bonds in accordance with the provisions of the Resolution. The issuance of Parity Bonds would increase the debt service requirements and could adversely affect debt service coverage on the Series 2025 Bonds. See "SECURITY AND SOURCE OF PAYMENT - Senior Lien Bonds; Parity Bonds."

### **Early Payment Prior to Maturity**

The Series 2025 Bonds are subject to optional redemption prior to maturity. A prospective investor should consider these rights when making any investment decision. Following a redemption, the owners of the Series 2025 Bonds may not be able to reinvest their funds at a comparable interest rate.

### **Loss of Tax-Exemption**

There is no provision for the redemption of the Series 2025 Bonds or for the payment of additional interest on the Series 2025 Bonds in the event that interest on the Series 2025 Bonds becomes includable in gross income for federal income tax purposes. In the event that interest on the Series 2025 Bonds becomes includable in gross income for federal income tax purposes, the value and marketability of the Series 2025 Bonds would likely be adversely affected. The City has covenanted not to do anything that would adversely affect the tax-exempt status of the Series 2025 Bonds. See "TAX MATTERS."

### **Future Legislation and Governmental Directives and Priorities**

The federal government has considered previously and may continue to consider various proposals to reduce federal budget deficits and the amount of federal debt, including proposals that would eliminate or reduce indirect expenditures made through various deductions and exemptions currently allowed by the income tax laws. The exemption for interest on tax-exempt obligations is one of the indirect expenditures that could be affected by a deficit reduction initiative. Some deficit-reduction proposals would completely eliminate the exemption for interest on all tax-exempt obligations. Other proposals would place an aggregate cap on the total amount of exemptions and deductions that may be claimed by a taxpayer, or a cap on the exemption for interest on all tax-exempt obligations. Changes in the rate of the federal income tax, including so-called "flat tax" proposals, could also reduce the value of the exemption.

Changes affecting the exemption for interest on tax-exempt bonds, if enacted, could apply to tax-exempt obligations already outstanding, including the Series 2025 Bonds offered pursuant to this Official Statement, as well as obligations issued after the effective date of such legislation. It is not possible to predict whether Congress will adopt legislation affecting the exemption for tax-exempt bonds, what the provisions of such legislation may be, whether any such legislation will be retroactive in effect, or what effect any such legislation may have on investors in the Series 2025 Bonds. Investors should consult their own tax advisors about the prospects and possible results of future legislation that could affect the exemption for interest on tax-exempt obligations.

In addition to future legislation, new administrations, including that of the President of the United States, may have new regulatory and/or financial directives and priorities that could impact LES and TVA (as such term is hereinafter defined). Any change to said directives and priorities, including executive orders related to the development of energy resources and corresponding changes to federal funding in connection therewith, could have an unknown impact on future projects of the Electric System. See also "General Industry Risk Factors" below and Appendix D attached hereto for additional information regarding TVA and its relationship to the Electric System.

## General Industry Risk Factors

Except as otherwise noted in Appendix D regarding certain solar generating capacity, and as further described in Appendix D, LES purchases all of its power from the Tennessee Valley Authority, a federal governmental instrumentality created by Congress pursuant to the Tennessee Valley Authority Act of 1933, as amended ("TVA"). As such, any risk factors affecting or potentially affecting the business operations of TVA may also affect LES. TVA may mitigate some of these risks by increasing the rates it charges for its power. As a federal governmental instrumentality, TVA's operations may also be affected as federal administrations change. Because of the dismissal, in 2025, of three board members by the new federal administration, the nine-person TVA Board currently only has three board members. Lacking a quorum, which requires at least five board members, the TVA Board may not be able to vote on certain decisions regarding new programs, new activity or new policy directives until a quorum is reestablished. Also, without a quorum, the TVA Board cannot enact rate increases unless they are critical to the needs of TVA. The TVA Board may still exercise powers to ensure the continuity of operations without a quorum. A discussion of some of the risk factors affecting TVA's operations can be found in "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in TVA's Annual Report. TVA's Annual Report is available to the public from the SEC's website at [www.sec.gov](http://www.sec.gov) and from the TVA's website at [www.tva.gov](http://www.tva.gov).

More information concerning TVA and its financial condition is available in TVA's Form 10-K Annual Report filing, as amended, with the Securities Exchange Commission for the period ending September 30, 2024. Interim financial information can be found in TVA's Quarterly Reports filed on Form 10-Q. Additional information may be found from time to time on TVA's Current Reports filed on Form 8-K. You may read and copy any of these documents at the SEC's public reference room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. In addition, TVA's SEC filings are available to the public from the SEC's website at [www.sec.gov](http://www.sec.gov) and from TVA's website at [www.tva.gov](http://www.tva.gov). Any information contained in these reports and/or on the SEC's website or TVA's website, whether referenced in this section or elsewhere in this Official Statement (including the Appendices hereto), shall not be deemed to be incorporated into, or to be a part of, this Official Statement.

In addition to risks discussed above, the electric utility industry in general has been, or in the future may be, affected by a number of other factors which could impact the financial condition of LES. Such factors include, among others, the following: (i) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements; (ii) changes resulting from conservation and load management programs on the timing and use of electric energy; (iii) changes in national, regional or state energy policy; (iv) competition from other utilities, independent power producers, marketers and brokers; (v) competition with customer-owned generation, such as "self-generation" or "distributed generation," which might include microturbines, fuel cells, and other generation resources; (vi) shifts in the availability and relative costs of different fuels, whether such fuels are competitive alternatives to electricity or are used in the generation of electricity; (vii) other federal, state or local legislative or regulatory changes; (viii) loss of large municipal, industrial or commercial customers; and (ix) changes in the economy. Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any electric utility and will likely affect individual utilities in different ways.

LES is unable to predict what impact any of the foregoing factors will have on its operations and financial conditions, but the impact could be significant. This Official Statement includes a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date of this Official Statement. Extensive information on the electric utility industry is available in the public domain, and potential purchasers of the Series 2025 Bonds should obtain and review such information. See "Lexington Electric System" in Appendix D attached hereto for certain information regarding LES and its operations.

## **Adverse Weather and Other Catastrophic Events**

Numerous scientific studies have detailed changing global weather patterns and the potential for increasing extreme weather events across the world. The City's location in the southern United States and proximity to several waterways increases its vulnerability to flooding and extreme heat. In addition to flooding and extreme heat, the City faces other threats due to climate change, including the possibility of drought conditions that could become increasingly severe and frequent.

Severe weather events and natural disasters, generally, including floods, droughts, extreme heat, wildfires, tornadoes and other storm events, can impact LES's operations and finances in a myriad of ways, including by potentially damaging Electric System infrastructure, interrupting service to customers, damaging customers' property in a way that changes their energy needs and disrupting the business operations of major contractors, vendors or other partners of the Electric System. Also, changing weather conditions may result in unexpected levels of energy usage and fluctuating revenues of Electric System. For example, when temperatures are milder, customers often use less electricity, resulting in less revenue to Electric System. Along with natural disasters, catastrophic events caused by human activity could also materially affect the Electric System in a manner that disrupts service to customers and decreases revenues and increases expenses of the Electric System.

Neither the City nor LES can predict the timing, extent or severity of any adverse weather events and/or other catastrophic events and their impact on the City's or LES's operations and finances.

## **Cyber Security**

The City and LES utilize various computer systems and network technology to perform many of its vital operations. As a result, the City and/or LES may be the target of cyberattacks attempting to gain access to sensitive information and/or disrupt essential services of the Electric System. In addition to intentional attacks, information breaches may occur due to unintentional employee error. A successful cyberattack or unintentional breach may require the expenditure of an unknown amount of money or time to resolve, substantially interrupt municipal services and operations and subject the City and/or LES to legal action. Attempted cyber security attacks, whether anonymous or targeted, occur on a periodic frequency that is not uncommon to organizations or entities similar to the City and LES. In January 2024, the Federal Bureau of Investigation issued a specific warning that international hackers are working to attack governmental infrastructure in the United States. Utilities, in particular, are often the target of cyberattacks, and cyberattacks on U.S. utilities are increasing.

In December 2024, LES experienced a data breach where certain employee and customer personally identifiable information was compromised. There has not been any material impact on the City or LES as a result of such data breach, and there is not expected to be any future material impact on the City's or LES's finances or operations as a result of such breach. To mitigate against such risks, the City and LES have continued to institute various technical controls, policies and procedures to protect its network infrastructure, including a cyber-security training requirement for certain departments, as well as general cyber-security training and awareness for all employees. Additionally, in response to the above-mentioned data breach, LES partnered with a third party to manage its cyber security protection. LES is subject to the requirements of the North American Electric Reliability Corporation (NERC) and complies with federal rules applicable to utilities owning certain types of assets on the bulk electric system. LES undergoes regular monitoring and compliance audits in this regard. LES also maintains insurance against cyber security incidents, though such insurance may not be sufficient to cover all losses incurred by LES as a result of any cyberattack. Despite the City's and LES's measures to safeguard its network infrastructure, there are no guarantees that such measures will be successful.

## **Other Risk Factors**

In the future, the following additional factors, among others, may adversely affect the operations of energy providers, including LES, to an extent that cannot be determined at this time:

- (1) The ability of, and costs to, LES to insure or otherwise protect itself against property damage and general liability claims.
- (2) TVA's inability to provide electricity and other risk factors relating to LES's relationship with TVA.
- (3) Proposals to eliminate the tax-exempt status of bonds issued by the City, or to limit the use of such tax-exempt bonds, as discussed above, which have been made in the past, and which may be made again in the future. The adoption of such proposals would increase the cost to LES of financing future capital needs.
- (4) The impact of pandemics, epidemics or other public health emergencies on the operations or financial condition of the City or LES in a way that cannot be predicted.

## **LITIGATION**

The City, like other similar bodies, is subject to a variety of suits and proceedings arising in the ordinary conduct of its affairs. The City, after reviewing the current status of all pending and threatened litigation with its counsel believes that, while the outcome of litigation cannot be predicted, the final settlement of all lawsuits which have been filed and of any actions or claims pending or threatened against the City, the Electric System or its officials in such capacity are adequately covered by insurance or sovereign immunity or will not have a material adverse effect upon the financial position or results of operations of the City or of the Electric System.

There is no litigation now pending or, to the knowledge of the City, threatened which restrains or enjoins the issuance or delivery of the Series 2025 Bonds, the use of Net Revenues for the payment of the Series 2025 Bonds, or the use of the proceeds of the Series 2025 Bonds or which questions or contests the validity of the Series 2025 Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization, or existence of the City or of LES, nor the title of the present members or other officials of the City to their respective offices, is being contested or questioned.

## **RATING**

The Series 2025 Bonds have been assigned a rating of "Aa3" by Moody's Ratings ("Moody's") based on documents and other information provided by the City. The rating reflects only the view of Moody's, and none of the City, the Municipal Advisor or the Underwriter makes any representation as to the appropriateness of such rating.

There is no assurance that such rating will continue for any given period of time or that it will not be lowered or withdrawn entirely by Moody's if in its judgment circumstances so warrant. Any such downward change in or withdrawal of the rating may have an adverse effect on the secondary market price of the Series 2025 Bonds. Any explanation of the significance of the rating may be obtained from Moody's.

## **APPROVAL OF LEGAL PROCEEDINGS**

Legal matters incident to the authorization and issuance of the Series 2025 Bonds are subject to the unqualified approving opinion of Bass, Berry & Sims PLC, Bond Counsel. A copy of the opinion will be delivered with the Series 2025 Bonds. (See Appendix B). Certain legal matters will be passed upon for the City and LES by Kenneth L. Walker, Esq., Lexington, Tennessee, City Attorney, and for the Underwriter by its counsel Pope Flynn, LLC.

## TAX MATTERS

### Federal

**General.** Bass, Berry & Sims PLC, Nashville, Tennessee, is Bond Counsel for the Series 2025 Bonds. Their opinion under existing law, relying on certain statements by the City and assuming compliance by the City with certain covenants, is that interest on the Series 2025 Bonds:

- is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"); and
- is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, such interest on the Bonds may be taken into account for the purpose of computing the alternative minimum tax imposed on certain corporations.

The Code imposes requirements on the Series 2025 Bonds that the City must continue to meet after the Series 2025 Bonds are issued. These requirements generally involve the way that Bond proceeds must be invested and ultimately used. If the City does not meet these requirements, it is possible that a bondholder may have to include interest on the Series 2025 Bonds in its federal gross income on a retroactive basis to the date of issue. The City has covenanted to do everything necessary to meet these requirements of the Code.

A bondholder who is a particular kind of taxpayer may also have additional tax consequences from owning the Series 2025 Bonds. This is possible if a bondholder is:

- an S corporation,
- a United States branch of a foreign corporation,
- a financial institution,
- a property and casualty or a life insurance company,
- an individual receiving Social Security or railroad retirement benefits,
- an individual claiming the earned income credit or
- a borrower of money to purchase or carry the Series 2025 Bonds.

If a bondholder is in any of these categories, it should consult its tax advisor.

Bond Counsel is not responsible for updating its opinion in the future. It is possible that future events or changes in applicable law could change the tax treatment of the interest on the Series 2025 Bonds or affect the market price of the Series 2025 Bonds. See also "Changes in Federal and State Tax Law" below in this heading.

Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel on the federal income tax treatment of interest on the Series 2025 Bonds, or under State, local or foreign tax law.

**Bond Premium.** If a bondholder purchases a Bond for a price that is more than the principal amount, generally the excess is "Bond premium" on that Bond. The tax accounting treatment of Bond premium is complex. It is amortized over time and as it is amortized a bondholder's tax basis in that Bond will be reduced. The holder of a Bond that is callable before its stated maturity date may be required to amortize the premium over a shorter period, resulting in a lower yield on such Bonds. A bondholder in certain circumstances may realize a taxable gain upon the sale of a Bond with Bond premium, even though the Bond is sold for an amount less than or equal to the owner's original cost. If a bondholder owns any Bonds with Bond premium, it should consult its tax advisor regarding the tax accounting treatment of Bond premium.

**Original Issue Discount.** A Bond will have "original issue discount" if the price paid by the original purchaser of such Bond is less than the principal amount of such Bond. Bond Counsel's opinion is that any original issue discount on these Bonds as it accrues is excluded from a bondholder's federal gross income under the Code. The tax accounting treatment of original issue discount is complex. It accrues on an actuarial basis and as it accrues a bondholder's tax basis in these Bonds will be increased. If a bondholder owns one of these Bonds, it should consult its tax advisor regarding the tax treatment of original issue discount

**Information Reporting and Backup Withholding.** Unless the recipient is otherwise exempt, interest on the Series 2025 Bonds is subject to Federal information reporting requirements which can be generally satisfied upon the filing of a Form W-9, "Request for Taxpayer Identification Number and Certification." Failure to satisfy the information reporting requirements does not affect the excludability of the interest on the Series 2025 Bonds, but will result in a tax being withheld from the interest payment, calculated as set forth in the Code. Once the required information is provided, such amounts withheld would be allowed as a refund or credit against the Bondholder's Federal income tax.

## **State Taxes**

Under existing law, the Series 2025 Bonds and the income therefrom are exempt from all present state, City and municipal taxes in Tennessee except (a) Tennessee excise taxes on interest on the Series 2025 Bonds during the period the Series 2025 Bonds are held or beneficially owned by any organization or entity, or other than a sole proprietorship or general partnership doing business in the State of Tennessee and (b) Tennessee franchise taxes by reason of the inclusion of the book value of the Series 2025 Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee.

## **Changes in Federal and State Tax Law**

From time to time, there are Presidential proposals, proposals of various federal and Congressional committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Series 2025 Bonds or otherwise prevent holders of the Series 2025 Bonds from realizing the full benefit of the tax exemption of interest on the Series 2025 Bonds. For example, various proposals have been made in Congress and by the President which, if enacted, would subject interest on bonds, such as the Series 2025 Bonds, that is otherwise excluded from gross income for federal income tax purposes, to a tax payable by certain bondholders with an adjusted gross income in excess of certain proposed thresholds. Further, such proposals may impact the marketability of the Series 2025 Bonds simply by being proposed. It cannot be predicted whether, or in what form, these proposals might be enacted or if enacted, whether they would apply to Bonds prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Series 2025 Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series 2025 Bonds would be impacted. Purchasers of the Series 2025 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series 2025 Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

## **Miscellaneous**

Prospective purchasers of the Series 2025 Bonds should consult their own tax advisors regarding the foregoing matters.



## **FINANCIAL STATEMENTS**

The Electric System's audited financial statements and the report of ATA, PLLC for the Fiscal Year ended June 30, 2024, are included in Appendix E hereto as part of the Official Statement. This Official Statement has not been reviewed by ATA, PLLC, nor has ATA, PLLC performed any procedures related to this Official Statement.

