



2024 Annual Report

HISTORICAL FINANCIAL SUMMARY

(dollars in thousands)

LINCOLN ELECTRIC SYSTEM

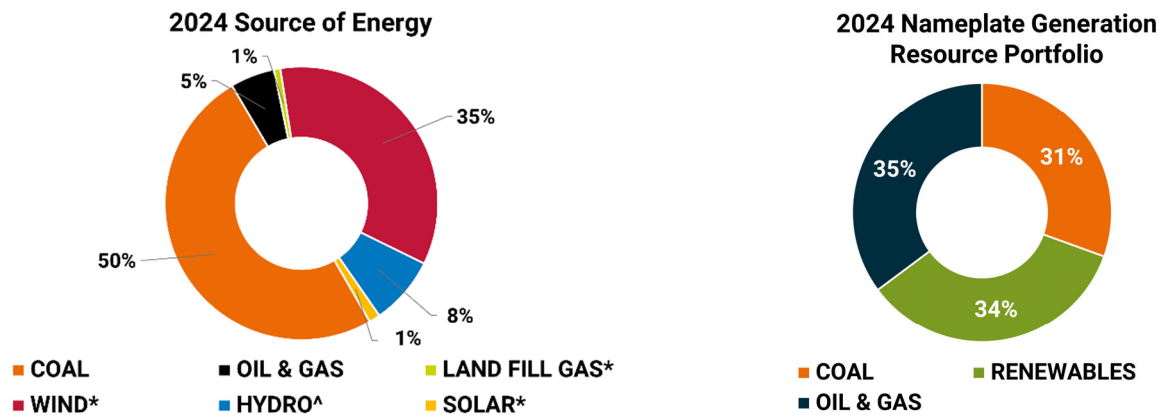
(Unaudited)

	2024	2023	2022	2021	2020
Operating Revenues					
Electric retail	\$ 301,140	\$ 290,674	\$ 275,492	\$ 273,557	\$ 262,878
Electric wholesale	58,677	38,713	65,330	74,594	30,104
Other revenue ^[1]	22,952	20,642	20,561	20,747	18,231
Total Operating Revenues	382,769	350,029	361,383	368,898	311,213
Operating Expenses					
Purchased power	75,110	76,378	90,005	94,240	75,192
Produced power	63,003	61,048	74,377	73,983	43,875
Operations	27,693	25,565	16,797	15,022	18,021
Maintenance	13,254	12,437	9,815	8,070	8,296
Administration and general	66,773	59,032	56,643	51,111	50,474
Depreciation and amortization	35,851	35,555	34,495	35,926	39,211
Total Operating Expenses	281,684	270,015	282,132	278,352	235,069
Operating Income	101,085	80,014	79,251	90,546	76,144
Nonoperating Expenses (Net)	35,588	31,606	37,627	41,307	40,901
Income Before Capital Contributions	65,497	48,408	41,624	49,239	35,243
Net capital contributions	-	-	-	-	-
Change in Net Position	65,497	48,408	41,624	49,239	35,243
Total Capital Assets (Net)	\$ 1,062,826	\$ 1,011,884	\$ 995,864	\$ 980,496	\$ 971,143
Peak Hour Use (MW)	784	819	763	769	715
Megawatt-Hour Sales (MWh)					
Residential	1,307,692	1,347,649	1,345,068	1,310,455	1,284,674
Commercial ^[2] & street/highway lighting	1,473,539	1,481,761	1,475,289	1,443,632	1,367,406
Industrial	469,693	466,063	455,298	477,804	433,624
Subtotal retail	3,250,924	3,295,473	3,275,655	3,231,891	3,085,704
Wholesale	622,119	740,216	968,125	832,831	978,747
Total Megawatt-Hour Sales (MWh)	3,873,043	4,035,689	4,243,780	4,064,722	4,064,451
Revenue from Electric Sales					
Residential	\$ 141,988	\$ 137,735	\$ 130,691	\$ 127,733	\$ 125,672
Commercial ^[2] & street/highway lighting	125,713	121,124	114,501	113,358	107,709
Industrial	33,439	31,815	30,300	32,467	29,497
Subtotal retail	301,140	290,674	275,492	273,557	262,878
Wholesale	58,677	38,713	65,330	74,594	30,105
Total Revenue from Electric Sales	\$ 359,817	\$ 329,387	\$ 340,822	\$ 348,151	\$ 292,983
Average Number of Customers					
Residential	134,912	132,338	130,067	128,256	126,411
Commercial ^[2] & street/highway lighting	17,920	17,751	17,539	17,345	17,197
Industrial	237	233	231	233	180
Total Retail Customers	153,069	150,322	147,837	145,834	143,788
Wholesale	6	7	7	8	9
Total Average Number of Customers	153,075	150,329	147,844	145,842	143,797
Retail (12-Month Average Basis)					
Average kWh/customer	21,238	21,923	22,157	22,161	21,460
Cents/kWh	\$ 0.0926	\$ 0.0882	\$ 0.0841	\$ 0.0846	\$ 0.0852

[1] Other revenue includes City Dividend for Utility Ownership (CDFUO)

[2] Public Authority customers are reported in the Commercial classification.

RESOURCES



Sources of energy serve wholesale and retail loads.

* LES sells the Renewable Energy Certificates (RECs), and the renewable attributes are transferred to the REC recipient.

^ Western Area Power Administration contract purchases, including a small portion of nonhydro, supplemental energy.

LES' resource portfolio includes the following:

RENEWABLE RESOURCES

Western Area Power Administration: LES purchases approximately 54 megawatts (MW) of firm power, 72 MW of summer firm peaking and 22 MW of winter firm peaking power from this hydropower resource.

Elkhorn Ridge Wind Farm: LES began receiving energy from a share of the Elkhorn Ridge Wind Farm in 2009, located 5 miles north of Bloomfield in northeast Nebraska. LES entered into a power purchase agreement for 6 MW of the total 80-MW wind project, which consists of 27 wind turbines. This power purchase agreement expires in 2029.

Laredo Ridge Wind Farm: LES began receiving energy from a share of the Laredo Ridge Wind Farm in 2011, located northeast of Petersburg, Nebraska, in Boone County. LES entered into a power purchase agreement for 10 MW of the total 80-MW wind project, which consists of 54 wind turbines. This power purchase agreement expires in 2031.

Crofton Bluffs Wind Farm: In 2012, LES began receiving energy from a share of the Crofton Bluffs Wind Farm located southwest of Crofton in northeast Nebraska. LES entered into a power purchase agreement for 3 MW of the total 42-MW wind project, which consists of 22 wind turbines. This power purchase agreement expires in 2032.

Broken Bow Wind Farm: LES began receiving energy from a share of the Broken Bow Wind Farm in 2012. LES entered into a power purchase agreement for 10 MW of the total 80-MW wind project, which consists of 50 wind turbines. The project is located just east of Broken Bow, in central Nebraska. This power purchase agreement expires in 2032.

Bluff Road Landfill Gas to Energy Plant: LES completed construction of a 5-MW landfill gas-generated facility in 2014. The methane fuel is supplied by the Bluff Road Landfill.

Arbuckle Mountain Wind Farm: LES began receiving energy from the Arbuckle Mountain Wind Farm in 2015. LES entered into a power purchase agreement for the full 100-MW project, which consists of 50 wind turbines. The project is in south-central Oklahoma, about 80 miles south of Oklahoma City. This power purchase agreement expires in 2035.

Buckeye Wind Energy Center: LES began receiving energy from the Buckeye Wind Energy Center in 2015. LES entered into a power purchase agreement for the full 100-MW project, which consists of 56 wind turbines. The project is in north-central Kansas, about 5 miles north of Hays, Kansas. This power purchase agreement expires in 2040.

Prairie Breeze II Wind Energy Center: LES began receiving energy from the Prairie Breeze II Wind Energy Center in 2015. LES entered into a power purchase agreement for the full 73-MW project, which consists of 41 wind turbines. The project is in northeast Nebraska, about 5 miles east of Elgin, Nebraska. This power purchase agreement expires in 2040.