## **THE UNDERWRITER**

Robert W. Baird & Co. Incorporated, Winston-Salem, North Carolina (the "Underwriter"), has agreed pursuant to a Bond Purchase Agreement between the Underwriter and the City (the "Bond Purchase Agreement"), to purchase the Series 2025 Bonds at an aggregate purchase price of \$\_\_\_\_\_, representing the principal amount of the Series 2025 Bonds of \$\_\_\_\_\_, plus a bond premium of \$\_\_\_\_\_ and minus an underwriters' discount of \$\_\_\_\_\_. The Bond Purchase Agreement provides that the Underwriter's obligations are subject to certain conditions precedent but that the Underwriter will be obligated to purchase all of the Series 2025 Bonds if any Series 2025 Bonds are purchased.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Series 2025 Bonds to the public. The Series 2025 Bonds may be offered and sold to certain dealers (including dealers depositing such Series 2025 Bonds into investment trusts) at prices lower than the public offering prices. Public offering prices may be changed from time to time by the Underwriter.

## **CONTINUING DISCLOSURE**

The City will at the time the Series 2025 Bonds are delivered execute a Continuing Disclosure Agreement under which it will covenant for the benefit of holders and beneficial owners of the Series 2025 Bonds to provide certain financial information and operating data relating to the City and to provide notice of the occurrence of certain enumerated events. The financial information and operating data and notices of events will be filed by the City with the Municipal Securities Rulemaking Board at [emma.msrb.org](http://emma.msrb.org) ("EMMA") and with any State Information Depository which may hereafter be established in Tennessee. The specific nature of the information to be contained in the Annual Report or the notices of events can be found in the form of the Continuing Disclosure Agreement attached hereto as Appendix C. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b), as it may be amended from time to time (the "Rule"). The City timely filed a draft of its Fiscal Year 2022 audited financial statements on EMMA in advance of the applicable filing deadline of June 30, 2023. The City's final audited financial statements for Fiscal Year 2022 were filed on EMMA on August 7, 2023. Except as may be otherwise described above, the City believes it has complied in all material respects within the previous five years with its continuing disclosure agreements entered into in connection with the Rule.

## **MISCELLANEOUS**

The references, excerpts and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents, and reference is made to all such documents for full and complete statements of all matters of fact relating to the Series 2025 Bonds, the security for the payment of the Series 2025 Bonds, and the rights of the holders of the Series 2025 Bonds. Any of the estimates is subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is deemed near final for the purposes of the Rule and does not contain any untrue statement of a material fact which should be included in this Official Statement for the purpose for which the Official Statement is to be used, or which is necessary in order to make statements herein contained, in light of the circumstances under which they were made not misleading in any material respect.

## FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided that are not purely historic, are forward-looking statements, including statements regarding the expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available on the date hereof, and assumes no obligation to update any such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business and policy decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

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## CERTIFICATE OF ISSUER

I, Jeff Griggs, do hereby certify that I am the duly qualified and acting Mayor of the City of Lexington, Tennessee, and as such official, I do hereby further certify with respect to the Official Statement issued in connection with the sale of its Electric System Revenue Bonds, Series 2025, dated October \_\_, 2025, of said City that to the best of my knowledge, information and belief (a) the description and statements contained in said Official Statement were at the time of the acceptance of the winning bid and are on the date hereof true and correct in all material respects; and (b) that said Official Statement did not at the time of acceptance of the winning bid and does not on the date hereof contain any untrue statement of a material fact or omit to state a material fact required to be stated where necessary to make the statements made, in light of the circumstances under which they are made, not misleading.

**WITNESS** my official signature this \_\_\_\_ day of \_\_\_\_\_, 2025

/s/ \_\_\_\_\_  
Mayor

I, Cody Wood, do hereby certify that I am the duly qualified and acting City Recorder of the City of Lexington, Tennessee, and as such official I do hereby further certify that Jeff Griggs is the duly qualified and acting Mayor of said City and that the signature appended to the foregoing certificate is the true and genuine signature of such official.

**WITNESS** my official signature and the seal of the City of Lexington, Tennessee as of the date subscribed to the foregoing certificate.

/s/ \_\_\_\_\_  
City Recorder

(SEAL)

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## **APPENDIX A**

Summary of Certain Provisions of the Resolution

## SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following briefly summarizes certain terms and provisions of the Resolution. This summary is not to be considered a complete explanation of the terms and provisions of the Resolution. Reference is made to the Resolution for a complete statement of the terms, provisions and conditions thereof.

### Definitions

The following terms shall have the following meanings in this Appendix unless the text expressly or by necessary implication requires otherwise:

"Acquired System" shall mean any electrical power generation, transmission and/or distribution system acquired by the City or LES and/or any such facilities hereafter constructed or otherwise established by the City or LES pursuant to the Act.

"Act" shall mean Sections 7-34-101 et seq., Tennessee Code Annotated.

"Balloon Indebtedness" shall mean any bonds, notes or other indebtedness, other than Short-Term Indebtedness, 25% or more of the initial principal amount of which matures (or must be redeemed at the option of the holder) during any twelve month period, if such 25% or more is not to be amortized to below 25% by mandatory redemption prior to the beginning of such twelve month period.

"Bond Fund" shall mean the Principal and Interest Sinking Fund established pursuant to Section 6.1(b) of the Resolution.

"Bonds" means the outstanding, to the extent outstanding, the Series 2025 Bonds, Series 2024 Bonds, Series 2023 Bonds, Series 2019 Bonds, Series 2018 Bonds, Series 2017 Bonds and any Parity Bonds.

"Capital Appreciation Bonds" shall mean bonds which bear interest at a stated interest rate of 0.0% per annum, have a value on any applicable date equal to the Compound Accreted Value thereof on that date, and are payable only at maturity or earlier redemption.

"Code" means the Internal Revenue Code of 1986, as amended, and any lawful regulations promulgated or proposed thereunder.

"Compound Accreted Value" shall mean the value at any applicable date of any Capital Appreciation Bonds computed as the original principal amount thereof for each maturity date plus an amount equal to interest on said principal amount (computed on the basis of a 360-day year of twelve 30-day months) compounded semiannually on such dates as shall be established by the resolution authorizing Capital Appreciation Bonds, from the dated date to said applicable date at an interest rate which will produce at maturity the Maturity Amount for such maturity date.

"Consulting Engineer" means (i) an engineering firm or individual engineer employed by LES with substantial experience in advising municipal electric power systems as to the construction and maintenance of such systems and in the projection of costs of expansion of such systems or (ii) an engineer or engineers who are employees of LES whose reports or projections are certified by a Financial Adviser.

"Credit Facility" means any municipal bond insurance policy, letter of credit, surety bond, line of credit, guarantee, or other agreement under which any person other than the City or LES provides additional security for any Bonds and guarantees timely payment of or purchase price equal to the principal of and interest on all or a portion of any Bond and shall include any Reserve Fund Credit Facility.

"Debt Service Requirement" means the total principal, Maturity Amounts and interest coming due, whether at maturity or upon mandatory redemption (less any amount of interest that is capitalized and payable with the proceeds of debt on deposit with the City or LES or any paying agent for the Bonds or other obligations of the City or LES payable from all or some portion of Gross Earnings), for any period of 12 consecutive calendar months for which such a determination is made, provided:

(a) The Debt Service Requirement with respect to Variable Rate Indebtedness shall be determined as if the variable rate in effect at all times during future periods equaled, at the option of LES, either (A) the average of the actual variable rate which was in effect (weighted according to the length of the period during which each such variable rate was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period), or (B) the current average annual fixed rate of interest on securities of similar quality having a similar maturity date, as certified by a Financial Adviser.

(b) The Debt Service Requirement with respect to any Hedged Obligations for so long as the provider of the related Hedge Agreement has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by the City or LES on such Hedged Obligations pursuant to their terms and (y) the amount of Hedge Payments payable by the City or LES under the related Hedge Agreement and subtracting (z) the amount of Hedge Receipts payable by the provider of the related Hedge Agreement at the rate specified in the related Hedge Agreement; provided, however, that to the extent that the provider of any Hedge Agreement is in default thereunder, the amount of interest payable by the City or LES on the related Hedged Obligations shall be the interest calculated as if such Hedge Agreement had not been executed. In determining the amount of Hedge Payments or Hedge Receipts that are not fixed throughout the Hedge Period (i.e., which are variable), payable or receivable for any future period, such Hedge Payments or Hedge Receipts for any period of calculation (the "Determination Period") shall be computed (i) by assuming that the variables comprising the calculation (e.g., indices) applicable to the Determination Period are equal to the average of the actual variables which were in effect (weighted according to the length of the period during which each such variable was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period) or (ii) by using the same assumptions with respect to the Hedged Obligations as may be used for determining the assumed interest rate for Variable Rate Indebtedness.

(c) For the purpose of calculating the Debt Service Requirement on Balloon Indebtedness and Short-Term Indebtedness, at the option of LES, (i) the actual principal and interest on such Balloon Indebtedness and Short Term Indebtedness shall be included in the Debt Service Requirement, subject to the other assumptions contained herein, or (ii) such Balloon Indebtedness and Short Term Indebtedness shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period of 20 years at an assumed interest rate (which shall be the interest rate certified by a Financial Adviser to be the interest rate at which the City could reasonably expect to borrow the same amount by issuing bonds with the same priority of lien as such Balloon Indebtedness and Short Term Indebtedness and with a 20-year term); provided, however, that if the maturity of such Balloon Indebtedness is in excess of 20 years from the date of issuance, then such Balloon Indebtedness shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period of years equal to the number of years from the date of issuance of such Balloon Indebtedness to maturity and at the interest rate applicable to such Balloon Indebtedness; provided further that this paragraph shall not be applicable for purposes of determining the Debt Service Requirement for purposes of Section 7.4 of the Resolution unless the City or LES has a written commitment from a bank, underwriting firm or other financial institution with a Rating in one of two highest categories of at least one Rating Agency (ignoring any gradations within a Rating Category) to refinance at least 90% of the principal amount of such Balloon Indebtedness or Short-Term Indebtedness coming due in the relevant Fiscal Year.

"Defeasance Obligations" shall mean direct obligations of, or obligations, the principal of and interest on which are guaranteed by, the United States of America, or any agency thereof, obligations of any agency or instrumentality of the United States or any other obligations which at the time of the purchase thereof are permitted investments under Tennessee law for the purposes described in Article XII of the Resolution, which bonds or other obligations shall not be subject to redemption prior to their maturity other than at the option of the registered owner thereof.

"Financial Adviser" means an investment banking or financial advisory firm, commercial bank, or any other person who or which is retained by the City or LES for the purpose of passing on questions relating to the availability and terms of specified types of debt obligations or the financial condition or operation of the Electric System and is actively engaged in and, in the good faith opinion of LES, has a favorable reputation for skill and experience in providing financial advisory services of the type with respect to which the Financial Adviser has been retained.

"Financial Guaranty Agreement" shall mean any Financial Guaranty Agreement authorized herein to be executed in connection with a Reserve Fund Credit Facility.

"Fiscal Year" means the twelve-month period commencing July 1st of each year and ending June 30th of the following year.

"Governing Body" means the Board of Mayor and Aldermen of the City.

"Gross Earnings" means all revenues, rentals, earnings and income of the Electric System from whatever source, determined in accordance with generally accepted accounting principles; proceeds from the sale of System property; proceeds of System-related insurance and condemnation awards and compensation for damages, to the extent not applied to the payment of the cost of repairs, replacements and improvements; and all amounts realized from the investment of funds of the Electric System, including money in any accounts and funds created by this resolution, and resolutions authorizing any Parity Bonds or subordinate lien bonds (excluding any investment earnings from construction or improvement funds created for the deposit of bond proceeds pending use, to the extent such income is applied to the purposes for which the Bonds were issued, and funds created to defease any outstanding obligations of the Electric System); provided, however, at the election of the Board, the term "Gross Earnings" as used herein shall not include any revenues, rentals, earnings or other income received from the operation of an Acquired System, and any bonds or other obligations issued in connection with such Acquired System shall not be payable from or secured by Net Revenues or be deemed to be Parity Bonds.

"Hedge Agreement" means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement, or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors, collars, or caps, options, puts, or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate, or other financial risk; and (v) any other type of contract or arrangement that the City or LES determines is to be used, or is intended to be used, to manage or reduce the cost of any Bonds, to convert any element of any Bonds from one form to another, to maximize or increase investment return, to minimize investment return risk, or to protect against any type of financial risk or uncertainty.

"Hedged Obligations" means any Bonds for which the City or LES shall have entered into a Hedge Agreement.

"Hedge Payments" means amounts payable by the City or LES pursuant to any Hedge Agreement, other than Termination Payments, fees, expenses, and indemnity payments.



"Hedge Period" means the period during which a Hedge Agreement is in effect.

"Hedge Receipts" means amounts payable by any provider of a Hedge Agreement pursuant to such Hedge Agreement, other than Termination Payments, fees, expenses, and indemnity payments.

"Loan Agreement" shall mean any agreement or contract entered into by the City or LES whereby a third party agrees to advance funds to the City or LES and the City or LES agrees to repay those funds with interest from all or a portion of Gross Earnings.

"Maturity Amount" shall mean the Compound Accreted Value on the stated maturity date of a Capital Appreciation Bond.

"Maximum Annual Debt Service Requirement" means the maximum annual Debt Service Requirement for any Fiscal Year.

"City" means the City of Lexington, Tennessee.

"Net Revenues" shall mean (i) Gross Earnings, excluding any profits or losses on the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets and further excluding non-cash or non-recurring items, including but not limited to, contributions in aid of construction, less (ii) Operating Expenses.

"Operating Expenses" means and shall include but not be limited to, expenses for ordinary repairs, removals and replacements of the Electric System, salaries and wages, employees' health, hospitalization, pension and retirement expenses, fees for services, materials and supplies, rents, administrative and general expenses (including legal, engineering, accounting and financial advisory fees and expenses and costs of other consulting or technical services not funded with proceeds of bonds, notes or other debt obligations), insurance expenses, taxes and other governmental charges, the imposition or amount of which is not subject to control of LES or the City, any payments made by LES during any Fiscal Year to purchase electrical power for distribution and sale during or after the end of that Fiscal Year, and other payments made under any electrical power supply contract or commodity swap or other hedging mechanism, to the extent not inconsistent with generally accepted accounting principles. Operating Expenses do not include payments in lieu of taxes or other similar payments to the City, depreciation or obsolescence charges or reserves therefore, amortization of intangibles or other bookkeeping entries of a similar nature, on bonds, notes or other debt obligations of the Electric System payable from Net Revenues of the Electric System, costs or charges made therefor, capital additions, replacements, betterments, extensions or improvements to or retirement from the Electric System which under generally accepted accounting principles are properly chargeable to the capital account or the reserve for depreciation, and do not include losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of the Electric System, nor such property items, including taxes and fuels, which are capitalized pursuant to the then existing accounting practices of LES or expenses of an Acquired System if revenues of the Acquired System are not included in Gross Earnings at the election of the Board.

"Parity Bonds" means bonds, notes, Loan Agreements, and other debt obligations, including Balloon Indebtedness, Short-Term Indebtedness and Variable Rate Indebtedness, issued or entered into by the City or LES on a parity with the Series 2025 Bonds, Series 2024 Bonds, Series 2023 Bonds, Series 2019 Bonds, Series 2018 Bonds and Series 2017 Bonds authorized in accordance with the restrictive provisions of Article IX of the Resolution, including any bonds or other obligations secured by a pledge of and/or lien on an Acquired System and the revenues derived from the operation of such Acquired System (provided such pledge and lien are subject only to normal and customary expenses of operating, maintaining, repairing and insuring any such System), so long as the Acquired System is not being operated separately from the Electric System as is permitted herein or the revenues from such Acquired System are not excluded from Gross Earnings.

"Power Board" or "Board" means that body duly authorized and empowered by applicable law to operate the Electric System. Pursuant to applicable law, the Electric System is currently operated by the Board of Mayor and Aldermen of the City doing business as the Lexington Electric System, also referred to herein as "LES".

"Rating" means a rating in one of the categories by a Rating Agency, disregarding pluses, minuses, and numerical gradations.

"Rating Agencies" or "Rating Agency" means Fitch IBCA, Inc., Moody's Ratings, and S&P Global Ratings, or any successors thereto and any other nationally recognized credit rating agency.

"Registration Agent" means U.S. Bank Trust Company, National Association as the registration and paying agent or any successor designated by the Governing Body.

"Reserve Fund" shall mean the Debt Service Reserve Fund established, if any, to pay when due principal of and interest on all or a portion of the Bonds. No Reserve Fund shall be funded with respect to the Series 2025 Bonds. Likewise, no Reserve Fund was funded for the Series 2023 Bonds and Series 2024 Bonds.

"Reserve Fund Credit Facility" means a municipal bond insurance policy, surety bond, letter of credit, line of credit, guarantee or other agreement provided by a Reserve Fund Credit Facility which provides for payment of amounts equal to all or any portion of the Reserve Fund Requirement in the event of an insufficiency of moneys in the Bond Fund to pay when due principal of and interest on all or a portion of the Bonds.

"Reserve Fund Credit Facility Issuer" means the issuer of a Reserve Fund Credit Facility rated in the highest rating category by each Rating Agency that rates such Reserve Fund Credit Facility Issuer.

"Reserve Fund Requirement" means, with respect to the Bonds covered by the Reserve Fund, the least of (a) 10% of the stated principal amount of the Bonds; (b) the Maximum Annual Debt Service Requirement on the Bonds during the term of the Bonds; or (c) 125% of the average annual principal and interest requirement, when due, on a Fiscal Year basis, including principal payable by reason of the mandatory redemption provisions of any Bonds, on the Bonds during the term thereof; provided, however, with respect to Variable Rate Indebtedness, it shall be assumed that such Variable Rate Indebtedness bears interest through maturity at that rate which the original purchaser of such Variable Rate Indebtedness or the Municipal Advisor certifies as of the date of issuance thereof would have borne had such Variable Rate Indebtedness borne a fixed, constant rate of interest based upon securities of similar quality and tax status and having a similar maturity date or dates.

"Revenue Fund" means the Revenue Fund established in the Resolution.

"Short-Term Indebtedness" means bonds, notes, Loan Agreements or other debt obligations, including Variable Rate Indebtedness, maturing five years or less from their date of issuance, issued by the City or LES as Parity Bonds in accordance with the restrictive provisions of Article IX of the Resolution.

"State" means the State of Tennessee.

"System" means the electrical power transmission and distribution system operated by LES, any electrical power distribution and/or transmission system hereafter acquired, constructed or otherwise established, including all improvements and extensions made by LES while the Bonds remain outstanding, and including all real and personal property of every nature comprising part of or used or useful in connection with the foregoing, and including all appurtenances, contracts, leases, franchises, and other intangibles; provided, however, at the election of the Board, an Acquired System may be included within the Electric System as defined herein and become a part thereof or, at the election of the Board, not become a part of the Electric System but be operated as a separate and independent

system by LES with the continuing right, upon the election of the Board, to incorporate such separately Acquired System within the Electric System.

"Termination Payments" means an amount payable by or to the City or LES upon termination of a Hedge Agreement.

"Variable Rate Indebtedness" means any Parity Bonds, the interest rate on which is subject to periodic adjustment, at intervals, at such times and in such manner as shall be determined by resolution authorizing such Parity Bonds; provided that if the interest rate shall have been fixed for the remainder of the term thereof, it shall no longer be Variable Rate Indebtedness.

### **Source of Payment and Security**

The Bonds shall be payable solely from and secured by a pledge of the Net Revenues. The punctual payment of principal of and premium, if any, and interest on the Bonds shall be secured equally and ratably by the Net Revenues without priority by reason of series, number or time of sale or delivery. The Net Revenues are hereby irrevocably pledged to the punctual payment of such principal, premium, if any, and interest as the same become due. The Bonds do not constitute a debt of the State of Tennessee or the City of Lexington (other than with respect to the Net Revenues).

### **Application of Revenues**

*Application of Revenues.* From and after the delivery of any of the authorized Bonds, and as long as any of the Bonds shall be outstanding and unpaid either as to principal or as to interest, or until the discharge and satisfaction of all the Bonds, the Gross Earnings of the Electric System shall be deposited as collected by LES to the Revenue Fund hereby established (the "Revenue Fund"), administered and controlled by the Board. The funds so deposited in the Revenue Fund created under the Resolution shall be used only as follows:

(a) Operating Expenses. The money in the Revenue Fund shall be used first from month to month for the payment of Operating Expenses.

(b) Bond Fund. The money thereafter remaining in the Revenue Fund shall next be used to make deposits into a separate and special fund, to be known as the "Principal and Interest Sinking Fund" (the "Bond Fund") to be kept separate and apart from all other funds of LES and used to pay principal of and interest on the Bonds as the same become due, either by maturity or mandatory redemption. Such deposits shall be made monthly until the Bonds are paid in full or discharged and satisfied pursuant to Article XII of the Resolution.

For the period commencing with the month next following the delivery of any Bonds, to and including the month of the next interest payment date for such Bonds, each monthly deposit as to interest shall be an amount that, together with all other monthly deposits of approximately equal amounts during such period and amounts otherwise in said Fund, will be equal to interest due on such Bonds on the next interest payment date, and for each six month period thereafter, each monthly deposit as to interest for such Bonds shall be an equal to not less than one-sixth (1/6th) of the interest coming due on such Bonds on the next interest payment date net of any interest earnings on such amounts.

For the period commencing with the month next following the delivery of any Bonds to and including the month of the next principal payment for such Bonds, each monthly deposit as to principal shall be an amount that, together with all other monthly deposits during such period and amounts otherwise in said Fund, will be equal to the principal due on such Bonds on the next principal payment date (provided that, in the event that the next principal payment date is more than 12 months following the month next following delivery of such Bonds, monthly deposits to the Bond Fund in respect of principal shall begin in the month which is 12 months prior to the month of the next

principal payment date), and for each twelve-month period thereafter, each monthly deposit as to principal for such Bonds shall be an amount equal to not less than one-twelfth (1/12th) of the principal amount or Maturity Amount, as the case may be, coming due on such Bonds, whether by maturity or mandatory redemption, on the next principal payment date net of any interest earnings on such amounts. Each deposit as to interest may take into account expected Hedge Payments related to such interest payments.

No further deposit shall be required as to any Bonds when the Bond Fund balance is equal to or greater than the amount needed to pay interest on the next interest payment date, the total of the principal amounts payable, either by maturity or mandatory redemption, during the applicable twelve-month period, and any related Hedge Payments. Notwithstanding the foregoing, deposits for payment of interest and principal on Variable Rate Indebtedness shall be made as set forth in the resolution authorizing such Variable Rate Indebtedness, and if interest is not paid semi-annually and/or principal is not paid annually with respect to any Bonds, the deposits may be adjusted by the City or LES as provided in the resolution authorizing the issuance of such Bonds. Money in the Bond Fund shall be used and is hereby expressly pledged for the purpose of paying principal of and interest on the Bonds and making any Hedge Payments.

(c) Repayment of Reserve Fund Credit Facility Issuers. The next available money in the Revenue Fund shall be paid to any Reserve Fund Credit Facility Issuer or Issuers (pro rata, if more than one) to the extent needed to reimburse the Reserve Fund Credit Facility Issuer for amounts advanced by the Reserve Fund Credit Facility Issuer or Issuers under the Reserve Fund Credit Facility, including any amounts payable under any Financial Guaranty Agreement, together with reasonable related expenses incurred by the Reserve Fund Credit Facility Issuer and interest as provided in the Financial Guaranty Agreement.

(d) Reserve Fund. At the direction of the Governing Body or Power Board, the Reserve Fund may be funded, but is not required to be funded, for the Bonds in the amount of the Reserve Fund Requirement. If the Reserve Fund is not funded with respect to a Series of Bonds, then such Series of Bonds shall not be payable from the Reserve Fund unless all Series of Bonds covered by the Reserve Fund are paid in full. To the extent the Reserve Fund Requirement shall be required to be funded by LES, the following provisions shall apply.

To the extent the Reserve Fund Requirement for the Bonds is not fully satisfied by a Reserve Fund Credit Facility or Facilities or funds of LES, or a combination thereof, the next available money in the Revenue Fund shall be used to make deposits into a separate and special fund, to be known and designated as the "Debt Service Reserve Fund" (the "Reserve Fund") to be kept separate and apart from all other funds of LES. No deposit shall be required to be made to the Reserve Fund unless the amount in the Reserve Fund, together with the Reserve Fund Credit Facility or Facilities, if any, becomes less than the Reserve Fund Requirement.

In the event deposits to the Reserve Fund shall be required pursuant to the preceding sentence, said deposits shall be payable monthly as hereafter provided and each deposit shall be in a minimum amount equal to 1/24th of the difference between the Reserve Fund Requirement and the amount in said Fund, together with the Reserve Fund Credit Facility or Facilities, if any, immediately following the occurrence of such deficiency, so that any deficiency in said Fund shall be replenished over a period of not greater than twenty-four (24) consecutive months; provided, any monthly payments in excess of said minimum payments shall be a credit against the next ensuing payment or payments.

Any deposits required to be made hereunder shall be made monthly at the same time as deposits are made to the Bond Fund, commencing the first month in which the amount in the Fund, together with the Reserve Fund Credit Facility or Facilities, if any, is less than the Reserve Fund Requirement. All deposits to the Reserve Fund shall be made from the first money in the Revenue Fund thereafter received which shall not then be required to pay Operating Expenses, be transferred into the Bond Fund, or to be paid to the Reserve Fund Credit Facility Issuer or Issuers as above provided. Money in the Reserve Fund shall be used solely for the purpose of paying principal of or interest on the Bonds covered by the Reserve Fund and for which the payment of which funds are not available in the

Bond Fund. Funds in excess of the Reserve Fund Requirement may be released to be used by LES for legally permissible purposes.

At the option of LES, it may satisfy the Reserve Fund Requirement, or a portion thereof, by providing for the benefit of owners of the Bonds a Reserve Fund Credit Facility or Facilities, at any time, in an amount not greater than the Reserve Fund Requirement applicable to the Bonds and release an equal amount of funds on deposit in the Reserve Fund to be used by LES for legally permissible purposes. In the event any Reserve Fund Credit Facility Issuer, or any successor thereto, shall cease to have a rating required for a Reserve Fund Credit Facility Issuer or any Reserve Fund Credit Facility becomes unenforceable for any reason, within 90 days from the date the City or LES receives notice of either of said events, the City or LES shall either substitute a new Reserve Fund Credit Facility or Facilities or commence funding the Reserve Fund from Net Revenues as required by the preceding paragraph hereof, or a combination thereof. At any time during the term hereof, LES shall have the right and option to substitute a new Reserve Fund Credit Facility or Facilities for any Reserve Fund Credit Facility or Facilities previously delivered, upon notice to the Registration Agent and the Reserve Fund Credit Facility Issuer or Issuers and delivery of a Reserve Fund Credit Facility or Facilities in substitution therefor.

In the event of the issuance of Parity Bonds intended to be covered by the Reserve Fund pursuant to the restrictive provisions of Article IX of the Resolution or the substitution of a Reserve Fund Credit Facility or Facilities for less than the full amount of the Reserve Fund Requirement, LES shall satisfy the Reserve Fund Requirement by depositing funds to the Reserve Fund or obtaining a Reserve Fund Credit Facility or Facilities, or any combination thereof, in an aggregate amount equal to the Reserve Fund Requirement for the Bonds taking into account any funds then held therein or the amount of any Reserve Fund Credit Facility or Facilities then in effect. The Mayor of the City and the Chairman of LES, or either of them, is authorized to act for the City in determining whether to provide a Reserve Fund Credit Facility for the Bonds.

In the event of the necessity of a withdrawal of funds from the Reserve Fund during a time when the Reserve Fund Requirement is being satisfied by a Reserve Fund Credit Facility or Facilities and funds of LES, the funds shall be disbursed completely before any demand is made on the Reserve Fund Credit Facility. In the event all or a portion of the Reserve Fund Requirement is satisfied by more than one Reserve Fund Credit Facility, any demand for payment shall be pro rata between or among the Reserve Fund Credit Facilities. If a disbursement is made by demand on a Reserve Fund Credit Facility, LES, from Revenues after payment of Operating Expenses and satisfaction of the required deposits to the Bond Fund, shall reimburse the Reserve Fund Credit Facility Issuer for all amounts advanced under the Reserve Fund Credit Facility (pro rata, if more than one Reserve Fund Credit Facility), including all amounts payable under any Financial Guaranty Agreement or Agreements, and then replenish the Reserve Fund as provided herein.

In the event the Reserve Fund Requirement, or any part thereof, shall be satisfied with a Reserve Fund Credit Facility or Facilities, notwithstanding the terms of Article XII of the Resolution, the terms, covenants, liability and liens provided or created herein or in any resolution supplemental to the Resolution shall remain in full force and effect and said terms, covenants, liability and liens shall not terminate until all amounts payable under any Financial Guaranty Agreement have been paid in full and all obligations thereunder performed in full. If the City or LES (as applicable) shall fail to pay when due all amounts payable under any Financial Guaranty Agreement, the Reserve Fund Credit Facility Issuer shall be entitled to exercise any and all remedies available at law or under the Resolution other than remedies that would adversely affect owners of Bonds.

It shall be the responsibility of the Registration Agent to maintain adequate records, verified with the Reserve Fund Credit Facility Issuer or Issuers, as to the amount available to be drawn at any given time under the Reserve Fund Credit Facility or Facilities and as to the amounts paid and owing to the Reserve Fund Credit Facility Issuer or Issuers under the terms of any Financial Guaranty Agreement and to provide notice to the Reserve Fund Credit Facility Issuer at least two days before any payment is due. The Reserve Fund Credit Facility Issuer shall receive notice of the resignation or removal of the Registration Agent and the appointment of a successor thereto.

(e) Surplus Funds. The next available money in the Revenue Fund shall be used for the purpose of the payment of principal of and interest on (including reasonable reserves therefor) any bonds or other obligations payable from revenues of the Electric System, but junior and subordinate to the Bonds, and may thereafter be used by LES for any legally permissible purpose, including without limitation payments in lieu of taxes, as the Board shall determine.

*Hedge Agreement Termination Payments*. Termination Payments received in connection with a Hedge Agreement shall be deposited to the Revenue Fund, and Termination Payments required of the City or LES in connection with a Hedge Agreement shall be paid as a subordinate lien obligation pursuant to the Resolution.

*Investments and Maintenance of Funds*. Money on deposit in the Funds described in this Section may be invested by LES in such investments as shall be permitted by applicable law, as determined by an authorized representative of LES, all such investments to mature not later than the date on which the money so invested shall be required for the purpose for which the respective Fund was created. All income derived from such investments shall be regarded as revenues of the Electric System and shall be deposited in the Revenue Fund. Such investments shall at any time necessary be liquidated and the proceeds thereof applied to the purpose for which the respective Fund was created; provided, however, that in no event shall moneys in the Reserve Fund be invested in instruments that mature or are subject to repurchase more than two years from the date the money is so invested. LES is authorized to enter into contracts with third parties for the investment of funds in any of the Funds described herein.

The Revenue Fund, the Bond Fund, and the Reserve Fund (except to the extent funded with a Reserve Fund Credit Facility or Facilities) shall be held and maintained by LES and, when not invested, kept on deposit with a bank or financial institution regulated by and the deposits of which are insured by the Federal Deposit Insurance Corporation or similar federal agency. All moneys in such Funds so deposited shall at all times be secured to the extent and in the manner required by applicable State law.

## **Covenants**

*Charges for Services Supplied by the Electric System*. While the Bonds remain outstanding and unpaid, LES covenants and agrees that it will permit no free service to be furnished to any consumer or user whatsoever; that the charges for all services supplied through the medium of the Electric System to all consumers and users shall be reasonable and just, taking into account and consideration the cost and value of the Electric System and the cost of maintaining, operating, repairing and insuring the Electric System, a proper and necessary allowance for the depreciation thereof, and the amounts necessary for the payment of principal of and interest on all obligations payable from revenues of the Electric System; and that there shall be charged against all users of the services of the Electric System such rates and amounts as shall be fully adequate to comply with the covenants of the resolution.

LES covenants that the Electric System will be operated on a fully metered basis and that LES will bill customers of the Electric System on a monthly basis and will establish and maintain policies and procedures for discontinuing service to customers with delinquent bills.

*Insurance*. The City or LES (as applicable) shall maintain insurance on the properties of the Electric System of a kind and in an amount which would normally be carried by private companies engaged in a similar type and size of business, provided, the City and LES shall not be required to insure beyond the limits of immunity provided by Sections 29-20-101 et seq., Tennessee Code Annotated, or other applicable law. The proceeds of any such insurance, except public liability insurance, shall be used to replace the part or parts of the Electric System damaged or destroyed, or, if not so used, shall be placed in the Revenue Fund.

*Books and Accounts; Audits*. LES will cause to be kept proper books and accounts adapted to the Electric System, will cause the books and accounts to be audited at the end of each Fiscal Year by a recognized independent

certified public accountant or a firm of such accountant or accountants and, upon written request, will make available to any registered owner of the Bonds the balance sheet and the profit and loss statement of LES as certified by such accountant or accountants. Each such audit, in addition to whatever matters may be thought proper by the accountant or accountants to be included therein, shall include the following:

- (a) A statement in detail of the revenues and expenditures of the Electric System and the excess of revenues over expenditures for the Fiscal Year;
- (b) A statement showing beginning and ending balances of each Fund described herein;
- (c) A balance sheet as of the end of the Fiscal Year;
- (d) The accountant's comments regarding the manner in which LES has carried out the requirements of this resolution and the accountant's recommendations with respect to any change or improvement in the operation of the Electric System;
- (e) A list of insurance policies in force at the end of the Fiscal Year, setting out as to each policy the amount of the policy, the risks covered, the name of the insurer and the expiration date of the policy;
- (f) The number and classifications of customer service connections to the Electric System as of the end of the Fiscal Year;
- (g) The disposition of any Bond proceeds during the Fiscal Year; and
- (h) A statement as to all breaches or defaults hereunder by LES of which the accountant or accountants have knowledge or, in the alternative, a statement that they have no knowledge of any such breach or default.