Community Solar Project: In 2016, LES began receiving energy from the Community Solar Project, located on the west edge of Lincoln, Nebraska. LES entered into a power purchase agreement for the full facility of approximately 5-MW_{DC}/4-MW_{AC}. The project represents the first utility-scale solar facility in Nebraska and is one of the largest in the region. This power purchase agreement expires in 2036.

NATURAL GAS/OIL RESOURCES

J Street Generating Station: LES' oil or natural gas-fired power plant, with one simple-cycle combustion turbine totaling 30 MW, was installed in 1972.

Terry Bundy Generating Station (TBGS): LES' oil or natural gas-fired, 164-MW plant uses waste heat from two aeroderivative combustion turbines to create steam, which is used to operate a steam turbine and generate additional power in a combined-cycle configuration. A third aeroderivative combustion turbine is operated in a simple-cycle configuration. The plant also has a 2-MW "Black Start" unit on-site. The combustion turbines were placed in commercial operation in 2003, with the steam turbine following in 2004.

Rokeby Generation Station: LES' power station with three oil or natural gas-fired simple-cycle combustion turbines, totaling 254 MW, including a 3-MW diesel gen-set. The combustion turbines were installed in 1975, 1996 and 2001.

COAL RESOURCES

Laramie River Station (LRS): LES owns 12.76% of this coal-fired power plant, with approximately 10.50%, or 178 MW, available after ownership and participation sales. Construction was completed in 1982 on the three-unit, 1,710-MW plant.

Walter Scott Energy Center (WSEC) #4: LES owns 12.66% of WSEC Unit 4 along with MidAmerican Energy Company (MEC) and 12 other companies. The coal-fired plant was completed in 2007 and provides LES approximately 102 MW. To further diversify generation, in January 2008, LES executed an agreement with MEC to exchange energy derived from 50 MW of Unit 4 with 50 MW of Unit 3.

Gerald Gentleman Station (GGS): Owned by Nebraska Public Power District (NPPD), LES participates under a life-of-plant contract by purchasing 8.0% of the output, or approximately 109 MW. The final phase of this coal-fired plant was completed in 1982.

OWNED UNITS	FUEL TYPE	COMMERCIAL OPERATION DATE(S)	NET CAPABILITY (MW)	LES SHARE (%)	LES SHARE (MW) ^[1]
Laramie River Station (Net to LES) ^[2]	Coal	1982	1698	10.5	178
Walter Scott Energy Center #4 ^[3]	Coal	2007	809	12.66	102
J Street Generating Station	Gas/Oil	1972	30	100	30
Terry Bundy Generating Station ^[4]	Gas/Oil	2003/2004	164	100	164
Rokeby Generation Station ^[4]	Gas/Oil	1975/1996/2001	254	100	254
Bluff Road Landfill Gas to Energy Plant	Gas	2014	5	100	5
PARTICIPATION UNITS					
Gerald Gentleman Station	Coal	1982	1365	8	109
Elkhorn Ridge Wind Farm ^[5]	Wind	2009	80	7.5	6
Laredo Ridge Wind Farm ^[5]	Wind	2011	80	12.5	10
Broken Bow Wind Farm ^[5]	Wind	2012	80	12.5	10
Crofton Bluffs Wind Farm ^[5]	Wind	2012	42	7.5	3
FIRM CONTRACTS					
Arbuckle Mountain Wind Farm ^[5]	Wind	2015	100	100	100
Buckeye Wind Energy Center ^[5]	Wind	2015	100	100	100
Prairie Breeze II Wind Energy Center ^[5]	Wind	2015	73	100	73
Western Area Power Administration	Hydro	1974	-	-	126
Community Solar	Solar	2016	4	100	4
TOTAL					1,274

[1] Summer net maximum rating.

[2] LES' share is listed after the deduction of participation sales.

[3] LES is a 12.66% joint owner of WSEC #4 operated by MEC. LES has an agreement with MEC whereby MEC will provide 50 MW of WSEC #3 in a swap for 50 MW of LES' share of WSEC #4.

[4] Does not include black start or diesel generators.

[5] LES sells the Renewable Energy Certificates (REC) and the renewable attributes are transferred to the REC recipient.

Independent Auditor's Report

Administrative Board
Lincoln Electric System
Lincoln, Nebraska

Opinion

We have audited the financial statements of Lincoln Electric System, as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise Lincoln Electric System's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Electric System, as of December 31, 2024, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Lincoln Electric System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only Lincoln Electric System and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska as of December 31, 2024, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified in 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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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, 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 Lincoln Electric 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 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.

Other Information

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

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

Forvis Mazars, LLP

**Lincoln, Nebraska
April 11, 2025**

FINANCIAL REPORT OVERVIEW

The information provided in the Management's Discussion and Analysis (MD&A) section of the Financial Report explains the activities, plans and events that impacted LES' financial position and operating results for the years ended December 31, 2024, and 2023. This overview from management is one of three components of the Financial Report. The other two components are the Financial Statements and Notes to the Financial Statements. The Financial Report should be read in its entirety to understand the events and conditions impacting LES.

LES' accounting records are maintained in accordance with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). In June 2022, GASB issued Statement No. 101 *Compensated Absences*, effective for reporting periods beginning after December 15, 2023. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. LES previously recognized liabilities on the Statement of Net Position for unused vacation benefits earned by employees as well as vested sick leave. Beginning in 2024, LES is also recognizing a liability for a portion of non-vested sick leave amounts that are more likely than not to be used for time off. LES has adopted this new GASB standard, effective January 1, 2024, and all 2024 financial statements and figures contained herein reflect the new standard. However, comparative historical information, contained solely in the MD&A section of the Financial Report, has not been restated under the new guidance. This results in immaterial differences in certain year-over-year comparisons in the MD&A section of the Financial Report.

Statement of Net Position — This statement presents assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Assets and liabilities are each divided to distinguish current and noncurrent. This statement reveals liquidity, financial flexibility and capital structure.

Statement of Revenues, Expenses, and Changes in Net Position — Operating results are separated into operating revenue and expense, nonoperating revenue and expense, and capital contribution revenue and expense. This statement is useful in analyzing financial health.

Statement of Cash Flows — This statement classifies sources and uses of cash summarized by operating, noncapital financing, capital and related financing, and investing activities.

Notes to Financial Statements — The notes provide additional information to support the Financial Statements.

2024 SIGNIFICANT EVENTS

- Emeka Anyanwu became chief executive officer (CEO) on January 2, replacing Kevin Wailes, who retired from LES at the end of 2023 after serving as the company's CEO for more than 13 years. Anyanwu is the fourth CEO in LES' 58-year history.
- After nearly 25 years of operation, LES decommissioned two of Nebraska's oldest operating wind generators. Wind Turbine #1 sat on the proposed Nebraska Department of Correctional Services site while Wind Turbine #2 was reaching its full maturity. Both turbines located in northeast Lincoln were decommissioned simultaneously by a controlled explosion.
- On July 31, Lincoln endured 83 mph winds, leaving more than 30,000 LES customers without power. More than 280 employees and crews from three other utilities helped LES restore power quickly to its customers. The same storm caused power outages to the neighboring utility, Omaha Public Power District. Once all LES customers had their power restored, LES deployed three crews comprised of 16 employees to help with the Omaha utility's power restoration. A few months later, LES responded to a mutual aid request in Georgia after Hurricane Helene left many communities without power. Two crews of 12 employees worked for a week to help restore power to the communities impacted by the Category 3 storm.
- Two of LES' substations in Lincoln received new 36MVA power transformers. Each transformer weighed approximately 80 tons and required special permitting to deliver them and unique equipment for installation. One of the old transformers now resides at the Kevin Wailes Operations Center to help train staff.
- In September, LES launched a new online customer portal. The portal provides customers with a customized user experience by streamlining payment options, service features, and contact options into one place with real-time responsiveness. More than 50,000 customers had accessed the portal by the end of 2024.
- LES became a member of the Large Public Power Council (LPPC). LPPC represents 29 of the largest public power systems in America.
- In October, LES held a ribbon cutting and dedication ceremony to commemorate the formal name change of the LES Operations Center to the Kevin Wailes Operations Center. The LES Board approved the official renaming in December 2023.
- LES began a strategic planning process. After selecting PA Consulting as LES' strategic planning consultant, the LES board, executives, and core project team helped LES complete the first major steps in developing a strategy for the future. The strategic plan is projected to be finalized in the summer of 2025.