All expenses incurred in the making of the audits required by this subsection shall be regarded and paid as Operating Expenses. LES further agrees to cause copies of such audits to be furnished to the registered owner of any of the Bonds, at the written request thereof, within 180 days after the close of each Fiscal Year. The registered owner of any of the Bonds shall have at all reasonable times the right to inspect the Electric System and the records, accounts and data of LES relating thereto. If LES fails to provide the audits and reports required by this subsection, the registered owner or owners of twenty-five percent (25%) in principal amount of the Bonds may cause such audits and reports to be prepared at the expense of LES.

*Rate Covenant.* LES shall continuously own, control, operate, and maintain the Electric System in an efficient and economical manner and on a revenue producing basis and shall at all times prescribe, fix, maintain, and collect rates, fees, and other charges for the services and facilities furnished by the Electric System fully sufficient at all times:

- (a) for 100% of the Operating Expenses and for the accumulation in the Revenue Fund of a reasonable reserve therefor, in an amount, if any, as shall be determined from time to time by LES; and
- (b) such that Net Revenues in each Fiscal Year:
  - (i) will equal at least 120% of the Debt Service Requirement on all Bonds, and 100% of the Debt Service Requirement on all other bonds or other obligations then outstanding for such Fiscal Year;
  - (ii) will enable LES to make all required payments, if any, into the Reserve Fund and on any Credit Facility or Hedge Agreement;

(iii) will enable LES to accumulate an amount, which, in the judgment of LES, is adequate to meet the costs of major renewals, replacements, repairs, additions, betterments, and improvements to the Electric System, necessary to keep the same in good operating condition or as is required by any governmental agency having jurisdiction over the Electric System;

(iv) will remedy all deficiencies in required payments into any of the funds and accounts mentioned in this resolution from prior Fiscal Years; and

(v) will enable LES to make any payments in lieu of taxes required by the City

*Sale or Disposal of System.* The City and LES will not sell, lease, mortgage, or in any manner dispose of the Electric System, or any part thereof, including any and all extensions and additions that may be made thereto, or any facility necessary for the operation thereof; provided, however, the use of any of the Electric System facilities may at any time be permanently abandoned or otherwise disposed of or any of the Electric System facilities sold at fair market value, provided that:

(a) The City and LES are in full compliance with all covenants and undertakings in connection with all bonds, notes and other obligations then outstanding and payable from the revenues of the Electric System and any required reserve funds for such bonds, notes and other obligations have been fully established and contributions thereto are current;

(b) Any sale proceeds will be applied either (A) to redemption of Bonds in accordance with the provisions governing repayment of Bonds in advance of maturity, or (B) to the purchase of Bonds at the market price thereof so long as such price does not exceed the amount at which the Bonds could be redeemed on such date or the next optional redemption date as set forth herein or in the resolutions authorizing the Parity Bonds, or (C) to the construction or acquisition of facilities in replacement of the facilities so disposed of or other facilities constituting capital improvements to the Electric System, or (D) the deposit to a replacement fund to be used to make capital improvements to the Electric System;

(c) (i) The abandonment, sale or disposition is for the purpose of disposing of facilities which are no longer necessary or no longer useful to the operation of the Electric System or (ii) the operation of the Electric System or revenue producing capacity of the Electric System is not materially impaired by such abandonment, sale or disposition or any facilities acquired in replacement thereof are of equivalent or greater value; and

(d) The City or LES shall have received an opinion of nationally recognized bond counsel to the effect that such sale, lease, mortgage or other disposition will not jeopardize the exclusion from federal income taxation of interest on any Bonds then outstanding intended to be excludable from gross income for federal income tax purposes.

Nothing herein is intended to prohibit the lease purchase of equipment or facilities of the Electric System hereafter to be put in service or to prohibit the transfer or exchange of service areas to provide for more efficient operation of the Electric System so long as LES is in full compliance with the covenants set forth herein immediately following such transfer or exchange. Furthermore, the City may transfer all or substantially all of the assets and liabilities of the Electric System, including the City's obligations under this Resolution and any outstanding Bonds, to another governmental entity, provided that:

(1) The City first obtains the written consent to such transfer of each Credit Facility and Reserve Fund Credit Facility Issuer.



(2) The transferee governmental entity (or, if applicable, the division thereof operating the assets comprising the Electric System) shall, upon such transfer, be issued a rating by any Rating Agency then rating the Electric System (disregarding any bond insurance) not less than the rating then in effect for the Electric System.

(3) Nationally recognized bond counsel shall have delivered to the Registration Agent and each Credit Facility and Reserve Fund Credit Facility Issuer an opinion that such transfer will not adversely affect the tax-exempt status of any Bonds issued on a tax-exempt basis.

*Budgets.* Prior to the beginning of each Fiscal Year, LES shall prepare, or cause to be prepared, and adopted an annual budget of estimated revenues, Operating Expenses, and capital expenditures for the Electric System for the ensuing Fiscal Year in compliance with the rate covenant set forth in Section 7.4, and will undertake to operate the Electric System within such budget to the best of its ability. Copies of such budgets and amendments thereto will be made available to any registered owner of a Bond upon written request. LES covenants that Operating Expenses and capital expenditures incurred in any Fiscal Year will not exceed the reasonable and necessary amounts therefor and that LES will not expend any amounts or incur any obligations therefor in excess of the amounts provided for Operating Expenses and capital expenditures in the budget except upon resolution of LES.

*Franchises.* Neither the City nor LES will construct, finance or grant a franchise for the development or operation of facilities that compete for service with the services to be provided by the Electric System or consent to the provision of any such services in the area currently or hereafter served by the City or LES by any other public or private entity and will take all steps necessary and proper, including appropriate legal action to prevent any such entity from providing such service; provided, nothing herein contained shall prohibit the transfer or exchange of service areas to provide for more efficient operation of the Electric System so long as LES is in full compliance with the covenants set forth herein immediately following such transfer or exchange.

## **Remedies of Bond Owners**

Any registered owner of any of the Bonds may either at law or in equity, by suit, action, mandamus or other proceedings, in any court of competent jurisdiction enforce and compel performance of all duties imposed upon LES or the City by the provisions of this resolution, including the making and collecting of sufficient rates, the proper application of and accounting for revenues of the Electric System, and the performance of all duties imposed by the terms of the Resolution.

If any default be made in the payment of principal of, premium, if any, or interest on the Bonds, then upon the filing of suit by any registered owner of said Bonds, any court having jurisdiction of the action may appoint a receiver to administer the Electric System in behalf of LES or the City with power to charge and collect rates sufficient to provide for the payment of all bonds and obligations outstanding against the Electric System and for the payment of Operating Expenses, and to apply the income and revenues thereof in conformity with the provisions of this resolution.

## **Prohibition of Prior Lien; Parity Bonds**

*Prohibition of Prior Liens.* Neither the City nor LES will issue other bonds or obligations of any kind or nature payable from or enjoying a lien on the revenues of the Electric System having priority over the Bonds.

*Parity Bonds.* Additional bonds, notes, Loan Agreements or obligations may hereafter be issued on a parity with the Bonds under the following conditions but not otherwise:

(a) Any portion (including any maturities or portions thereof whether or not in chronological order and any amounts subject to mandatory redemption) or all of a series of the Bonds may be refunded at maturity, upon redemption in accordance with their terms, or upon payment, prepayment or redemption with the consent of the

owners of such bonds, and the refunding bonds so issued shall constitute Parity Bonds secured on a parity with the Bonds thereafter outstanding, if all of the following conditions are satisfied:

(i) LES shall have obtained a report from a Financial Adviser demonstrating that the refunding is expected to reduce the total debt service payments on the Bonds, including payments on related Credit Facilities and Hedge Agreements; and

(ii) the requirements of subsections (b)(ii) and (iv) below are met with respect to such refunding.

(b) Parity Bonds (including refunding Parity Bonds which do not meet the requirements of (a)) may also be issued on a parity with outstanding Bonds, and the Parity Bonds so issued shall be secured on a parity with such outstanding Bonds, if all of the following conditions are satisfied:

(i) There shall have been procured and filed with LES a report by a Financial Adviser or a certificate by the Chairman of LES, or his designee, to the effect that the historical Net Revenues for either (i) a period of 12 consecutive months of the most recent 18 consecutive months prior to the issuance of the proposed Parity Bonds or (ii) the most recent audited Fiscal Year, were equal to at least 120% of the Maximum Annual Debt Service Requirement on all Bonds which will be outstanding immediately after the issuance of the proposed Parity Bonds, in the then current and each succeeding Fiscal Year, provided, however, (w) the report or certificate may contain pro forma adjustments to historical related Net Revenues equal to the increased annual amount of Net Revenues attributable to improvements to the Electric System that had been placed in service prior to the delivery of the proposed Parity Bonds and that are not fully reflected in the historical related Net Revenues actually received during such historical period used, (x) the report or certificate may contain pro forma adjustments to historical related Net Revenues equal to 100% of the increased annual amount attributable to any revision in the schedule of rates, fees, and charges for the services and facilities furnished by the Electric System, imposed prior to the date of delivery of the proposed Parity Bonds and not fully reflected in the historical related Net Revenues actually received during such historical period used; (y) if the City or LES has a contract to purchase or otherwise acquire an Acquired System that will become part of the Electric System, the historical Net Revenues may be adjusted to include the anticipated Net Revenues from the Acquired System; and (z) if the City or LES has entered into a contract to furnish services of the Electric System that is not fully reflected in the historical Net Revenues of the Electric System, such historical Net Revenues may be adjusted to include the anticipated Net Revenues from such contract.

(ii) LES shall have received, at or before issuance of the Parity Bonds, a report from a Financial Adviser or a certificate of the Chairman of LES, or his designee, to the effect that (x) the payments required to be made into the Bond Fund have been made and the balance in the Bond Fund is not less than the balance required hereby as of the date of issuance of the proposed Parity Bonds; and (y) if required, the Reserve Fund is funded to the Reserve Fund Requirement and will be funded to the Reserve Fund Requirement immediately following the issuance of the proposed Parity Bonds.

(iii) The resolution authorizing the proposed Parity Bonds must require the proceeds of such proposed Parity Bonds to be used to make capital improvements to or capital acquisitions for the Electric System, to pre-purchase supplies of electrical power, to fund interest on the proposed Parity Bonds, to refund other obligations issued for such purposes (whether or not such refunding Parity Bonds satisfy the requirements of (a)), for any other legal purpose under applicable law as evidenced by an opinion of Bond Counsel, and/or to pay expenses incidental thereto and to the issuance of the proposed Parity Bonds.

(iv) The Chairman of LES shall have certified, by written certificate dated as of the date of issuance of the Parity Bonds, that LES is in compliance with all requirements of this resolution.

*Applicability of Resolution to Parity Bonds.* All the provisions and covenants of this resolution relating to negotiability and registration of Bonds, creation and investment of funds and the application of revenues, the operation of the Electric System and charges for services of the Electric System, the remedies of owners of the Bonds, the issuance of additional bonds, modification of this resolution, the defeasance of Bonds, and such other provisions of the Resolution as are appropriate may be incorporated by reference into supplemental resolutions authorizing additional bonds, and said provisions, when so incorporated, shall be equally applicable to the additional bonds issued pursuant to the terms of this Article IX in all respects and with like force and effect as though said provisions were recited in full in said supplemental resolutions and shall continue to be applicable so long as any such bonds remain outstanding.

### **Discharge and Satisfaction of Bonds**

If the City or LES shall pay and discharge the indebtedness evidenced by all or any portion of the Bonds in any one or more of the following ways:

(a) By paying or causing to be paid, by deposit of sufficient funds as and when required with the Registration Agent, the principal of and interest on such Bonds as and when the same become due and payable;

(b) By depositing or causing to be deposited with any trust company or financial institution whose deposits are insured by the Federal Deposit Insurance Corporation or similar federal agency and which has trust powers (an "Agent"; which Agent may be the Registration Agent) in trust or escrow, on or before the date of maturity or redemption, sufficient money or Defeasance Obligations, the principal of and interest on which, when due and payable, will provide sufficient moneys to pay or redeem such Bonds and to pay premium, if any, and interest thereon when due until the maturity or redemption date (provided, if such Bonds are to be redeemed prior to maturity thereof, proper notice of such redemption shall have been given or adequate provision shall have been made for the giving of such notice);

(c) By delivering such Bonds to the Registration Agent, for cancellation by it;

and if the City or LES shall also pay or cause to be paid all other sums payable hereunder by the City or LES with respect to such Bonds, or make adequate provision therefor, and by resolution of the Governing Body instruct any such Escrow Agent to pay amounts when and as required to the Registration Agent for the payment of principal of and interest and redemption premiums, if any, on such Bonds when due, then and in that case the indebtedness evidenced by such Bonds shall be discharged and satisfied and all covenants, agreements and obligations of the City and LES to the holders of such Bonds shall be fully discharged and satisfied and shall thereupon cease, terminate and become void.

If the City or LES shall pay and discharge the indebtedness evidenced by any of the Bonds in the manner provided in either clause (a) or clause (b) above, then the registered owners thereof shall thereafter be entitled only to payment out of the money or Defeasance Obligations deposited as aforesaid.

Except as otherwise provided in this Section, neither Defeasance Obligations nor moneys deposited with the Registration Agent pursuant to this Section nor principal or interest payments on any such Defeasance Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Registration Agent, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the City as received by the Registration Agent and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Obligations maturing at times and in amounts sufficient to pay when due the principal and interest to become due on said Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to LES, as received by the Registration Agent.

## Modification of Resolution

*Amendment Without Bondholder Consent.* This resolution may be amended without the consent of or notice to the registered owners of the Bonds for the purpose of curing any ambiguity or formal defect or omission herein; provided such amendment shall not adversely affect the registered owners, without taking into account any bond insurance policy.

*Other Amendments.* In addition to the amendments to this resolution without the consent of registered owners as referred to in the above paragraph, the registered owners of a majority in aggregate principal amount of the Bonds at any time outstanding (not including in any case any Bonds which may then be held or owned by or for the account of the City but including such refunding bonds as may have been issued for the purpose of refunding any of such Bonds if such refunding bonds shall not then be owned by the City) shall have the right from time to time to consent to and approve the adoption by the Governing Body of a resolution or resolutions modifying any of the terms or provisions contained in this resolution; provided, however, that this resolution may not be so modified or amended in such manner, without the consent of 100% of the registered owners of the Bonds, as to:

- (a) Make any change in the maturities or redemption dates of the Bonds;
- (b) Make any change in the rates of interest borne by the Bonds;
- (c) Reduce the amount of the principal payments or redemption premiums payable on the Bonds;
- (d) Modify the terms of payment of principal of or interest on the Bonds or impose any conditions with respect to such payments;
- (e) Affect the rights of the registered owners of less than all of the Bonds then outstanding; or
- (f) Reduce the percentage of the principal amount of the Bonds the consent of the registered owners of which is required to effect a further modification.

*Procedure for Modification.* Whenever the City shall propose to amend or modify this resolution under the provisions of this Section, it shall cause notice of the proposed amendment to be mailed by first-class mail, postage prepaid, to the owner of each Bond then outstanding. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy of the proposed amendatory resolution is on file in the office of the City for public inspection.

Whenever at any time within one year from the date of mailing of said notice there shall be filed with the Secretary an instrument or instruments executed by the registered owners of at least a majority in aggregate principal amount of the Bonds then outstanding as in this Section defined, which instrument or instruments shall refer to the proposed amendatory resolution described in said notice and shall specifically consent to and approve the adoption thereof, thereupon, but not otherwise, the City may adopt such amendatory resolution and such resolution shall become effective and binding upon the owners of all Bonds.

If the registered owners of at least a majority in aggregate principal amount of the Bonds outstanding as in this section defined, at the time of the adoption of such amendatory resolution, or the predecessors in title of such owners, shall have consented to and approved the adoption thereof as herein provided, no registered owner of any Bonds, whether or not such owner shall have consented to or shall have revoked any consent as in this Section provided, shall have any right or interest to object to the adoption of such amendatory resolution or to object to any of the terms or provisions therein contained or to the operation thereof or to enjoin or restrain the City from taking any action pursuant to the provisions thereof.

Any consent given by the registered owner of a Bond pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the publication of the notice above provided for and shall be conclusive and binding upon all future registered owners of the same Bond during such period. Such consent may be revoked at any time after six months from the date of publication of such notice by the registered owner who gave such consent or by a successor in title by filing notice of such revocation at the City office, but such revocation shall not be effective if the registered owners of a majority in aggregate principal amount of the Bonds outstanding as in this Section defined shall have, prior to the attempted revocation, consented to and approved the amendatory resolution referred to in such revocation.

The fact and date of the execution of any instrument under the provisions of this Section may be proved by the certificate of any officer in any jurisdiction who by the laws thereof is authorized to take acknowledgments of deeds within such jurisdiction, that the person signing such instrument acknowledged before him the execution thereof, or may be proved by an affidavit of a witness to such execution sworn to before such officer.

The amount (number(s)) of the Bonds owned by any person executing such instrument and the date of the ownership of the same shall be proved by reference to the Bond registration records maintained by the Registration Agent, which records shall constitute conclusive proof of the ownership thereof.

Notwithstanding the foregoing, if any Bonds are insured by a bond insurance policy, the bond insurer issuing such bond insurance policy shall be entitled to consent to any modifications to this Resolution on behalf of the owners of the Bonds insured by such bond insurer, provided that no bond insurer shall be entitled to consent to any modifications to this Resolution that require the unanimous consent of the owners of the Bonds as described above.

*Remainder of Page Left Intentionally Blank*

## **APPENDIX B**

Proposed Form of Bond Counsel Opinion of Bass, Berry & Sims PLC,  
Nashville, Tennessee relating to the Series 2025 Bonds.

(Proposed Form of Opinion of Bond Counsel)

Bass, Berry & Sims PLC  
150 Third Avenue South, Suite 2800  
Nashville, Tennessee 37201

(Dated Closing Date)

We have acted as bond counsel to City of Lexington, Tennessee (the "Issuer") in connection with the issuance of \$\_\_\_\_\_ Electric System Revenue Bonds, Series 2025, dated the date hereof (the "Bonds"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify such facts by independent investigation.

Based on our examination, we are of the opinion, as of the date hereof, as follows:

1. The Series 2025 Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and constitute valid and binding obligations of the Issuer.

2. The resolution of the Board of Mayor and Aldermen of the Issuer authorizing the Series 2025 Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with its terms.

1. The principal of and interest on the Series 2025 Bonds are payable solely from and secured by a pledge of Net Revenues (as defined in the Resolution) to be derived from the operation of the electrical transmission and distribution system of the Issuer, on a parity and equality of lien with respect to Net Revenues with the Issuer's outstanding, to the extent outstanding, Electric System Revenue Refunding Bonds, Series 2017, dated March 9, 2017, the City's Electric System Revenue Bonds, Series 2018, dated May 22, 2018, the City's Electric System Revenue Refunding Bonds, Series 2019, dated July 25, 2019, and the City's Electric System Revenue Bonds, Series 2023, dated August 31, 2023, Electric System Revenue Bonds, Series 2024, dated October 15, 2024, and any additional bonds hereafter issued on a parity therewith in accordance with the terms of the Resolution. We express no opinion as to the sufficiency of such Net Revenues for the payment of principal of and interest on the Series 2025 Bonds.

4. Interest on the Series 2025 Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, such interest on the Series 2025 Bonds may be taken into account for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2025 Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes under Section 103 of the Code. Failure to comply with certain of such requirements could cause interest on the Series 2025 Bonds to be so includable in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2025 Bonds. The Issuer has covenanted to comply with all such requirements. Except as set forth in this Paragraph, we express no opinion regarding other federal tax consequences arising with respect to the Series 2025 Bonds.

5. Under existing law, the Series 2025 Bonds and the income therefrom are exempt from all present state, City and municipal taxes in Tennessee except (a) Tennessee excise taxes on all or a portion of the interest on any of the Series 2025 Bonds during the period such Bonds are held or beneficially owned by any organization or

entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee and (b) Tennessee franchise taxes by reason of the inclusion of the book value of the Series 2025 Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership doing business in the State of Tennessee.

It is to be understood that the rights of the owners of the Series 2025 Bonds and the enforceability of the Series 2025 Bonds and the resolution authorizing the Series 2025 Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Series 2025 Bonds.

This opinion is given as of the date hereof, and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Yours truly,



## **APPENDIX C**

Form of Continuing Disclosure Agreement.

CITY OF LEXINGTON, TENNESSEE

ELECTRIC SYSTEM REVENUE BONDS, SERIES 2025

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement") is executed and delivered this \_\_\_\_ day of \_\_\_\_\_, 2025, by the City of Lexington, Tennessee (the "Issuer") in connection with the issuance of Electric System Revenue Bonds, Series 2025 (the "Bonds"). The Issuer hereby covenants and agrees as follows:

SECTION 1. Purpose of and Authority for the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Registered Owners and the Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Rule 15c2-12(b)(5) (the "Rule") of the Securities and Exchange Commission (the "SEC"). This Disclosure Agreement is being executed and delivered by the Issuer under the authority of the Resolution.

SECTION 2. Definitions. In addition to the terms otherwise defined herein, the following capitalized terms shall have the following meanings:

"Beneficial Owner" shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Fiscal Year" shall mean any period of twelve consecutive months adopted by the Issuer as its fiscal year for financial reporting purposes, and shall initially mean the period beginning on July of each calendar year and ending June 30 of the following calendar year.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Official Statement" shall mean the Official Statement of the Issuer, dated \_\_\_\_\_, 2025, relating to the Bonds.

"Participating Underwriters" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Registered Owner" means any person who is identified as a holder of Bonds on the registration records maintained by or on behalf of the Issuer with respect to the Bonds.

"Resolution" shall mean the bond resolution adopted by the Board of Mayor and Aldermen of the Issuer on February 28, 2022.

"State" shall mean the State of Tennessee.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository pursuant to which continuing disclosure information shall be sent pursuant to State law.

SECTION 3. Continuing Disclosure. The Issuer hereby agrees to provide or cause to be provided the information set forth below:

*Annual Financial Information.* For Fiscal Years ending on or after June 30, 2025, the Issuer shall provide annual financial information and operating data within 12 months after the end of the Fiscal Year. The annual financial information and operating data shall include:

(i) The Issuer's audited financial statements, prepared in accordance with generally accepted accounting principles, or, if the Issuer's audited financial statements are not available, then the Issuer's unaudited financial statements; and

(ii) Operating data of the type included under the following headings of the Official Statement, which data may be presented in a manner other than as set in the Official Statement:

- 1) "Wholesale Rates and Wholesale Rate Schedule";
- 2) "Resale Rate Schedule";
- 3) "Ten Largest Users of the Electric System";
- 4) "Historical Number of Meters in Service";
- 5) "Historical Sales in Kilowatt Hours";
- 6) "Income Statement by Fiscal Year";
- 7) "Outstanding Debt"; and
- 8) "Debt Service Coverage Ratio".

(b) *Audited Financial Statements.* For Fiscal Years ending on or after June 30, 2025, the Issuer shall provide audited financial statements, prepared in accordance with generally accepted accounting principles, if and when available, if such audited financial statements are not included with the annual financial information described in subsection (a) above.

(c) *Event Notices.* The Issuer will provide notice of the following events relating to the Bonds in a timely manner, not in excess of ten business days after the occurrence of the event:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

- (vii) Modifications to rights of Bondholders, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) Defeasances (including disclosure as to whether the Bonds have been defeased to their maturity or to a preceding call date);
- (x) Release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (xiii) The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (xv) Incurrence of a financial obligation\* of the Issuer, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation\* of the Issuer, any of which affect security holders, if material; and
- (xvi) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation\* of the Issuer, any of which reflect financial difficulties.

\* As used in subsections (xv) and (xvi), the term "financial obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term "financial obligation" does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

(d) *Notice of Failure to File Annual Financial Information.* The Issuer will provide timely notice of its failure to provide the annual financial information described in subsection (a) above within the time frame prescribed by subsection (a).

(e) *Notice of Amendment of Disclosure Agreement.* The Issuer will provide timely notice of an amendment to this Disclosure Agreement pursuant to the terms of Section 5(a) below.

#### SECTION 4. Methods of Providing Information.

(a) All disclosures required by Section 3 shall be transmitted to the MSRB using the MSRB's Electronic Municipal Market Access System ("EMMA") or by such other method as may be subsequently determined by the MSRB.

(b) Information shall be provided to the MSRB in an electronic format as prescribed by the MSRB, either directly, or indirectly through an indenture trustee or a designated dissemination agent.

(c) All transmissions to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

(d) Any required disclosure may be incorporated by reference to other documents filed with the MSRB in the manner required by subsection (a) above. The Issuer shall clearly identify each such other document so incorporated by reference.

(e) All disclosures transmitted to the MSRB hereunder shall be simultaneously transmitted to any State Repository.

#### SECTION 5. Amendment.

(a) This Disclosure Agreement may be amended or modified so long as: (i) any such amendments are not violative of any rule or regulation of the SEC or MSRB, or other federal or state regulatory body; (ii) the amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the obligated person, or type of business conducted; (iii) this Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (iv) the amendment does not materially impair the interests of Beneficial Owners or Registered Owners, as determined either by parties unaffiliated with the Issuer (such as bond counsel), or by approving vote of the Beneficial Owners and Registered Owners pursuant to the terms of the Resolution at the time of the amendment.

(b) In the event of any amendment or modification to the financial information or operating data required to be filed pursuant to Section 3(a) above, the Issuer shall describe such amendment in the next filing pursuant to Section 3(a), and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, the next filing pursuant to Section 3(a) or 3(b), as applicable, shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 7. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any disclosure required hereunder, in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future disclosure.

SECTION 8. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Registered Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 9. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, any Registered Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed a default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of any party to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 10. Governing Law. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State.

SECTION 11. Severability. In case any one or more of the provisions of this Disclosure Agreement shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Disclosure Agreement, but this Disclosure Agreement shall be construed and enforced as if such illegal or invalid provision had not been contained herein.

CITY OF LEXINGTON, TENNESSEE

By: \_\_\_\_\_  
Mayor

## APPENDIX D

Supplemental Information Regarding the City and the Electric System.

## THE ISSUER

### The City of Lexington

Lexington, (referred to herein as "Lexington" or the "City") the County seat of Henderson County, is located in the western part of the State of Tennessee and is located approximately 28 miles east of Jackson and 122 miles southwest of Nashville. The City was chartered in 1901 and is operated by a mayor and a board of seven aldermen, all of which serve staggered 4-year terms. The City provides public services, including law enforcement, fire protection, highway and street maintenance, public education, parks and recreation and sanitation services. Additionally, the City provides essential water and sewer, gas and electric public utility services. The City currently has 325 employees, of which approximately 125 are employed by the Lexington City School System.

The City is known primarily for being the headquarters of the Beech River Watershed Development Authority, a state agency created in 1961 to carry out an economic development project, which currently has seven (7) multipurpose dams with reservoirs and one (1) detention type dam on Beech River and its tributaries. The reservoirs contain approximately 3,000 acres of water with 100 miles of shoreline and are used primarily for flood control and outdoor recreational activities. Just six miles outside Lexington city limits is the State of Tennessee's largest and most visited park, the Natchez Trace State Park, which covers approximately 46,000 acres and provides additional outdoor recreational activities in the area for residents and tourists. Transportation facilities in the area are provided by Interstate 40, US Highways 412 and 22, State Highways 104, 114, 200, 201, 202 and 22A.

Population trends for the City are as follows:

1970 .....	5,024	2000 .....	7,393
1980 .....	5,934	2010 .....	7,652
1990 .....	5,810	2020.....	7,956

Source: U.S. Census Bureau.

### Industry

Leading industries and companies located in the City are as follows:

<u>Industry</u>	<u>Employees</u>	<u>Type Business</u>
Nidec	700	Electric Motors/Generators
Auto Zone Distribution Center	614	Auto Parts Distribution
* Adient	320	Automotive Seating
Fluid Routing Solutions (formerly Mark IV)	243	Automotive Hoses
Young Touchstone	244	Heat Transfer Components
Dewaynes Quality Metal	140	Chemical Electro-Plating
Volvo-Penta Marine Products	120	Marine engines
NCI Building Systems	100	Pre-Engineered Metal Buildings
Columbus-McKinnon	97	Steel Chains/Hoist Products
Falcon Plastics	68	Injection moldings
Welch (Cooper) Container	57	Corrugated Boxes
S. Bravo Systems	41	Secondary Containment Systems
Arch Medical Solutions	34	Precision medical manufacturing

\* Plant closure announced.

Source: Henderson County/Lexington Chamber of Commerce (as of August 15, 2025).



## Employment

Employment information for Henderson County and the State of Tennessee was supplied by the Tennessee Department of Labor and Workforce Development.

<u>Year</u>	<u>Labor Force</u>		<u>Employed Persons</u>		<u>Unemployment Rate</u>	
	<u>County</u>	<u>State</u>	<u>County</u>	<u>State</u>	<u>County</u>	<u>State</u>
2015	12,233	3,057,301	11,256	2,885,145	8.0%	5.6%
2016	11,944	3,123,283	11,129	2,976,105	6.8%	4.7%
2017	11,858	3,185,241	11,243	3,065,279	5.2%	3.8%
2018	11,999	3,254,261	11,432	3,139,888	4.7%	3.5%
2019	12,369	3,334,849	11,832	3,231,501	4.3%	3.4%
2020	11,526	3,294,793	10,931	3,049,480	8.2%	7.4%
2021	11,563	3,316,876	11,360	3,168,586	4.6%	4.5%
2022	11,473	3,361,656	11,298	3,248,260	3.6%	3.4%
2023	11,515	3,380,108	11,274	3,270,602	3.6%	3.2%
2024	11,606	3,420,373	11,371	3,303,023	3.8%	3.4%
*2025	11,773	3,495,698	11,219	3,353,874	4.7%	4.1%

\* June most recent month available.

## Lexington Electric System

### Administration

Pursuant to the City Charter, as amended by Chapter 62 of the 2012 Private Acts of the State of Tennessee, the mayor and aldermen of the City have and perform all powers, duties and responsibilities for the control and supervision of the Lexington Electric System (the "System") and constitute the Power Board (the "Board") of the City. The System is considered a proprietary fund of the City and is not a separate legal entity.

The Board of Mayor and Aldermen appoints the General Manager of the System to serve as the chief executive officer and appointed Brad Jones, General Manager on May 28, 2024. The General Manager serves until removed for cause or resignation. The General Manager is responsible for implementing and enforcing the policies relevant to the administration and operation of the System. The Board makes recommendations to the Board of Mayor and Aldermen with respect to improvements to the System; customer rates and charges for services; policies and procedures for administrative, financial, operational and personnel practices; and all other actions the Board may determine necessary to the System, all subject to the approval of the Board of Mayor and Aldermen. The budget for the System must also be approved by the Board of Mayor and Aldermen.

Under the terms of the Power Contract (defined herein under "Source of Electric Power"), the Board and the Board of Mayor and Aldermen must prescribe and collect reasonable fees and user charges, revising such from time to time whenever necessary to insure that the System always remains self-supporting, producing revenues at least sufficient to: (1) provide for all expenses of operations and maintenance of the System, including reserves therefor, and (2) pay when due, all bonds and interest thereon, including reserves therefor, for the payment of which revenues of the System have been pledged.

### Service Area

The System serves all of the City, the majority of Henderson County, all of Decatur County (except less than 5% in the northern rural area), the northern section of Hardin County, and a small section of Benton and Carroll County, Tennessee.

## Existing Facilities

As of June 30, 2025 the System served 23,692 customers (18,014 residential and 5,678 industrial/commercial) through approximately 2,002 miles of distribution lines and achieved sales of approximately 430 million kilowatt hours. With few exceptions, System personnel perform all maintenance work required with the exception of right-of-way clearing, which is contracted out. The System currently has 52 employees.

Electric Power is delivered to the System by the Tennessee Valley Authority (the "TVA") to seven delivery points located at: (1) North Lexington 161-kV Substation, (2) West Lexington 161-kV Substation, (3) Sand Ridge 161-kV Substation, (4) Parsons 161-kV Substation, (5) Montgomery 161-kV Substation, (6) the Lexington 161-kV Substation, and (7) the Bud Crockett 161-kV Substation.

The North Lexington 161:13-kV substation has 2-18/24/30 MVA transformers and provides service from four 13-kV substation breakers. The West Lexington 161:13kV has 2-18/24/30 MVA transformers and provides service from six 13-kV substation breakers. The Sand Ridge 161:13-kV substation has 2-18/24/30 MVA transformers and provides service from three 13-kV substation breakers. The Parsons 161-kV substation has 2-25/33/41 transformers and provides service from eight 13-kV substation breakers. The Montgomery 161-kV substation has 2-18/24/30 transformers and provides service from six 13-kV substation breakers. The Lexington 161-kV substation has 2-25/33/41 transformers and provides service from five 13-kV substation breakers. The Bud Crockett 161-kV substation has 1-25/33/41 MVA transformer and provides service from three 13-kV substation breakers.

In addition to electric service, the System added a broadband division during fiscal year 2024.

## Source of Electric Power

The System does not generate any electric power but purchases its entire supply from the TVA pursuant to a power contract dated June 13, 1979, as amended (the "Power Contract"). The original term of the Power Contract was for twenty (20) years; however, in October 1997, the TVA, the Board, and the Board of Mayor and Aldermen agreed to provide that the Power Contract would continue subject to a five-year termination notice by either party with written notice. Pursuant to the Power Contract, TVA agrees to supply the amount of electrical power required for service to the System's customers and, except as otherwise provided below with respect to the Expanded Flexibility Agreement, the System agrees to purchase all of its electrical power from the TVA. The Power Contract provides that the TVA shall make every reasonable effort to increase the generating capacity of its system and to provide the transmission facilities required to deliver the output thereof so as to be in a position to supply additional power when and to the extent needed by the System. Neither the TVA nor the System is liable for breach of contract if the availability or use of power is interrupted or curtailed or either is prevented from performing under the Power Contract by circumstances reasonably beyond its control. The amount of power supplied by the TVA and the contractual obligation to supply such power are limited by the capacity of the TVA's generating and transmission facilities.