FINANCIAL POSITION AND OPERATING RESULTS

CONDENSED STATEMENTS OF NET POSITION

	2024	2023
	(Dollars in thousands)	
Current Assets	\$ 227,069	\$ 269,276
Noncurrent Assets	50,516	36,570
Capital Assets (Net)	1,062,826	1,011,884
Deferred Outflows of Resources	9,807	13,317
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,350,218	\$ 1,331,047
Current Liabilities	\$ 179,803	\$ 170,585
Noncurrent Liabilities	508,884	547,101
Deferred Inflows of Resources	24,432	41,759
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	713,119	759,445
Net Investment in Capital Assets	487,477	395,813
Restricted for Debt Service	15,243	15,586
Unrestricted	134,379	160,203
NET POSITION	637,099	571,602
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 1,350,218	\$ 1,331,047

Comparison of 2024 to 2023

Total assets and deferred outflows of resources increased \$19,171,000 in 2024, compared to 2023, or 1.4%. Current assets decreased by \$42,207,000, primarily due to a decrease in cash and short-term investments from operating results. Noncurrent assets increased \$13,946,000 in 2024, compared to 2023, due to an increase in restricted cash balances and a deposit for an overhaul of a generating unit at Rokeby Generation Station. Capital assets increased by \$50,942,000 due to increased capital spending. Deferred outflows of resources decreased by \$3,510,000 due to a decrease in the deferred cost for the asset retirement obligation.

Current liabilities increased by \$9,218,000 due to an increase in contributed capital received in advance and an increase in sick leave liability due to the implementation of GASB 101. Noncurrent liabilities decreased by \$38,217,000, primarily due to payments of bond principal and premium amortization. Deferred inflows of resources decreased by \$17,327,000 due to partial recognition of deferred revenue which resulted from Winter Storm Uri that occurred in February 2021.

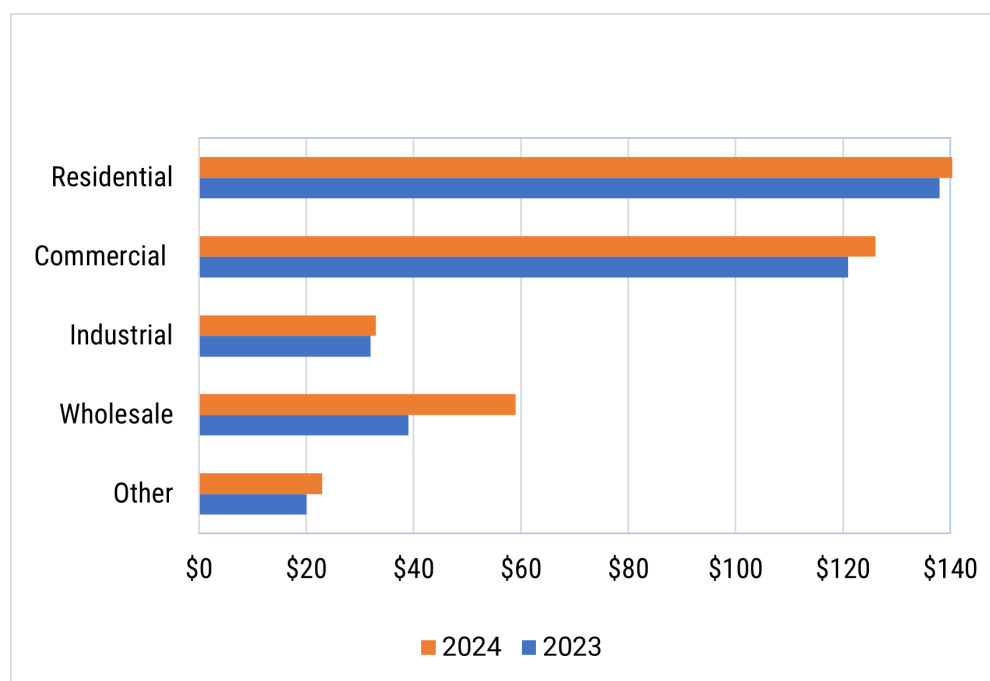
The net investment in capital assets increased by \$91,664,000 primarily due to additional capital expenditures and the reduction of revenue bond liabilities by principal payments. Net position increased by \$65,497,000, due to revenues and expenses which resulted in a favorable financial position throughout the year.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2024	2023
	(Dollars in thousands)	
Operating Revenues	\$ 382,769	\$ 350,029
Operating Expenses	281,684	270,015
OPERATING INCOME	101,085	80,014
Interest Expense	(16,946)	(17,429)
Other Nonoperating Revenues (Expenses) (net)	(18,642)	(14,177)
TOTAL NONOPERATING EXPENSES	(35,588)	(31,606)
CHANGE IN NET POSITION	\$ 65,497	\$ 48,408

OPERATING REVENUES

(DOLLARS IN MILLIONS)

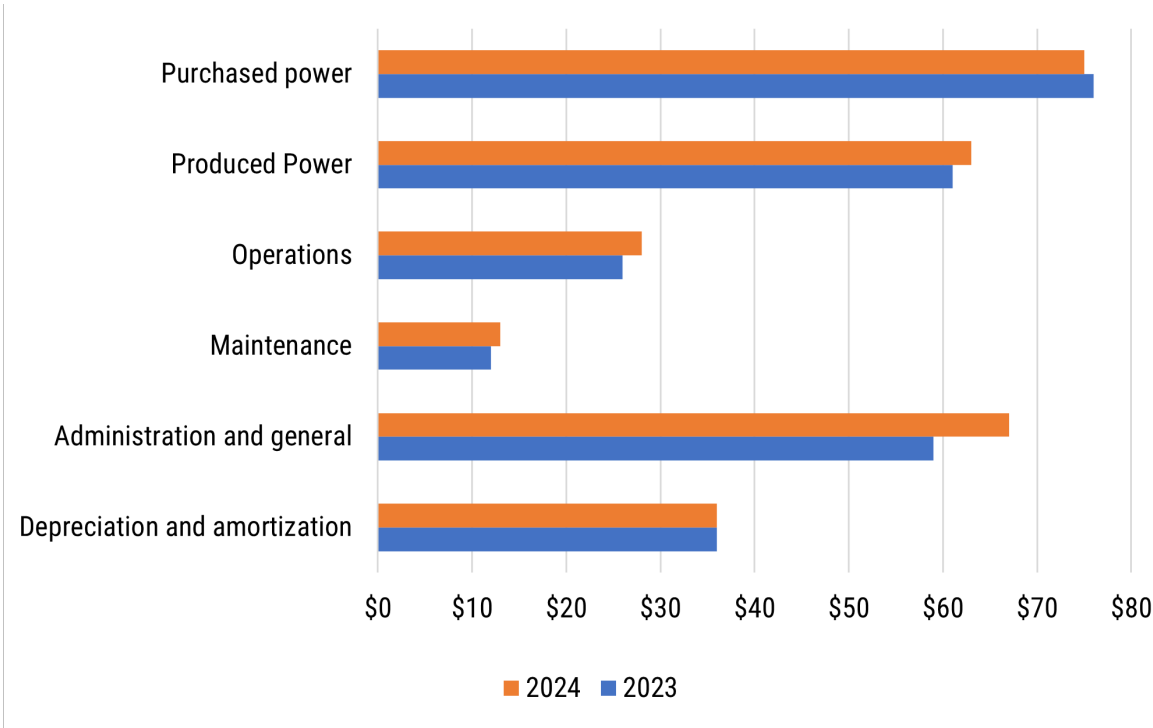


Comparison of 2024 to 2023

Operating revenues in 2024 were \$382,769,000, up 9.4% from 2023. Retail revenue was \$301,140,000, which was 3.6% higher than the 2023 revenue of \$290,674,000, due to higher energy rates. Wholesale revenue was \$58,677,000, up 51.6% from 2023 revenue of \$38,713,000, due primarily to partial recognition of Winter Storm Uri's deferred revenue.