The TVA was established as a wholly owned corporate agency and instrumentality of the United States Government created by the Tennessee Valley Authority Act of 1933, as amended. Its objective is the development of the resources of the Tennessee Valley and adjacent areas in order to strengthen the regional and national economy and the national defense. Its specific purposes include: (1) flood control on the Tennessee River and its tributaries, and assistance to flood control on the lower Ohio and Mississippi Rivers; (2) a modern navigable channel for the Tennessee River; (3) an ample supply of electrical power; (4) development and introduction of more efficient soil fertilizers; and (5) greater agricultural and industrial development and improved forestry in the region. All corporate powers of the TVA are vested in its board of directors, which functions on a full-time basis and consists of nine directors nominated by the President of the United States and confirmed by the United States Senate to serve five-year terms.

The electric power sold to the System is supplied from the entire TVA system and not one specific generating facility. There can be no assurance that the TVA can or will meet the future power needs demands of its customers, including the System. In August 2023, TVA released its expanded flexibility agreement (the "Expanded Flexibility

Agreement”) and related guidelines and power purchase agreements (“PPA”). The Expanded Flexibility Agreement allows local power companies (“LPCs”) to purchase or generate electricity from energy resources other than TVA, in an amount up to 5% of each LPC’s average hourly capacity usage based on fiscal years 2015 through 2019 (the “Allowable Power Percentage”). In connection with the Expanded Flexibility Agreement, LES may enter into a PPA to purchase solar power from a solar energy company for all or portion of its Allowable Power Percentage. Allowances in the Expanded Flexibility Agreement and any eventual purchase of solar power in connection therewith are expected to reduce carbon emissions in the LES service area and also may result in costs savings to LES because of lower costs of purchased power. There can be no assurances, however, regarding the ultimate effect of the Expanded Flexibility Agreement and any related purchase of power. The timing and amount of any cost savings and carbon reductions will depend upon, among other factors, terms in any PPA, the speed of development of solar capacity pursuant to any PPA, changes that TVA makes in its own fleet of power generation and actual efficiencies and outputs of any solar projects. In July 2024, the System entered into agreements with a solar energy company who will construct a solar farm to generate power to interconnect with the System’s electrical grid. Under TVA’s Expanded Flexibility program, this 6.5 MW project allows the System to purchase up to 5% of electrical demand from a source other than TVA and would meet the 5% of electrical capacity allowed under the program.

Pursuant to the Power Contract, the System may sell power to all customers in its service area, except certain large customers whom the TVA may serve directly. The Power Contract specifies the wholesale purchase rates and the monthly resale rates to be adhered to by the System, which may be revised periodically by the TVA, through the publication of an Adjustment Addendum, to cover the increased costs to the TVA. (See “Wholesale Rates” below).

The costs and availability of electrical power to the System may be affected by, among other things, factors relating to fuel supply, environmental considerations such as future legislation regulating the mining of coal and nuclear power, the construction and financing of future generating and transmission facilities and other factors relating to the TVA’s ability to supply the power demands of its customers, including the System.

TVA’s operating revenues were \$9.8 billion and \$8.8 billion for the nine months ended June 30, 2025 and 2024, respectively. Operating revenues increased for the nine months ended June 30, 2025, as compared to the same period of the prior year, primarily as a result of higher effective fuel rates, higher effective base rates, and increased sales volume. Total operating expenses increased \$743 million for the nine months ended June 30, 2025, as compared to the nine months ended June 30, 2024. Fuel and purchased power expense increased \$490 million for the nine months ended June 30, 2025, as compared to the same period of the prior year. Sales of electricity were 120,527 million and 117,313 million kWh for the nine months ended June 30, 2025 and 2024, respectively. On January 22, 2025, TVA reached an all-time record high peak power demand of approximately 35,430 megawatts (“MW”). This peak was over 800 MW greater than TVA’s previous all-time peak set in January 2024. More information concerning the TVA and its financial condition is available in TVA’s Form 10-K Annual Report filing with the Securities Exchange Commission (the “SEC”) for the fiscal year ended September 30, 2024 and Form 10-Q Quarterly Report filing with the SEC for the quarterly period ended September 30, 2025.

The Consolidated Appropriations Act of 2005 added a provision to the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that requires TVA to file with the SEC such periodic, current and supplementary information, documents and reports as would be required pursuant to Section 13 of the Exchange Act if TVA were an issuer of securities registered pursuant to Section 12 of the Exchange Act. Extensive information concerning TVA is available in the public domain, and potential purchasers of the Series 2025 Bonds should obtain and review such information.

### **Wholesale Rates, User Fees and Charges**

Pursuant to the Power Contract, the Board and the Board of Mayor and Aldermen agree to the resale rates set forth in certain schedules established by the TVA. Such schedules include provisions that customer billings will be adjusted in accordance with the Adjustment Addenda published by the TVA. The Board and the Board of Mayor and Aldermen are not otherwise subject to rate regulation under existing law, and are not aware of any pending legislation to make its electric rates subject to regulation. The Power Contract further provides that if the resale rates

set forth herein do not provide sufficient revenues for the operation and maintenance of the System on a self-supporting financially sound basis, including debt service, reserves therefor and depreciation, the TVA, the Board and the Board of Mayor and Aldermen shall agree to changes in resale rates to provide increased revenues. Similarly, if the rates and charges produce excess revenues, the parties shall agree to reductions in resale rates. Since the date of the Power Contract, the wholesale and resale rates have been adjusted from time to time through the publication by the TVA of the Adjustment Addenda.

See TVA's website at [www.tva.gov](http://www.tva.gov) for additional information on TVA's strategic plans, including its draft 2025 Integrated Resource Plan (the IRP), a comprehensive study evaluating future power needs, available resources, and the potential cost, environmental and operating impacts of available options. The final IRP is intended to serve as TVA's guide for power generation decisions as well as for long-term operational and financial planning.

### Wholesale Rates

The current rates and charges for wholesale power service from the TVA went into effect on August 01, 2025 pursuant to a TVA Adjustment Addendum dated July 14, 2025 and are the standard rates and charges applicable to municipal and cooperative distributors of TVA power under power contracts currently being entered into or renewed. They are subject to certain adjustments provided for in the Power Contract.

The Wholesale Power Rate Base Charge is as follows.

Delivery Point Charge: \$1,500 for one delivery point per month and \$2,000 for each additional delivery point per month.

#### Wholesale Rate Schedule (as of August 01, 2025)

(Includes the TVA fuel costs Adjustment)

#### Wholesale Service – Summer Period

Demand Charge:		
Onpeak	\$	9.08
Maximum	\$	3.35
Energy Charge:		
Onpeak	\$	.08133
Offpeak	\$	.05933
Grid Access Charge (per Unit):	\$	.00563

#### LS – (Outdoor Lighting)

Energy Charge	\$	.02721
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#### TDMSA - Manufacturing Service

Demand Charge:		
Onpeak	\$	10.94
Maximum	\$	2.69
Energy Charge:		
Onpeak	\$	.08440
Offpeak first 200 Hours	\$	.05771
Offpeak next 200 Hours	\$	.02842
Offpeak additional KWH	\$	.02570

Source: TVA Adjustment Addendum dated 07/14/2025.

Resale Rate Schedule (as of August 01, 2025)

Residential Rate Schedule:

Customer Charge - delivery point per month	\$	19.25
Minimum Charge	\$	24.98
Energy charge – cents per kWh	\$	.09123

General Power Schedule:

<u>GSA 1</u> - Customer charge – per delivery point per month	\$	20.11
Energy Charge – cents per kWh	\$	.09910

<u>GSA 2</u> - Customer charge per delivery point per month	\$	89.03
Excess over 50 kW	\$	15.55
Energy Charge – First 15,000 kWh per month	\$	.10158
Additional kWh per month	\$	.05085

<u>GSA 3</u> - Customer charge per delivery point per month	\$	223.58
Demand charges:		
First 1,000 kW	\$	15.26
Excess over 1,000 kW	\$	18.12
Energy Charge- per kWh	\$	.05237

\* LS – (Outdoor Lighting)

Customer Charge	\$	17.75
Energy Charge	\$	.04905

TDMSA - Manufacturing

Customer Charge	\$	1,500.00
Admin Fee	\$	350.00
Summer Season Onpeak kW	\$	11.27
Summer Season Max kW	\$	3.26
Summer Season Onpeak Excess of Contract kW	\$	11.27
Summer Season Onpeak kWh	\$	.05986
Summer Season Offpeak kWh – First 200 HUD	\$	.03237
Summer Season Offpeak kWh – Next 200 HUD	\$	.00220
Summer Season Offpeak kWh – Additional HUD	\$	-.00061

\* Various lighting wattages available.

Source: Lexington Electric System.

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### Ten Largest Users of the System

The ten largest revenue producers of the System (all industrial-class customers) for the year ending June 30, 2025 were as follows:

<u>Customer Name</u>	<u>Gross Revenue</u>	<u>Monthly Average Gross Revenue</u>	<u>Total Usage-kWh</u>	<u>Monthly Average Total Usage-kWh</u>
Columbus McKinnon	\$ 919,637	\$ 78,636	9,307,473	772,623
Autozone	852,377	71,031	7,543,200	628,600
Mark IV Dayco	662,192	55,183	5,162,988	430,249
* Adient	615,143	51,262	5,562,484	463,540
Volvo Penta	585,592	48,799	4,530,560	377,547
Leroy Somer	573,169	47,764	4,925,448	410,454
Leroy Somer	483,944	40,326	4,242,000	353,500
Falcon Plastics	478,190	39,849	4,161,852	346,821
Wal-Mart	437,316	36,443	4,136,600	344,717
Young Touchstone	<u>378,356</u>	<u>31,530</u>	<u>3,289,200</u>	<u>274,100</u>
	\$ 5,985,916	\$ 498,826	52,861,805	4,405,150

\* Plant closure announced.

The ten largest revenue producers shown above represented approximately 11.08319% of the total sales of electrical energy (\$54,008,953) and 12.297101% of the total amount of kWh's sold (429,872,085) as of June 30, 2025.

Source: Lexington Electric System and June 2025 TVA monthly Report.

### Historical Number of Meters in Service

<u>FY</u>	<u>Residential</u>	<u>% Difference</u>	<u>Commercial/Other</u>	<u>% Difference</u>	<u>Total Meters</u>	<u>% Difference</u>
2015	17,785	-0.17	4,367	+2.90	22,152	+0.42
2016	17,897	+0.63	4,662	+6.76	22,559	+1.84
2017	17,790	-0.60	4,713	+1.09	22,503	-0.25
2018	17,769	-0.12	4,760	+1.00	22,529	+0.12
2019	17,700	-0.39	4,798	+0.80	22,498	-0.14
2020	17,624	-0.43	4,869	+1.48	22,493	-0.02
2021	17,712	+0.50	5,018	+3.06	22,730	+1.05
2022	17,810	+0.55	5,145	+2.53	22,955	+0.99
2023	17,863	+0.30	5,303	+3.07	23,166	+0.92
2024	17,883	+0.11	5,524	+4.16	23,407	+1.05
2025	18,014	+0.73	5,678	+2.78	23,692	+1.21

Source: 2024 Annual Financial Report and June 2025 monthly TVA Report.

### Historical Sales in Kilowatt Hours

<u>Fiscal Year</u>	<u>Residential</u>	<u>Commercial/Other</u>	<u>Total</u>
2015	235,062,450	206,086,320	441,148,770
2016	227,840,670	199,160,976	427,001,646
2017	230,321,894	199,500,123	429,822,017
2018	234,493,873	193,499,689	427,993,562
2019	236,747,050	196,496,921	433,243,971
2020	228,569,100	187,714,854	416,283,954
2021	228,892,999	188,817,676	417,710,675
2022	229,195,584	193,660,823	422,856,407
2023	226,920,682	194,683,057	421,603,739
2024	226,503,002	191,594,123	418,097,125
* 2025	233,417,178	195,766,508	429,183,686

\* As of June 30, 2025.

Source: 2024 Annual Financial Report and June 2025 monthly TVA report.

**LEXINGTON ELECTRIC SYSTEM (Electric Division)**  
**PRIOR YEAR INCOME STATEMENTS (extracted from audited financial statements)**

	Audit 2020	Audit 2021	Audit 2022	Audit 2023	Audit 2024	* Unaudited 2025
<b>OPERATING REVENUES</b>						
Residential Sales	\$ 24,787,725	\$ 24,631,583	\$ 26,133,755	\$ 28,451,247	\$ 26,846,085	\$ 29,271,532
Small Lighting & Power Sales	\$ 5,344,056	\$ 5,406,205	\$ 5,851,534	\$ 6,248,535	\$ 6,371,191	\$ 6,999,051
Large Lighting and Power Sales	\$ 14,096,616	\$ 13,859,144	\$ 14,980,362	\$ 16,805,052	\$ 15,543,017	\$ 16,994,914
General Power Credit	\$ (216,122)	\$ (228,380)	\$ (718,418)	\$ (694,625)	\$ (892,241)	\$ (868,309)
Street Lighting	\$ 372,835	\$ 369,823	\$ 391,266	\$ 400,892	\$ 387,236	\$ 402,144
Outdoor Lighting	\$ 1,018,386	\$ 1,019,825	\$ 1,153,543	\$ 1,284,140	\$ 1,215,613	\$ 1,221,286
Uncollectible Accounts	\$ (58,000)	\$ -	\$ -	\$ -	\$ (45,000)	\$ (11,665)
Total Charges for Sales & Services	\$ 45,345,495	\$ 45,058,200	\$ 47,792,042	\$ 52,495,241	\$ 49,425,901	\$ 54,008,953
Other Revenue Sources:						
Forfeited Discounts	\$ 270,910	\$ 244,750	\$ 253,924	\$ 272,658	\$ 248,755	\$ 266,723
Miscellaneous Service Revenue	\$ 252,679	\$ 268,005	\$ 257,688	\$ 263,764	\$ 260,810	\$ 271,579
Rent from Electric Property	\$ 478,615	\$ 592,442	\$ 835,169	\$ 816,652	\$ 857,363	\$ 877,376
Joint Costs Rent	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 38,976
LexNet Access Fee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,048,149
Total Other Revenue Sources	\$ 1,002,204	\$ 1,105,197	\$ 1,346,781	\$ 1,353,074	\$ 1,366,927	\$ 2,502,802
<b>TOTAL OPERATING REVENUE</b>	<b>\$ 46,347,699</b>	<b>\$ 46,163,397</b>	<b>\$ 49,138,823</b>	<b>\$ 53,848,315</b>	<b>\$ 50,792,829</b>	<b>\$ 56,511,755</b>
<b>OPERATING EXPENSES:</b>						
Purchased Power & Facilities Charges	\$ 34,163,658	\$ 32,894,043	\$ 35,277,594	\$ 39,250,199	\$ 36,844,944	\$ 40,011,300
Operating Expense	\$ 5,875,762	\$ 5,428,219	\$ 4,929,973	\$ 5,849,139	\$ 6,708,279	\$ 6,747,354
Maintenance Expense	\$ 3,172,262	\$ 2,591,995	\$ 2,326,448	\$ 2,962,415	\$ 3,708,764	\$ 3,031,429
Tax Equivalent Payments to Others	\$ 269,842	\$ 304,816	\$ 303,859	\$ 267,453	\$ 277,142	\$ 1,595,629
Depreciation & Amortization	\$ 2,372,981	\$ 2,614,543	\$ 2,684,471	\$ 2,702,201	\$ 2,771,171	\$ 3,032,099
<b>TOTAL OPERATING EXPENDITURES</b>	<b>\$ 45,854,505</b>	<b>\$ 43,833,616</b>	<b>\$ 45,522,345</b>	<b>\$ 51,031,407</b>	<b>\$ 50,310,300</b>	<b>\$ 54,417,811</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 493,194</b>	<b>\$ 2,329,781</b>	<b>\$ 3,616,478</b>	<b>\$ 2,816,908</b>	<b>\$ 482,529</b>	<b>\$ 2,093,945</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
Interest Income	\$ 96,564	\$ 63,310	\$ 167,909	\$ 258,808	\$ 980,049	\$ 676,956
Loss on sale of assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Donations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (7,850)
Interest Expense	\$ (400,215)	\$ (400,168)	\$ (382,706)	\$ (362,604)	\$ (1,210,145)	\$ (1,764,322)
Amortization of debt expense	\$ (11,632)	\$ (13,279)	\$ (13,279)	\$ (13,279)	\$ 18	\$ (38,832)
Miscellaneous Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous Expense	\$ (78,316)	\$ (71,878)	\$ (59,802)	\$ (55,819)	\$ (71,559)	\$ 46,380
<b>TOTAL NON-OPERATING REV'S (EXPENSES)</b>	<b>\$ (393,599)</b>	<b>\$ (422,015)</b>	<b>\$ (287,878)</b>	<b>\$ (172,894)</b>	<b>\$ (301,637)</b>	<b>\$ (1,087,668)</b>
<b>NET INCOME</b>	<b>\$ 99,595</b>	<b>\$ 1,907,766</b>	<b>\$ 3,328,600</b>	<b>\$ 2,644,014</b>	<b>\$ 180,892</b>	<b>\$ 1,006,275</b>
<b>TRANSFER &amp; EXTRAORDINARY ITEM</b>						
Transfer out-Tax Equivalents	\$ (810,199)	\$ (911,921)	\$ (918,151)	\$ (817,833)	\$ (862,605)	\$ (1,005,717)
Extraordinary Item	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL TRANSFER &amp; EXTRAORDINARY ITEM</b>	<b>\$ (810,199)</b>	<b>\$ (911,921)</b>	<b>\$ (918,151)</b>	<b>\$ (817,833)</b>	<b>\$ (862,605)</b>	<b>\$ (1,005,717)</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ (710,604)</b>	<b>\$ 995,845</b>	<b>\$ 2,410,449</b>	<b>\$ 1,826,181</b>	<b>\$ (681,713)</b>	<b>\$ 558</b>
<b>TOTAL NET POSITION-BEGINNING</b>	<b>\$ 33,587,187</b>	<b>\$ 32,876,583</b>	<b>\$ 32,587,098</b>	<b>\$ 34,997,547</b>	<b>\$ 36,823,728</b>	<b>\$ 36,142,015</b>
<b>RESTATEMENT-GASB No. 75 / Adjustments</b>	<b>\$ -</b>	<b>\$ (1,285,330)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL NET POSITION-ENDING</b>	<b>\$ 32,876,583</b>	<b>\$ 32,587,098</b>	<b>\$ 34,997,547</b>	<b>\$ 36,823,728</b>	<b>\$ 36,142,015</b>	<b>\$ 36,142,573</b>

\* Compiled by the Municipal Advisor from financial statements provided by the Electric System.