OPERATING EXPENSES

(DOLLARS IN MILLIONS)

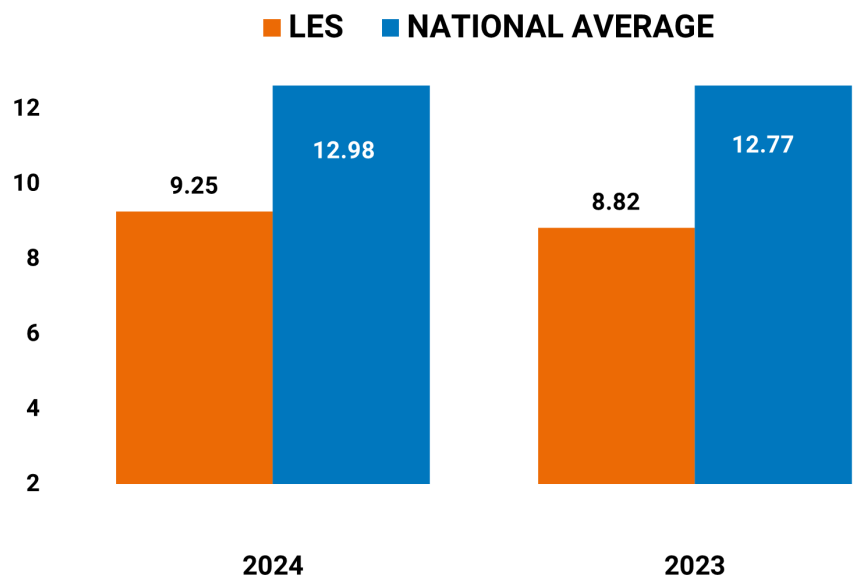


Comparison of 2024 to 2023

Operating expenses in 2024 were \$281,684,000, an increase of 4.3% from 2023 expenses of \$270,015,000. Purchased power and produced power expenses were \$138,113,000, up 0.5% from 2023 expenses of \$137,426,000. This is primarily due to higher maintenance expenses at the Terry Bundy & Rokeby generation plants. Depreciation and amortization expenses were \$35,851,000, up 0.8% from 2023 expenses of \$35,555,000, primarily due to an increase in utility plant assets being depreciated. Administrative and general expenses were \$66,773,000, up 13.1% from 2023 expenses of \$59,032,000, primarily due to increased payroll-related costs and the customer portal project in 2024. Operations and maintenance expenses were \$40,947,000, up 7.7% from 2023 expenses of \$38,002,000, as a result of higher transmission expenses.

RATES

AVERAGE RETAIL RATES (CENTS PER KWH)



LES' average retail rates per kWh remain competitive as compared to the national average for retail rates (2024 is preliminary) according to the Energy Information Administration (EIA), U.S. Department of Energy. Based on the preliminary EIA data for 2024, LES' retail rates were 29% below the national average.

RATES COMPARISON

In 2024, LES implemented a system-wide retail rate increase of 3.7%. A six-state regional rate comparison (prepared by LES) shows that LES' residential rates are among the least expensive when ranked among regional utilities. The study showed LES' annual rates for all customer classes remain among the lowest in the region. The regional rate comparison includes cities from Colorado, Iowa, Kansas, Minnesota, Missouri and Nebraska.

CASH AND FINANCING ACTIVITIES

CONDENSED STATEMENTS OF CASH FLOWS

	2024	2023
	(Dollars in thousands)	
Cash Flows from Operating Activities	\$ 125,654	\$ 113,113
Cash Flows from Noncapital Financing Activities	(25,926)	(24,298)
Cash Flows from Capital and Related Financing Activities	(151,621)	(88,101)
Cash Flows from Investing Activities	64,242	13,515
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ 12,349	\$ 14,229

Cash flows from operating activities contain transactions involving customers, suppliers and employees.

Cash flows from noncapital financing activities primarily include transactions related to the payment in lieu of tax and City Dividend for Utility Ownership.

Cash flows from capital and related financing activities contain transactions involving the acquisition and construction of capital assets and the long-term debt related to those assets.

Cash flows from investing activities contain transactions related to security purchases and maturities and investment income.

Comparison of 2024 to 2023

Cash inflows from operating activities were \$125,654,000, up \$12,541,000 from 2023, primarily due to increased revenue from sales to customers. Cash outflows from noncapital financing activities in 2024 increased by \$1,628,000 due to a higher payment for the City Dividend for Utility Ownership. In 2024, cash outflows from capital and related financing activities increased by \$63,520,000 from 2023, due to an increase in capital expenditures. Cash inflows from investing activities were \$64,242,000 in 2024, an increase of \$50,727,000 from 2023, primarily due to larger income from investments in 2024.

FINANCING

No bonds were issued in 2024.

LES uses its Commercial Paper Program to provide liquidity between long-term financings. LES' Commercial Paper Program is authorized for \$150,000,000. The commercial paper outstanding amount was \$65,500,000 as of December 31, 2024.

In 2018, LES entered into a revolving credit agreement with JPMorgan Chase Bank, National Association. The agreement was amended in 2024, extending the expiration date to August 19, 2027. The revolving credit

agreement supports the Commercial Paper Program. No advances were outstanding under the revolving credit agreement as of December 31, 2024.

Simultaneous to entering into the revolving credit agreement with JPMorgan Chase Bank, National Association, LES entered into a Note Purchase Agreement. The Note Purchase Agreement was amended in 2024, extending the expiration date to August 19, 2027. The Note Purchase Agreement allows LES to issue both Taxable and Tax-Exempt notes. Amounts outstanding under the Note Purchase Agreement reduce the amount available under the revolving credit agreement which supports the Commercial Paper Program. There were no amounts outstanding under the Note Purchase Agreement as of December 31, 2024.

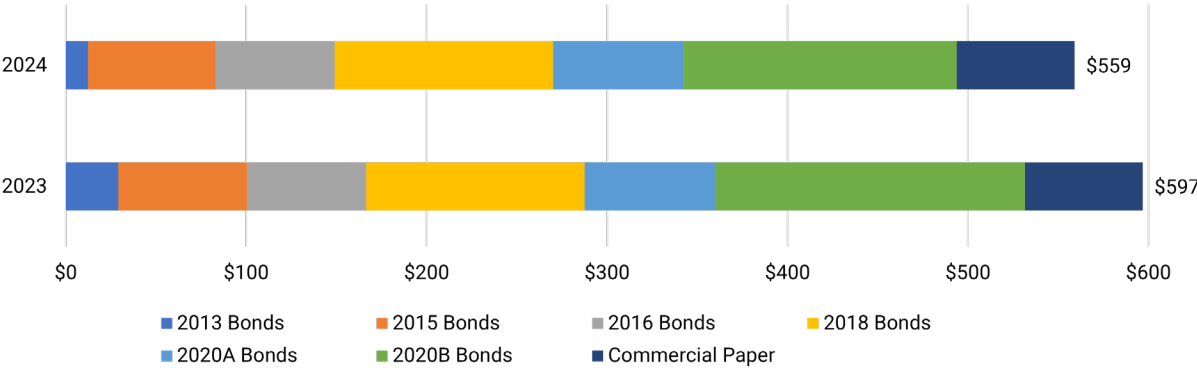
In 2023, LES entered into a revolving credit agreement with Bank of America National Association. The agreement allows LES to draw up to \$50,000,000 on a variable rate basis. The agreement was executed on April 6, 2023, and it replaced a similar agreement with U.S. Bank National Association that expired on March 17, 2023. The revolving credit agreement with Bank of America National Association will expire in April 2026. Electric revenues secure the agreement. There were no amounts outstanding on the agreement as of December 31, 2024.

Also, in 2023, LES entered into a \$50,000,000 revolving credit agreement with Union Bank and Trust Company. The agreement was executed on July 12, 2023, and will expire in August 2026. The agreement is secured by electric revenues and is subordinate to the Bank of America National Association revolving credit agreement. There were no amounts outstanding on the agreement as of December 31, 2024.

The following chart shows outstanding debt as of December 31, 2024, and 2023:

OUTSTANDING DEBT

(DOLLARS IN MILLIONS)



RATINGS

Among other factors, the bond rating agencies assess an entity's operations, stability of customer base, and financial profile when determining an entity's bond rating. Standard & Poor's Global Ratings (S&P) and Fitch Ratings (Fitch) have assigned ratings to LES that are among the highest granted to electric utilities. Bond covenants require LES to have ratings from two rating agencies. The following table provides the current ratings for outstanding debt. LES' ratings have remained unchanged for more than 20 years.

	S&P	Fitch
Revenue Bonds	AA	AA
Commercial Paper	A-1+	F1+

DEBT SERVICE COVERAGE FOR REVENUE BONDS

2.59

2024

2.41

2023

LES' bond ordinance establishes a Debt Service Coverage requirement of 1.0.
LES generally targets a minimum year-end Debt Service Coverage of 2.0.

The following table reflects the calculation of the debt service coverage ratio. The ratio reflects LES' year-end funds available to pay its debt service.

DEBT SERVICE COVERAGE RATIO

	2024	2023
	(Dollars in thousands)	
OPERATING REVENUES	\$382,769	\$350,029
Power Costs	(138,113)	(137,426)
Operations & Maintenance	(40,947)	(38,002)
Administrative & General	(66,773)	(59,032)
TOTAL OPERATING EXPENSES (EXCLUDING DEPRECIATION)	(245,833)	(234,460)
Net Operating Revenue	\$136,936	\$115,569
Interest Income*	5,933	8,472
Other Income	546	577
AVAILABLE FOR DEBT SERVICE	\$143,415	\$124,618
DEBT SERVICE**	\$55,280	\$51,691
DEBT SERVICE COVERAGE RATIO	2.59	2.41

*Excludes interest from the Rate Stabilization Fund.

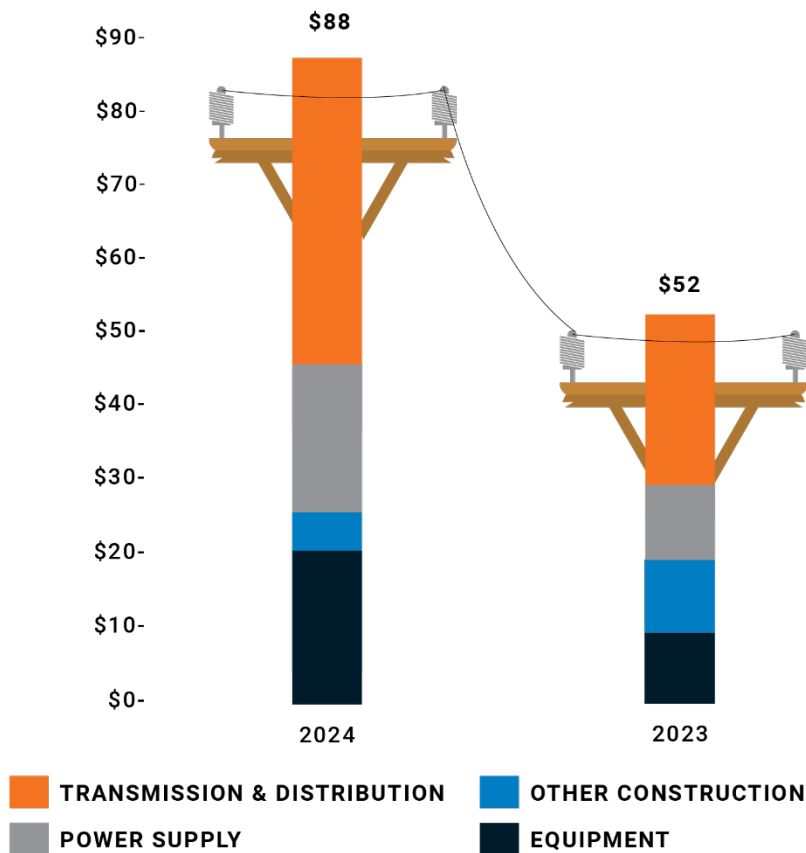
**The calculation of Debt Service Coverage includes only Debt Service on Revenue Bonds.

CAPITAL EXPENDITURES

Capital expenditures for 2024 and 2023 are shown in the chart below.

CAPITAL EXPENDITURES

(DOLLARS IN MILLIONS)



Includes capital expenditures that will be recovered in future periods according to Note 1 – Recovery of Plant Costs

Significant capital projects during 2024 included the following:

- Significant work on the Walter A. Canney Service Center’s HVAC and electrical systems took place in 2024, totaling \$9,119,000. The project is set to be completed in 2026, with the total project cost estimated to be \$18,700,000.
- Capital improvements at Terry Bundy Generating Station resulted in \$9,010,000 in capital costs in 2024.

- Costs for Underground Residential Extensions and Development in 2024 totaled \$6,477,000. This project installs primary and secondary extensions to new homes, residential developments and apartment complexes.
- LES' share of capital improvements at Laramie River Station (LRS) and Walter Scott, Jr. Energy Center (WSEC), for 2024, were \$6,116,000 and \$2,193,000, respectively.
- Costs for Overhead Rebuilds in 2024 totaled \$6,009,000. This project is for the replacement or removal of deteriorated or obsolete facilities.
- Capital costs for the replacement of the 57th & Garland transformer totaled \$5,281,000 in 2024.
- Costs for Underground Relocations in 2024 totaled \$5,117,000. This project relocates existing underground equipment in conflict with non-LES projects and converts existing overhead electrical facilities to underground.
- Costs for Underground Rebuilds in 2024 totaled \$4,486,000. This project rebuilds existing underground systems due to age, deterioration or other factors.
- Costs for Underground Commercial Extension/Development in 2024 totaled \$2,983,000. This project installs primary and secondary extensions for new or existing commercial customers.

FACTORS AFFECTING LES AND ELECTRIC UTILITY INDUSTRY

SOUTHWEST POWER POOL (SPP)

LES became an active member of the SPP Regional Transmission Organization (RTO) on April 1, 2009. Through its representation on various committees, LES continues to work with the SPP Board of Directors, members and staff to identify ways to improve energy market operations and overall organizational effectiveness. LES' participation in SPP and its energy market continues to be successful. Recent winter storms drive new regulatory expectations for SPP and other RTOs in North America. SPP is making system improvements to better address reliability during these events. SPP also continues to expand its footprint with new commitments by electric utilities west of the existing RTO footprint.

CYBER AND PHYSICAL SECURITY

LES continues to be heavily involved in the utility industry's cyber and physical security activities. LES staff, including the chief executive officer, chief technology officer, vice president of Energy Delivery, and the vice president of Corporate Operations, actively participate in cyber and physical security-related industry groups. In addition, they work with industry and government representatives to address incidents and best practices for protecting cyber and physical infrastructure, ensuring the electric system's reliability. The LES Administrative Board receives regular cyber and physical security updates.