**LEXNET (Broadband Division)**  
**PRIOR YEAR INCOME STATEMENTS (extracted from audited financial statements)**

	Audit <u>2023</u>	Audit <u>2024</u>	* Unaudited <u>2025</u>
<b><u>OPERATING REVENUES</u></b>			
Charges for Sales & Services	\$ -	\$ 257,153	\$ 3,119,285
Uncollectible Accounts	\$ -	\$ -	\$ -
Total Charges for Sales & Services	\$ -	\$ 257,153	\$ 3,119,285
Other Revenue Sources:			
Forfeited Discounts	\$ -	\$ -	\$ -
Miscellaneous Service Revenue	\$ -	\$ -	\$ 46,944
Joint Costs Rent	\$ -	\$ -	\$ -
LexNet Access Fee	\$ -	\$ -	\$ -
Total Other Revenue Sources	\$ -	\$ -	\$ 46,944
<b>TOTAL OPERATING REVENUE</b>	<b>\$ -</b>	<b>\$ 257,153</b>	<b>\$ 3,166,229</b>
<b><u>OPERATING EXPENSES:</u></b>			
Costs of Sales & Service	\$ -	\$ 42,340	\$ 180,011
Operating Expense	\$ -	\$ 87,835	\$ 2,231,442
Maintenance Expense	\$ -	\$ -	\$ 183,644
Tax Equivalent Payments to Others	\$ -	\$ -	\$ 11,474
Depreciation & Amortization	\$ -	\$ -	\$ 365
<b>TOTAL OPERATING EXPENDITURES</b>	<b>\$ -</b>	<b>\$ 130,175</b>	<b>\$ 2,606,935</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ -</b>	<b>\$ 126,978</b>	<b>\$ 559,294</b>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>			
Interest Income	\$ -	\$ 1,096	\$ 129,363
Loss on sale of assets	\$ -	\$ -	\$ -
Donations	\$ -	\$ -	\$ -
Interest Expense	\$ -	\$ -	\$ (63,970)
Amortization of debt expense	\$ -	\$ -	\$ -
Miscellaneous Revenue	\$ -	\$ 1,938	\$ -
Miscellaneous Expense	\$ -	\$ -	\$ -
<b>TOTAL NON-OPERATING REV'S (EXPENSES)</b>	<b>\$ -</b>	<b>\$ 3,034</b>	<b>\$ 65,393</b>
<b>NET INCOME</b>	<b>\$ -</b>	<b>\$ 130,012</b>	<b>\$ 624,687</b>
<b><u>TRANSFER &amp; EXTRAORDINARY ITEM</u></b>			
Transfer out-Tax Equivalents	\$ -	\$ -	\$ -
Extraordinary Item	\$ -	\$ -	\$ -
<b>TOTAL TRANSFER &amp; EXTRAORDINARY ITEM</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ -</b>	<b>\$ 130,012</b>	<b>\$ 624,687</b>
<b>TOTAL NET POSITION-BEGINNING</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 130,012</b>
<b>RESTATEMENT-GASB No. 75 / Adjustments</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL NET POSITION-ENDING</b>	<b>\$ -</b>	<b>\$ 130,012</b>	<b>\$ 754,699</b>

\* Compiled by the Municipal Advisor from financial statements provided by the Electric System's Broadband Division.



**Outstanding Debt (as of September 07, 2025)**

**Description of Debt**

	<b><u>Original Amount</u></b>	<b><u>Unpaid Principal</u></b>	<b><u>Coupon Rate</u></b>	<b><u>Remaining FY Debt Service</u></b>	<b><u>Final Maturity</u></b>
<b><u>Electric Revenue Bonds</u></b>					
Electric Revenue Bonds, Series 2017, dated 03/09/2017	\$ 6,810,000	\$ 3,400,000	2.25% - 2.75%	492,966	3/1/2032
Electric Revenue Bonds, Series 2018, dated 05/22/2018	\$ 3,000,000	\$ 2,175,000	4.0% - 3.40%	210,018	6/1/2038
Electric Revenue Bonds, Series 2019, dated 07/25/2019	\$ 6,300,000	\$ 4,550,000	5.0 - .05%	64,330	9/1/2036
Electric Revenue Bonds, Series 2023, dated 08/31/2023	\$ 22,000,000	\$ 21,325,000	5.0 - 4.625%	504,413	8/1/2053
Electric Revenue Bonds, Series 2024, dated 10/15/2024	\$ 12,000,000	\$ 11,815,000	5.0 - 4.0%	259,475	8/1/2054
<b>TOTALS</b>	<b>\$ 50,110,000</b>	<b>\$ 43,265,000</b>		<b>\$ 1,531,200</b>	
<b>Grand Total-All Debt</b>	<b>\$ 50,110,000</b>	<b>\$ 43,265,000</b>		<b>\$ 1,531,200</b>	

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**Outstanding Debt** (as of September 07, 2025)

The following table sets forth the current debt service requirements during each fiscal year on the Series 2017 Refunding Bonds, Series 2018, Series 2019 Refunding Bonds, Series 2023, Series 2024 and proposed Series 2025 Bonds. All secured by and payable from the Net Revenues of the System. There is no other debt secured by a lien on the Net Revenues of the System.

FY	Electric Rev RFG Bonds, Series 2017		Electric Revenue Bonds, Series 2018		Electric Revenue RFG Bonds, Series 2019	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 450,000	\$ 42,966	\$ 140,000	\$ 70,018	\$ -	\$ 64,330
2027	\$ 460,000	\$ 75,806	\$ 145,000	\$ 64,418	\$ 335,000	\$ 120,285
2028	\$ 475,000	\$ 65,456	\$ 150,000	\$ 60,068	\$ 350,000	\$ 103,160
2029	\$ 485,000	\$ 53,581	\$ 150,000	\$ 55,568	\$ 370,000	\$ 85,160
2030	\$ 495,000	\$ 41,456	\$ 155,000	\$ 51,068	\$ 390,000	\$ 66,160
2031	\$ 510,000	\$ 28,463	\$ 160,000	\$ 46,418	\$ 410,000	\$ 46,160
2032	\$ 525,000	\$ 14,438	\$ 165,000	\$ 41,618	\$ 430,000	\$ 27,310
2033	\$ -	\$ -	\$ 170,000	\$ 36,668	\$ 445,000	\$ 9,810
2034	\$ -	\$ -	\$ 175,000	\$ 31,143	\$ 455,000	\$ 796
2035	\$ -	\$ -	\$ 180,000	\$ 25,455	\$ 455,000	\$ 569
2036	\$ -	\$ -	\$ 190,000	\$ 19,605	\$ 455,000	\$ 341
2037	\$ -	\$ -	\$ 195,000	\$ 13,430	\$ 455,000	\$ 114
2038	\$ -	\$ -	\$ 200,000	\$ 6,800	\$ -	\$ -
	\$ 3,400,000	\$ 322,166	\$ 2,175,000	\$ 522,273	\$ 4,550,000	\$ 524,195

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	Electric Revenue Bonds, Series 2023		Electric Revenue Bonds, Series 2024		* Electric Revenue Bonds, Series 2025		Combined Total P&I
FY	Principal	Interest	Principal	Interest	Principal	Interest	
2026	\$ -	\$ 504,413	\$ -	\$ 259,475	\$ -	\$ 63,318	\$ 1,594,519
2027	\$ 365,000	\$ 999,700	\$ 195,000	\$ 514,075	\$ 60,000	\$ 190,050	\$ 3,524,334
2028	\$ 385,000	\$ 980,950	\$ 205,000	\$ 504,075	\$ 65,000	\$ 186,925	\$ 3,530,634
2029	\$ 405,000	\$ 961,200	\$ 215,000	\$ 493,575	\$ 65,000	\$ 183,675	\$ 3,522,759
2030	\$ 425,000	\$ 940,450	\$ 225,000	\$ 482,575	\$ 70,000	\$ 180,300	\$ 3,522,009
2031	\$ 445,000	\$ 918,700	\$ 235,000	\$ 471,075	\$ 75,000	\$ 176,675	\$ 3,522,490
2032	\$ 470,000	\$ 895,825	\$ 250,000	\$ 458,950	\$ 80,000	\$ 172,800	\$ 3,530,940
2033	\$ 495,000	\$ 871,700	\$ 260,000	\$ 446,200	\$ 80,000	\$ 168,800	\$ 2,983,178
2034	\$ 520,000	\$ 846,325	\$ 275,000	\$ 432,825	\$ 85,000	\$ 164,675	\$ 2,985,764
2035	\$ 545,000	\$ 819,700	\$ 290,000	\$ 418,700	\$ 90,000	\$ 160,300	\$ 2,984,724
2036	\$ 570,000	\$ 791,825	\$ 305,000	\$ 403,825	\$ 95,000	\$ 155,675	\$ 2,986,271
2037	\$ 600,000	\$ 762,575	\$ 320,000	\$ 388,200	\$ 100,000	\$ 150,800	\$ 2,985,119
2038	\$ 635,000	\$ 731,700	\$ 335,000	\$ 371,825	\$ 105,000	\$ 145,675	\$ 2,531,000
2039	\$ 665,000	\$ 699,200	\$ 355,000	\$ 354,575	\$ 110,000	\$ 140,300	\$ 2,324,075
2040	\$ 700,000	\$ 665,075	\$ 370,000	\$ 336,450	\$ 115,000	\$ 134,675	\$ 2,321,200
2041	\$ 735,000	\$ 629,200	\$ 390,000	\$ 317,450	\$ 120,000	\$ 128,800	\$ 2,320,450
2042	\$ 770,000	\$ 591,575	\$ 410,000	\$ 297,450	\$ 125,000	\$ 122,988	\$ 2,317,013
2043	\$ 810,000	\$ 554,606	\$ 430,000	\$ 278,600	\$ 135,000	\$ 117,138	\$ 2,325,344
2044	\$ 845,000	\$ 518,403	\$ 450,000	\$ 261,000	\$ 140,000	\$ 110,950	\$ 2,325,353
2045	\$ 885,000	\$ 480,006	\$ 465,000	\$ 242,700	\$ 145,000	\$ 104,538	\$ 2,322,244
2046	\$ 925,000	\$ 439,281	\$ 485,000	\$ 223,700	\$ 150,000	\$ 97,900	\$ 2,320,881
2047	\$ 965,000	\$ 396,756	\$ 505,000	\$ 203,900	\$ 160,000	\$ 90,725	\$ 2,321,381
2048	\$ 1,010,000	\$ 352,319	\$ 525,000	\$ 183,300	\$ 165,000	\$ 83,006	\$ 2,318,625
2049	\$ 1,060,000	\$ 305,744	\$ 545,000	\$ 161,900	\$ 175,000	\$ 74,931	\$ 2,322,575
2050	\$ 1,110,000	\$ 256,225	\$ 570,000	\$ 139,600	\$ 185,000	\$ 66,381	\$ 2,327,206
2051	\$ 1,160,000	\$ 203,731	\$ 590,000	\$ 116,400	\$ 195,000	\$ 57,356	\$ 2,322,488
2052	\$ 1,215,000	\$ 148,809	\$ 615,000	\$ 92,300	\$ 200,000	\$ 47,975	\$ 2,319,084
2053	\$ 1,275,000	\$ 91,228	\$ 640,000	\$ 67,200	\$ 210,000	\$ 38,238	\$ 2,321,666
2054	\$ 1,335,000	\$ 30,872	\$ 665,000	\$ 41,100	\$ 220,000	\$ 28,025	\$ 2,319,997
2055	\$ -	\$ -	\$ 695,000	\$ 13,900	\$ 235,000	\$ 17,219	\$ 961,119
2056	\$ -	\$ -	\$ -	\$ -	\$ 245,000	\$ 5,819	\$ 250,819
	\$ 21,325,000	\$ 17,388,094	\$ 11,815,000	\$ 8,976,900	\$ 4,000,000	\$ 3,566,630	\$ 78,565,257

\* Interest calculated using an estimated true Interest cost of 4.705379%.

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**DEBT SERVICE COVERAGE RATIOS**

	<b><u>AUDIT FY 2021</u></b>	<b><u>AUDIT FY 2022</u></b>	<b><u>AUDIT FY 2023</u></b>	<b><u>AUDIT FY 2024</u></b>	<b><u>UNAUDITED * FY 2025</u></b>
<b>Operating Revenues</b>	\$ 46,163,397	\$ 49,138,823	\$ 53,848,315	\$ 51,049,982	\$ 56,511,756
Other / Non-Operating Revenues	\$ 63,310	\$ 167,909	\$ 258,808	\$ 981,145	\$ 669,106
<b>Total Gross Earnings (1)</b>	<b>\$ 46,226,707</b>	<b>\$ 49,306,732</b>	<b>\$ 54,107,123</b>	<b>\$ 52,031,127</b>	<b>\$ 57,180,862</b>
<b>Operating expenses</b>	\$ 44,800,447	\$ 46,896,283	\$ 52,280,942	\$ 52,582,828	\$ 56,174,586
Less: Depreciation	\$ (2,614,543)	\$ (2,684,471)	\$ (2,702,201)	\$ (2,771,171)	\$ (3,032,099)
Less: Transfers/Tax Equivalents	\$ (911,921)	\$ (918,151)	\$ (817,833)	\$ (862,605)	\$ (1,756,775)
Less: Interest Expense	\$ (400,168)	\$ (382,706)	\$ (362,604)	\$ (1,210,146)	\$ (1,005,717)
<b>Total Operating Expenses (2)</b>	<b>\$ 40,873,815</b>	<b>\$ 42,910,955</b>	<b>\$ 48,398,304</b>	<b>\$ 47,738,906</b>	<b>\$ 50,379,995</b>
<b>Revenue Available for Debt</b>	<b>\$ 5,352,892</b>	<b>\$ 6,395,777</b>	<b>\$ 5,708,819</b>	<b>\$ 4,292,221</b>	<b>\$ 6,800,867</b>
<b>(3) Current Debt Service Reserve Fund</b>	<b>\$ 1,203,684</b>	<b>\$ 1,203,684</b>	<b>\$ 1,203,684</b>	<b>\$ 1,203,684</b>	<b>\$ 1,203,684</b>
<b>Debt Service Coverage Ratio</b>	<b>4.44709%</b>	<b>5.31350%</b>	<b>4.74279%</b>	<b>3.56590%</b>	<b>5.65004%</b>
<b>(4) Maximum Debt Service</b>	<b>\$ 1,203,684</b>	<b>\$ 1,203,684</b>	<b>\$ 1,203,684</b>	<b>\$ 3,530,940</b>	<b>\$ 3,530,940</b>
<b>(5) Debt Service Coverage Ratio</b>	<b>4.44709%</b>	<b>5.31350%</b>	<b>4.74279%</b>	<b>1.21560%</b>	<b>1.92608%</b>

\* Unaudited.

(1) As defined in the Resolution. Includes operating revenues, interest income, and miscellaneous revenue.

(2) As defined in the Resolution. Excludes depreciation, interest expense, and payments in lieu-of taxes.

(3) There is no debt service reserve fund for the Electric Revenue Bonds, Series 2023, Series 2024 or Series 2025.

(4) FY24 and Unaudited FY25 figures show estimated maximum debt service after issuance of the Series 2025 Bonds. Amounts in FY21 through FY23 show actual maximum debt service for the respective years.

(5) The Coverage Ratios for Audited FY24 and Unaudited FY 2025 include estimated maximum debt service after issuance of the Series 2025 Bonds.

## **APPENDIX E**

Audited Financial Statements of the Lexington Electric System  
for the Fiscal Year ended June 30, 2024.

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**LEXINGTON ELECTRIC SYSTEM**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

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

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

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## **INTRODUCTORY SECTION**



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

**BOARD MEMBERS**

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

**MANAGEMENT TEAM**

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

**COUNSEL**

Ken Walker  
Lexington, Tennessee

**INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

ATA, PLLC  
Jackson, Tennessee

## **FINANCIAL SECTION**



## Independent Auditor's Report

Board of Directors  
Lexington Electric System  
Lexington, Tennessee

### Report on the Audit of the Financial Statements

#### Opinions

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

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

#### Basis for Opinions

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

#### Emphasis of Matter

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

#### Responsibilities of Management for the Financial Statements

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

## **Required Supplementary Information**

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

## **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The accompanying combining financial statements, Schedules of Operating Revenues and Expenses – Electric Division, Schedule of Operating Revenues and Expenses-Broadband Division, Schedule of Changes in Long-Term Debt by Individual Issue, Schedule of Long-term Debt, Electric Rates in Force, Broadband Rates in Force, and the Schedule of expenditure of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements, Schedules of Operating Revenues and Expenses – Electric Division, Schedule of Operating Revenues and Expenses- Broadband Division, Schedule of Changes in Long-Term Debt by Individual Issue, Schedule of Long-term Debt, and Electric Rates in Force, Broadband Rates in Force, and the Schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Information**

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

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

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2024 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

*ATA, PLLC*

Jackson, Tennessee  
October 30, 2024

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

### **FINANCIAL HIGHLIGHTS**

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

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

### **OVERVIEW OF THE FINANCIAL REPORT**

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

### **REQUIRED FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

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

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

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

## FINANCIAL ANALYSIS

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

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

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

### CONDENSED STATEMENT OF NET POSITION (TABLE 1A)

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

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



**CONDENSED STATEMENT OF NET POSITION (TABLE 1B)**

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

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

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

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

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

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

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

**CAPITAL ASSETS AND DEBT ADMINISTRATION****Capital Assets**

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

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

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

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

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

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

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

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

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

**Long-term debt**

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

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

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

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

**LEXINGTON ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

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

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

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

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

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

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

**C. Assets, Liabilities, and Equity**

**Deposits and investments**

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

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

**Investments – Pension Plan**

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

# LEXINGTON ELECTRIC SYSTEM

## NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

### Accounts receivable

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

### Inventories and prepaid items

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

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

### Restricted assets

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

### Capital assets

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

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

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

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

### Compensated absences

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

### Long-term obligations

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

## LEXINGTON ELECTRIC SYSTEM NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

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

### **Deferred outflows/inflows of resources**

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

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

### **Net Position Flow Assumption**

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

### **Net position**

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

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

### **Pensions**

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

# LEXINGTON ELECTRIC SYSTEM NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

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

## NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### Budgetary information

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

## NOTE 3 – DETAILED NOTES ON ALL FUNDS

### A. Deposits and Investments

#### Custodial credit risk

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

#### Investment-Fiduciary Fund

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

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

**LEXINGTON ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

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

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

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

	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	\$ 10,812,445	\$ -	\$ 10,812,445	\$ -

  

	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	\$ 3,535,202	\$ -	\$ 3,535,202	\$ -
Equity Securities				
Pooled separate accounts	\$ 6,445,821	\$ -	\$ 6,445,821	\$ -
Total investments measure at fair value	\$ 9,981,023	\$ -	\$ 9,981,023	\$ -

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

**LEXINGTON ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2024 and 2023

**B. Receivables**

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

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

**C. Capital assets**

Capital asset activity during the years was as follows:

Description	Balance at June 30, 2023	Additions	Disposals	Balance at June 30, 2024
Capital assets, not being depreciated				
Distribution plant	\$ 262,996	\$ -	\$ -	\$ 262,996
General plant	32,554	-	-	32,554
Construction in progress	<u>2,392,551</u>	<u>17,971,999</u>	-	<u>20,364,550</u>
Total capital assets not being depreciated	<u>2,688,101</u>	<u>17,971,999</u>	-	<u>20,660,100</u>
Capital assets, being depreciated				
Distribution plant	75,300,660	3,828,261	556,599	78,572,322
General plant	<u>7,446,888</u>	<u>1,109,764</u>	<u>196,004</u>	<u>8,360,648</u>
Total capital assets being depreciated	<u>82,747,548</u>	<u>4,938,025</u>	<u>752,603</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	<u>5,218,732</u>	<u>471,480</u>	<u>187,920</u>	<u>5,502,292</u>
Total accumulated depreciation	<u>36,916,646</u>	<u>3,104,994</u>	<u>986,268</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>47,897,598</u>
Total capital assets, net	<u>\$ 48,519,003</u>	<u>\$ 19,805,030</u>	<u>\$ (233,665)</u>	<u>\$ 68,557,698</u>

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



**LEXINGTON ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2024 and 2023

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

**D. Restricted Assets**

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

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

**LEXINGTON ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

**E. Net Position**

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

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

**F. Long-term Debt**

Long-term debt is made up of the following:

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

# LEXINGTON ELECTRIC SYSTEM NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

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

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

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

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

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

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

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

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

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

# LEXINGTON ELECTRIC SYSTEM NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

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

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

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

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

## NOTE 4 – OTHER INFORMATION

### A. Pension Plan

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

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

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

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

**LEXINGTON ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

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

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

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

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

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

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

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

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

The percentage is determined from the following table:

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

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

# LEXINGTON ELECTRIC SYSTEM NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

At July 1, 2023 and 2022 membership consisted of:

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

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

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

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

**LEXINGTON ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

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

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

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

  

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

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

# LEXINGTON ELECTRIC SYSTEM NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

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

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

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

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

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

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



**LEXINGTON ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2024 and 2023

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

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

**Year ended June 30:**

2024	22,548
2025	(11,612)
2026	370,518
2027	(89,839)
2028	(2)
Thereafter	-

**B. Other Post-Employment Benefits (OPEB)**

**1. Lexington Electric System OPEB Plan**

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

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

# LEXINGTON ELECTRIC SYSTEM NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

## Changes in Total OPEB Liability

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

## **Actuarial Methods and Assumptions**

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

## **Plan Membership**

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

# LEXINGTON ELECTRIC SYSTEM NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

## Benefits Provided

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

## Actuarial assumptions

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

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

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

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

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

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

**LEXINGTON ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

***Sensitivity of Net OPEB Liability to Changes in the Discount Rate***

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

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

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

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

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

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

**2024**

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

**2023**

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

# LEXINGTON ELECTRIC SYSTEM NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

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

**Year ended June 30:**

2025	(25,579)
2026	(25,579)
2027	(25,579)
2028	(19,825)
2029	(56,288)
Thereafter	(23,793)

## 2. State LGOP OPEB Plan

### Plan Description

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

### Benefits provided

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

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

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

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

# LEXINGTON ELECTRIC SYSTEM

## NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

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

### Total OPEB Liability

#### Actuarial assumptions

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

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

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

#### Discount rate

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

**LEXINGTON ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2024 and 2023

**Changes in the Total OPEB Liability**

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

**Changes of assumptions**

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

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

**LEXINGTON ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2024 and 2023

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

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

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

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

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

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

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

<b>2024</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
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>



**LEXINGTON ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2024 and 2023

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

**Year Ended June 30:**

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

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

**C. Power Contract**

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

**D. Risk Management**

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

**LEXINGTON ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2024 and 2023

**E. Defined Contribution Plan**

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

## **REQUIRED SUPPLEMENTARY INFORMATION**

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

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

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

*See independent auditor's report.*

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

**Notes to OPEB Required Supplementary Information**

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

***Methods and assumptions used to determine contribution rates:***

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

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

*See independent auditor's report.*

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

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

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

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

*See independent auditor's report.*

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

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

**Other Information:**

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

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

*See independent auditor's report.*

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

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

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

*See independent auditor's report.*



**LEXINGTON ELECTRIC SYSTEM**  
**SCHEDULE OF PLAN CONTRIBUTIONS**  
June 30, 2024

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

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

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

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

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

*See independent auditor's report.*

## **SUPPLEMENTARY AND OTHER INFORMATION SECTION**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

For the Years Ended June 30, 2024 and 2023

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

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

**LEXINGTON ELECTRIC SYSTEM**  
**SCHEDULES OF OPERATING REVENUES AND**  
**EXPENSES ELECTRIC DIVISION**  
For the Years Ended June 30, 2024 and 2023

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

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

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

For the Years Ended June 30, 2024 and 2023

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

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

# **LEXINGTON ELECTRIC SYSTEM** **ELECTRIC RATES IN FORCE**

June 30, 2024

## **Residential rate schedule**

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

## **General power schedule**

### GSA1

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

### GSA2

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

### GSA3

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

### GSB

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

### GSC

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

*See independent auditor's report*

**LEXINGTON ELECTRIC SYSTEM**  
**ELECTRIC RATES IN FORCE**  
June 30, 2024

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

*See independent auditor's report*

**LEXINGTON ELECTRIC SYSTEM  
ELECTRIC RATES IN FORCE**

June 30, 2024

**MSD**

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

**OL**

Customer charge per delivery point per month	17.75
Energy Charge	0.07143

*See independent auditor's report*

**LEXINGTON ELECTRIC SYSTEM  
BROADBAND RATES IN FORCE**

June 30, 2024

Basic Internet Connection 300Mbps	\$ 59.99
Premium Internet Connection 600Mbps	\$ 69.99
Ultimate Internet Connection 1.2Gpbs	\$ 99.99
Business Pro Basic Internet Connection 300MB	\$ 149.99
Business Pro Premium Internet Connection 600Mbps	\$ 249.99
Business Pro Ultimate Internet Conncection 1.2 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,										
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
<b>Revenue</b>										
Residential	\$ 26,846,085	\$ 28,451,247	\$ 26,133,755	\$ 24,631,583	\$ 24,729,725	\$ 25,905,666	\$ 25,513,546	\$ 25,288,503	\$ 23,886,123	\$ 24,520,913
Commercial	6,371,191	6,248,535	5,851,534	5,406,205	5,344,055	5,548,179	5,429,997	5,356,461	5,052,055	5,176,973
Industrial	14,650,776	16,110,427	14,261,944	13,200,349	13,880,494	14,614,626	14,488,949	14,896,122	14,462,881	14,958,059
Street and outdoor lighting	1,602,849	1,685,032	1,544,809	1,389,648	1,391,221	1,412,187	1,432,301	1,433,215	1,369,646	1,389,870
Other operating	1,366,928	1,353,074	1,346,781	1,105,197	1,002,204	950,900	935,979	837,809	788,774	819,413
Interest and other revenue	981,145	258,808	167,909	63,310	96,564	120,316	73,648	52,611	79,373	101,769
	<u>\$ 51,818,974</u>	<u>\$ 54,107,123</u>	<u>\$ 49,306,732</u>	<u>\$ 45,796,292</u>	<u>\$ 46,444,263</u>	<u>\$ 48,551,874</u>	<u>\$ 47,874,420</u>	<u>\$ 47,864,721</u>	<u>\$ 45,638,852</u>	<u>\$ 46,966,997</u>
<b>Expense</b>										
Electric power costs	36,887,284	39,250,199	35,277,594	32,463,628	34,163,658	36,232,964	35,995,468	35,701,316	34,507,088	35,789,227
Other operating expenses	10,504,878	8,811,554	7,256,421	8,020,214	9,048,024	7,533,356	7,342,275	7,038,526	6,953,004	6,298,850
Provision for depreciation	2,771,171	2,702,201	2,684,471	2,614,543	2,372,981	2,307,349	2,366,788	2,299,570	2,205,545	1,886,421
Tax equivalents and transfers	1,139,747	1,085,286	1,222,010	1,216,737	1,080,041	1,089,503	1,088,604	1,073,969	1,094,271	1,099,373
Interest and other expense	1,279,748	431,702	455,787	485,325	490,163	518,800	541,139	531,470	874,911	600,015
	<u>52,582,828</u>	<u>52,280,942</u>	<u>46,896,283</u>	<u>44,800,447</u>	<u>47,154,867</u>	<u>47,681,972</u>	<u>47,334,274</u>	<u>46,644,851</u>	<u>45,634,819</u>	<u>45,673,886</u>
Net Income (Loss)	<u>\$ (763,854)</u>	<u>\$ 1,826,181</u>	<u>\$ 2,410,449</u>	<u>\$ 995,845</u>	<u>\$ (710,604)</u>	<u>\$ 869,902</u>	<u>\$ 540,146</u>	<u>\$ 1,219,870</u>	<u>\$ 4,033</u>	<u>\$ 1,293,111</u>
<b>Financial</b>										
Plant in service (at original cost)	<u>\$ 107,593,070</u>	<u>\$ 85,435,649</u>	<u>\$ 79,590,417</u>	<u>\$ 80,177,042</u>	<u>\$ 79,295,243</u>	<u>\$ 72,083,834</u>	<u>\$ 69,462,520</u>	<u>\$ 68,187,811</u>	<u>\$ 66,527,554</u>	<u>\$ 64,559,407</u>
<b>Power in use - KWH</b>										
Residential	226,503,002	226,920,682	229,196,584	228,892,999	228,569,100	236,747,050	234,493,873	230,321,894	227,840,670	235,062,450
Commercial	45,490,499	42,571,775	43,239,757	41,857,692	41,245,612	42,797,291	42,236,856	41,489,627	40,214,060	41,341,206
Industrial	135,017,325	140,144,255	138,259,283	134,689,342	134,221,827	141,438,614	138,958,359	145,711,964	146,688,174	152,445,808
Other Customers	<u>11,086,299</u>	<u>11,478,409</u>	<u>12,160,783</u>	<u>12,270,642</u>	<u>12,247,415</u>	<u>12,261,016</u>	<u>12,304,474</u>	<u>12,298,532</u>	<u>12,258,742</u>	<u>12,299,306</u>
Total	<u>418,097,125</u>	<u>421,115,121</u>	<u>422,856,407</u>	<u>417,710,675</u>	<u>416,283,954</u>	<u>433,243,971</u>	<u>427,993,562</u>	<u>429,822,017</u>	<u>427,001,646</u>	<u>441,148,770</u>
Peak KW demand	<u>113,500</u>	<u>115,000</u>	<u>118,611</u>	<u>109,943</u>	<u>113,257</u>	<u>116,958</u>	<u>110,900</u>	<u>103,498</u>	<u>111,752</u>	<u>112,391</u>
<b>Number of customers</b>										
Residential	17,883	17,863	17,810	17,712	17,624	17,700	17,769	17,790	17,897	17,785
Small commercial	4,977	4,747	4,606	4,485	4,325	4,268	4,227	4,167	4,101	4,050
Large commercial	241	248	233	237	238	233	235	232	242	233
Street and athletic	62	60	56	53	55	55	55	55	55	47
Outdoor lighting - Code 78	<u>244</u>	<u>248</u>	<u>250</u>	<u>243</u>	<u>251</u>	<u>242</u>	<u>243</u>	<u>259</u>	<u>264</u>	<u>37</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>	<u>22,152</u>
<b>Line Loss</b>	<u>6.11%</u>	<u>4.54%</u>	<u>5.72%</u>	<u>5.62%</u>	<u>5.47%</u>	<u>5.09%</u>	<u>6.64%</u>	<u>4.93%</u>	<u>5.82%</u>	<u>6.00%</u>

*See independent auditor's report*



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

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

*See independent auditor's report*

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

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

*See independent auditor's report*

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

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

\* Denotes major program

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the System under programs of the federal government for the year ended June 30, 2024. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, changes in financial position, or cash flows of the System.

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

*See independent auditor's report*

## **INTERNAL CONTROL AND COMPLIANCE SECTION**



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

Board of Directors  
Lexington Electric System  
Lexington, Tennessee

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

**Report on Internal Control Over Financial Reporting**

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

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

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

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

*ATA, PLLC*

Jackson, Tennessee  
October 30, 2024



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

Board of Directors  
Lexington Electric System  
Lexington, Tennessee

**Report on Compliance for Each Major Federal Program**

**Opinion on Each Major Federal Program**

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

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

***Basis for Opinion on Each Major Federal Program***

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

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

***Responsibilities of Management for Compliance***

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

***Auditor's Responsibilities for the Audit of Compliance***

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Lexington Electric System's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Lexington Electric System's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Lexington Electric System's internal control over compliance. Accordingly, no such opinion is expressed.

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

### **Report on Internal Control Over Compliance**

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

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



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

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

*ATA, PLLC*

Jackson, Tennessee  
October 30, 2024

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

**Section I - Summary of Auditor's Results**

Financial Statements

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

Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u>          </u> yes	<u>      x      </u> no
Significant deficiency(ies) identified?	<u>          </u> yes	<u>      x      </u> none reported

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

Unmodified

Any audit findings disclosed that are required to be  
reported in accordance with Title 2 CFR 200.516(a)

<u>          </u> 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 Relief Fund

Dollar Threshold used to distinguish between  
Type A and type B programs

\$ 750,000

Auditee qualified as a low-risk auditee

<u>          </u> yes	<u>      x      </u> no
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Section II - Financial Statement Findings  
None reported.

Section III - Federal Award Findings and Questioned Costs  
None reported.

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

**Financial Statement Findings**

There were no prior findings reported.