RENEWABLE RESOURCES AND DECARBONIZATION

Nebraska does not have a renewable portfolio standard. The electric utility industry continues to experience pressure from customers and regulators to incorporate additional renewable generating resources into generation portfolios. Although their intermittent production capability must be considered when assessing the system's reliability, renewable resources can serve as a hedge against future fossil fuel price volatility and/or environmental regulations. In 2024, LES sourced approximately 35% of its installed nameplate generating capacity from oil and natural gas, 31% from coal, and 34% from renewable resources, which includes hydro, landfill gas, wind, and solar. LES' 2024 energy production from renewable resources is equivalent to 39.9% of retail sales. In 2020, the LES Administrative Board adopted a 2040 goal to achieve net zero CO₂ production from the generation portfolio.

ENVIRONMENTAL REGULATIONS

The electric utility industry has repeatedly faced new and proposed environmental regulations. The increase in legislation, and subsequent regulatory uncertainty, is a major issue facing LES and all-electric utility providers. LES continues to work diligently with industry groups and government representatives to help shape legislation and implement cost-effective means to comply with all regulations. Monitoring the rapidly changing requirements within environmental regulations is a priority for LES. The regulations monitored by LES include:

CARBON EMISSIONS FROM EXISTING POWER PLANTS

The Environmental Protection Agency (EPA) has issued several versions of a plan to reduce carbon emissions from existing power plants which would have a significant impact on LES and the industry, as Nebraska would be required to reduce its CO₂ emission rate by 40%. The current version of the plan was proposed on May 23, 2023, and included technology-based requirements as a Best System of Emission Reduction (BSER), such as carbon sequestration, co-firing of low-carbon fuels, and efficiency standards for large power plants. The final rule was issued in May 2024, and requires coal-fired plants to either retire by 2032, or retire by 2039 if cofiring with 40% natural gas by 2030, or install 90% carbon sequestration if operating after 2039. Multiple lawsuits are in the progress of being settled regarding this new rule.

PERFORMANCE STANDARDS FOR GREENHOUSE GAS EMISSIONS FROM NEW, MODIFIED AND/OR RECONSTRUCTED STATIONARY SOURCES

LES monitors this rule due to its impact on greenhouse gas emissions from new, modified, and/or reconstructed turbines. On January 13, 2021, the EPA published the Pollutant-Specific Significant Contribution Finding for greenhouse gases, which established an alternative framework for evaluating emissions from power plants. However, this rule was vacated and remanded on April 5, 2021, under President Biden's Executive Order 13990. On May 23, 2023, the EPA proposed updated standards. In May 2024, a final rule was issued that required new combustion turbines operating at above 40% capacity to install 80% carbon sequestration by 2032. LES and partner facilities are not affected at this time.

CROSS-STATE AIR POLLUTION

The Cross-State Air Pollution Rule (CSAPR) was initially issued in 2011, to assist states' compliance with ambient air quality standards by limiting downwind pollution. Under this rule, facilities must provide allowances for each ton of nitrogen oxide (NO_x) and sulfur dioxide (SO₂) emitted. Certain states, including Iowa, are also required to provide additional allowances for NO_x emissions during ozone season. Recent revisions to the rule, including the latest Good Neighbor Plan, have not yet affected LES and partner

facilities. The EPA proposed to add Iowa to the Good Neighbor Plan requirements, however all portions of the Good Neighbor Plan have been remanded or withdrawn at this time.

REGIONAL HAZE RULE

The purpose of the regional haze regulations is to improve visibility by reducing regional haze in 156 national parks and wilderness areas (Class I areas) across the country. These regulations impact GGS and LRS. After analysis, by the State of Wyoming in 2021, it was determined that additional controls at LRS were unnecessary. GGS submitted additional air modeling data on SO₂ emissions, but no action was taken. The current draft of the State of Nebraska State Implementation Plan for Regional Haze does not include additional controls for GGS. However, in 2024 the EPA issued a proposed Federal Implementation Plan (FIP) calling for GGS to add scrubbers for SO₂ control. The FIP has not yet been finalized or withdrawn.

ACID RAIN PROGRAM

Implemented in accordance with the Clean Air Act Amendments of 1990, the Acid Rain Program is intended to achieve environmental benefits through reductions in SO₂ and NO_x emissions. All LES-owned and contracted resources operate within the acid rain regulations.

MERCURY AND AIR TOXIC STANDARDS

In February 2012, the EPA issued the final Mercury and Air Toxic Standards (MATS) rule intended to reduce emissions of toxic air pollutants from power plants. The MATS rule does not apply to simple-cycle and combined-cycle stationary combustion turbines, so TBGS, RGS and J Street Generating Station are not impacted. GGS, LRS and WSEC have installed mercury controls to comply with MATS. Each affected facility must demonstrate ongoing compliance with MATS. In May 2024, the EPA finalized rules that lowered the Particulate Matter (PM) standard and required MATs facilities to add PM monitors.

COOLING WATER INTAKE STRUCTURES STANDARDS 316(b)

The EPA developed regulations, under Subsection 316(b) of the Clean Water Act, which affect facilities with cooling water intake structures. The regulations are intended to ensure that the location, design, construction, and capacity of the cooling water intake structures reflect the best technology available to minimize harmful impacts on aquatic life from impingement or entrainment.

Apart from GGS and WSEC #4, all units LES owns or contracts with meet the requirements of this rule. Currently the GGS National Pollutant Discharge Elimination System permit, which contains the installation schedule for the intake screens, was effective April 1, 2022. GGS will complete the construction of modified traveling screens in 2026 and advise the Nebraska Department of Environment & Energy (NDEE) of these activities. GGS will also complete a two-year Impingement Technology Performance Optimization Study in 2028 and submit the study results to NDEE the following year. WSEC completed construction of modified traveling screens and advised the Iowa Department of Natural Resources (IDNR) of these activities. Additionally, WSEC will submit an Impingement Technology Performance Optimization Study to IDNR by March 1, 2026.

COAL COMBUSTION RESIDUALS PROPOSED RULE

The Coal Combustion Residuals Proposed Rule requires owners of unlined surface ponds to conduct initial monitoring to detect indicators that may signify a release of contaminants from a surface pond. If

contamination is found, the rule mandates closure or retrofitting of unlined surface ponds if the contamination cannot be attributed to another source.

As the Operating Agent for LRS, Basin Electric Power Cooperative hired a consultant to conduct Coal Combustion Residual (CCR) detection monitoring in 2016 and 2017. LRS has six designated CCR units; Bottom Ash Surface Impoundments 1-3, East and West Emergency Holding Pond Surface Impoundment, and a CCR Landfill. All units are considered “treat and transfer” units, with the final destination of CCR to be the CCR Landfill. The consultant detected a Statistically Significant Increase (SSI) in one or more indicator constituents from an LRS ash pond. A Corrective Measure Assessment was completed on August 30, 2019, with a Groundwater Remedy Selection Report issued in July 2020. Between August 2020 and March 2021, all CCR material was removed, and a liner was installed. While the hydraulic capture pumping system was designed and contracted, supply chain issues prevented its installation on schedule. In a revised schedule, LRS planned to install the pumping system in spring 2024. Detailed CCR-related activities for 2024 were not available at the time this report was completed.

GGs has five designated CCR units; Ash Pits 1-4 and the Bottom Ash landfill. Ash Pit 1 was closed in 1982, Ash Pit 2 was closed in 1992, and the Bottom Ash Landfill was closed in 2018. Therefore, GGs only has two active CCR units, Ash Pits 3 and 4. Nebraska Public Power District (NPPD) submitted a series of Alternative Source Demonstration (ASD) reports pertaining to the two active CCR units to the NDEE in October 2022 to indicate groundwater contamination was not related to seepage from CCR units based on a lab analysis of upgrade and downgrade wells, as well as constituent levels in surrounding water sources. NPPD now submits semi-annual Assessment Monitoring results for two groundwater monitoring wells to the NDEE.

WSEC has three CCR units: a Landfill, a North Surface Impoundment and a South Surface Impoundment. Beginning in December 2019, the North and South Surface impoundments were combined into one CCR unit. The North Surface Impoundment closed in 2019 and groundwater monitoring wells for both impoundments coincided; the North Surface Impoundment is now closed. Groundwater monitoring for active CCR Structures found SSI exceedances at the landfill in 2021 and again in 2023, ASDs were not required since previously conducted ASDs addressed the causes of the observations. The South Surface Impoundment is officially closed, and the North Surface Impoundment was scheduled to close in 2024.

CONTACT INFORMATION

This financial report is designed to provide a general overview of LES’ financial status for 2024 and 2023. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the vice president of Financial Services and chief financial officer located at 9445 Rokeby Road in Lincoln, Nebraska, 68526-9788, or by email at finance@les.com.

LINCOLN ELECTRIC SYSTEM

STATEMENT OF NET POSITION

As of December 31, 2024

Assets and Deferred Outflows of Resources

(Dollars in thousands)

Current Assets

Cash and cash equivalents	\$	97,556
Restricted cash, cash equivalents and investments		22,065
Accounts receivable, net		26,046
Lease receivable		320
Unbilled revenues		18,007
Accrued interest receivable		744
Materials, supplies and fuel inventory		34,934
Plant operation assets		21,621
Other current assets		5,776
Total current assets		<u>227,069</u>

Noncurrent Assets

Restricted cash, cash equivalents and investments		35,412
Lease receivable		6,523
Accrued lease interest		133
Other noncurrent assets		8,448
Total noncurrent assets		<u>50,516</u>

Capital Assets

Utility plant		1,872,206
Accumulated depreciation		(966,867)
Construction work in progress		157,487
Total capital assets		<u>1,062,826</u>

Deferred Outflows of Resources

Deferred loss on refunded debt		6,834
Deferred costs for asset retirement obligations		2,973
Total deferred outflows of resources		<u>9,807</u>

Total Assets and Deferred Outflows of Resources

\$ 1,350,218

Liabilities and Deferred Inflows of Resources
Current Liabilities

Accounts payable	\$	25,339
Accrual for payments in lieu of taxes		13,704
Commercial paper		65,500
Accrued software interest		30
Accrued liabilities		32,545
Current maturities of long-term debt		35,740
Current maturities of software liabilities		992
Accrued interest payable		5,953
Total current liabilities		<u>179,803</u>

Noncurrent Liabilities

Long-term debt, net		486,714
Developer performance deposits		16,593
Health and dental plan reserves		1,163
Asset retirement obligation		2,973
Software liabilities		1,441
Total noncurrent liabilities		<u>508,884</u>

Deferred Inflows of Resources

Reductions of future billings		18,132
Leases		6,300
Total deferred inflows of resources		<u>24,432</u>
Total liabilities and deferred inflows of resources		<u>713,119</u>

Net Position

Net investment in capital assets		487,477
Restricted for debt service		12,486
Restricted for employee health insurance claims		2,757
Unrestricted		134,379
Total net position		<u>637,099</u>

Total Liabilities, Deferred Inflows of Resources and Net Position

\$ 1,350,218

See Notes to the Financial Statements.

LINCOLN ELECTRIC SYSTEM

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2024

	(Dollars in thousands)
Operating Revenues	
Electric retail	\$ 301,140
Electric wholesale	58,677
Other (includes City Dividend for Utility Ownership)	22,952
Total operating revenues	<u>382,769</u>
Operating Expenses	
Purchased power	75,110
Produced power	63,003
Operations	27,693
Maintenance	13,254
Administration and general	66,773
Depreciation and amortization	35,851
Total operating expenses	<u>281,684</u>
Operating Income	<u>101,085</u>
Nonoperating Revenues (Expenses)	
Interest expense	(16,946)
Payment in lieu of taxes	(13,954)
City Dividend for Utility Ownership	(12,944)
Interest income	7,710
Other income	546
Total nonoperating expenses	<u>(35,588)</u>
Capital Contributions	3,881
Plant Costs Recovered through Capital Contributions	<u>(3,881)</u>
Change in Net Position	65,497
Net Position - Beginning of Year	<u>571,602</u>
Net Position - End of Year	<u>\$ 637,099</u>

See Notes to the Financial Statements.

LINCOLN ELECTRIC SYSTEM

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2024

(Dollars in thousands)

Operating Activities

Received from sales to customers and users	\$	378,698
Sales tax receipts		16,682
Paid to suppliers for goods and services		(205,660)
Paid to employees for services		(47,460)
Payments for sales tax		(16,606)
Net cash provided by operating activities		<u>125,654</u>

Noncapital Financing Activities

Payment in lieu of taxes		(13,369)
City Dividend for Utility Ownership payments		(12,557)
Net cash used in noncapital financing activities		<u>(25,926)</u>

Capital and Related Financing Activities

Capital expenditures		(92,369)
Net cost/salvage value of retiring plant		(2,564)
Capital contributions		2,168
Cash received from leases		515
Principal payments on software agreements		(665)
Interest payments on software agreements		(67)
Principal payments on long-term debt		(37,800)
Interest payments on long-term debt		(20,839)
Net cash used in capital and related financing activities		<u>(151,621)</u>

Investing Activities

Net sales of investments		56,685
Interest received		7,557
Net cash provided by investing activities		<u>64,242</u>

Net Change in Cash and Cash Equivalents

12,349

Cash and Cash Equivalents - Beginning of Year

35,019

Cash and Cash Equivalents - End of Year

\$ 47,368

Reconciliation of Cash and Cash Equivalents to the Balance Sheet

Cash and cash equivalents	\$	97,556
Restricted cash, cash equivalents and investments - current		22,065
Restricted cash, cash equivalents and investments - noncurrent		35,412
Total cash, cash equivalents and investments		155,033
Less: investments not classified as cash equivalents		(107,665)
Total cash and cash equivalents	\$	<u>47,368</u>

See Notes to the Financial Statements.

LINCOLN ELECTRIC SYSTEM**STATEMENT OF CASH FLOWS – CONTINUED**

For the Year Ended December 31, 2024

	(Dollars in thousands)
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 101,085
Noncash items included in operating income	
Depreciation charged to other accounts	1,194
Depreciation and amortization	35,851
Changes in operating assets and liabilities	
Accounts receivable	(2,949)
Unbilled revenues	(389)
Materials, supplies and fuel inventories	(3,207)
Plant operation assets	(3,832)
Other current assets	(1,229)
Other noncurrent assets	(5,139)
Accounts payable	8,421
Sales tax payable	76
Accrued expenses	12,131
Health and dental plan reserve	441
Reductions in future billings	(16,800)
Net cash provided by operating activities	<u>\$ 125,654</u>
Supplemental Noncash Activities	
Capital asset acquisitions included in accounts payable	\$ 632
Capital assets acquired through addition of software liabilities	1,659

See Notes to the Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

Reporting Entity

Lincoln Electric System (LES) is a municipal utility, owned by the City of Lincoln, Nebraska (the City). LES is operated under the LES Administrative Board, appointed by the mayor, and confirmed by the Lincoln City Council. The City Council, as required by the City Charter, reserves the authority to set the rates and charges, adopt the annual budget and incur debt. LES' service area covers approximately 200 square miles, including the city of Lincoln and surrounding communities.

In evaluating how to define LES, for financial reporting purposes, management has considered all potential component units for which financial accountability may exist. The determination of financial accountability includes consideration of several criteria, including: (1) LES' ability to appoint a voting majority of another entity's governing body and to impose its will on that entity; (2) the potential for that entity to provide specific financial benefits to, or impose specific financial burdens on, LES; and (3) the entity's fiscal dependency on LES. Based upon the above criteria, LES has determined that it has no reportable component units.

The financial statements present only LES, and do not purport to fairly present the City's financial position as of December 31, 2024 and the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States (GAAP).

Basis of Accounting and Presentation

LES' activities are accounted for with an economic resources measurement focus and an accrual basis of accounting. LES' accounting records are maintained in accordance with all applicable pronouncements of the Governmental Accounting Standards Board (GASB) and generally follow the Uniform System of Accounts for Public Utilities and Licenses prescribed by the Federal Energy Regulatory Commission (FERC). LES prepares its financial statements as a business-type activity in conformity with GAAP.

LES follows the provisions of GASB Codification Section Re10, *Regulated Operations*, which permits an entity with cost-based rates and board authorization to include certain revenues or costs in a period other than the period in which revenues or costs would be reported by an unregulated entity, to the extent that the rate-regulated entity is recovering, or expects to recover, such amounts in rates charged to its customers. This guidance applies to LES because rates for LES' regulated operations are established and approved by the LES Administrative Board and City Council.

Use of Estimates

The preparation of financial statements in conformity with GAAP, requires management to make estimates, and assumptions, that affect the reported amounts of assets, liabilities, deferred inflows and outflows of resources, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses, and other changes in net position during the reporting period. Actual results may differ from those estimates.

Revenue Recognition

Electric revenues are recorded based on the related period of customer usage. Billings for electric revenues are rendered monthly on a cycle basis. Unbilled revenues representing estimated consumer usage for the period between the last billing date and the end of the period are accrued in the period of consumption.

Cash Equivalents

LES considers all highly liquid investments with an original maturity of three months or less at the date of purchase, to be cash equivalents. On December 31, 2024, cash equivalents consisted of money market funds, U.S. Treasury bills, U.S. agency discount notes and commercial paper.

Investments and Investment Income

LES maintains various designated and restricted accounts (see Note 2) which are held for debt service obligations, future health claims and other items. Investments in money market mutual funds are carried at cost, which approximates fair value. Investments in U.S. Treasury securities, U.S. agency obligations, and commercial paper are carried at fair value. Fair value is determined based on quoted market prices, or yields currently available, on comparable securities of issuers with similar credit ratings.

Investment income includes interest income and the net change for the year in the fair value of investments.

Accounts Receivable

Accounts receivable are reported net of the allowance for uncollectible accounts of \$2,968,000 on December 31, 2024.

Inventory

Materials, supplies and fuel inventories are stated at the lower of cost or market. Cost is generally determined on a weighted-average basis.

Jointly Owned Facilities

Plant operation assets related to the operation of Laramie River Station (LRS) and Walter Scott Energy Center (WSEC) #4 (see Note 9) are comprised of operating assets, primarily fuel and supplies inventories, and operating cash. These assets are managed by the operating agents of LRS and WSEC #4 and are stated at cost. Operating expenses of LRS and WSEC #4 are included in the corresponding operating expense classifications in the Statement of Revenues, Expenses and Changes in Net Position.

Capital Assets

The costs of additions and betterments to the system are capitalized. Costs include material, labor, vehicle and equipment usage, related overhead costs and certain administrative and general costs. LES' capitalization threshold was \$5,000 in 2024.

Costs of labor, materials, supervision and other costs incurred in making repairs and minor replacements, and in maintaining the plant in efficient operating condition, are charged to expense. When plant assets are retired, the original cost, and removal cost less salvage are charged to accumulated depreciation. Depreciation is computed on a straight-line basis using composite rates, ranging between 2.0% and 20.0%, depending on the respective asset type.

Leases

Leases are contracts that convey control of the right to use another entity's nonfinancial asset for a specified period of time in an exchange or exchange-like transaction, without the transfer of ownership of the asset. LES leases communication tower space throughout the service area. LES is considered the lessor in these arrangements.

For lessor contracts, lease receivables and deferred inflows of resources are established at present value utilizing LES' estimated incremental borrowing rate on the date the contract is signed, unless otherwise stated in the contract terms. Amortization of the lease receivable discount results in interest income, and amortization of the deferred inflows of resources, results in other income in the nonoperating section of the Statement of Revenues, Expenses and Changes in Net Position. LES monitors changes in circumstances, that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Subscription-Based Information Technology Arrangements (SBITA)

Subscription-Based Information Technology Arrangements (SBITA), are contracts that convey control of the right to use another party's information technology software for a specified period in an exchange or exchange-like transaction, without the transfer of ownership of the asset. The subscription term is the period that LES has a noncancellable right to use the underlying asset. SBITA assets and liabilities are reported at the present value using LES' incremental borrowing rate unless otherwise noted in the contract terms. SBITA assets are reported in utility plant and SBITA liabilities are reported as software liabilities on the Statement of Net Position.

Compensated Absences

In June 2022, GASB issued Statement No. 101 *Compensated Absences* (GASB 101), effective for reporting periods beginning after December 15, 2023. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. LES previously recognized liabilities on the Statement of Net Position for unused vacation benefits earned by employees as well as vested sick leave. Beginning in 2024, LES is also recognizing a liability for a portion of non-vested sick leave amounts that are more likely than not to be used for time off. LES has adopted this new GASB standard, effective January 1, 2024, and all 2024 financial statements and figures contained herein reflect the new standard. Although GASB 101 requires retrospective application, the adoption of this new statement had an immaterial impact on LES' beginning net position.

Deferred Loss on Refunded Debt

Costs incurred in connection with the refinancing of various bond issuances are being amortized over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter. Amortization is recorded as a component of interest expense within nonoperating expenses. The deferred loss on the refunded debt balance was \$6,834,000 as of December 31, 2024.

Recovery of Plant Costs

Capital contributions are received from customers and other third parties, primarily to offset the costs associated with an expansion of LES' electrical system. LES follows FERC guidelines for recording capital contributions. These guidelines direct the reduction of utility plant by the amount of these contributions. In

order to comply with GASB Codification Section N50, *Non-exchange Transactions*, while continuing to follow FERC guidelines, capital contributions are recorded as income and offset by an expense, in the same amount, representing the recovery of plant costs.

Net Position Classification

Net position is required to be classified into three components: net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

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

Restricted — This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as debt covenants), contributors, the law or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. Revenue bond funds and health insurance funds, net of any related liabilities, are included in this classification.

Unrestricted — This component of net position consists of the net amount of assets and liabilities that do not meet the definition of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is LES’ policy to use restricted resources first, then unrestricted as needed.

Classification of Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with the ongoing operation of the electric system. The principal operating revenues are charges to customers for electric service. Operating expenses include operation and maintenance, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Payment In Lieu of Taxes

LES makes a payment in lieu of taxes, equal to 5% of its electric retail revenues derived within the city limits of incorporated cities and towns served. In 2024, LES transferred a total of \$13,369,000 to the City of Lincoln, Lancaster County, Lincoln Public Schools and the City of Waverly for payment in lieu of taxes. As of December 31, 2024, \$13,704,000 was accrued for the next payment in lieu of taxes.

City Dividend for Utility Ownership (CDFUO)

In 2011, the Lincoln City Council approved an ordinance requiring LES to pay an annual dividend to the City of Lincoln for the city’s ownership of LES. As amended in 2020, the ordinance states that LES shall remit to the City a dividend for utility ownership in an amount equivalent to 2.4% of the Total Net Position (Net Assets) of

LES, as of December 31, based upon the most recent audited year-end financial statements. The dividend is remitted to the City semiannually on the 20th day of February and August each year. Each payment represents 50% of the annual dividend payment. In 2024, LES submitted CDFUO payments totaling \$12,557,000.

The CDFUO is assessed on all retail customer billings and is treated as operating revenue on the Statement of Revenues, Expenses and Changes in Net Position. LES records the estimated liability for the CDFUO as a nonoperating expense on the Statement of Revenues, Expenses and Changes in Net Position. As of December 31, 2024, \$4,573,000 was included in the accrued liabilities for the next CDFUO payment.

Note 2: Deposits and Investments

Deposits

State statute requires banks to issue a bond, or pledge government securities, to LES for the amount of utility deposits. The statute allows pledged securities to be reduced by the amount of the deposit insured by the Federal Deposit Insurance Corporation (FDIC). LES' cash deposits are insured up to \$250,000 by the FDIC.

Investments

LES may invest in U.S. government securities and agencies, U.S. instrumentalities, instrumentalities of the United States, repurchase agreements, corporate issues, money market mutual funds, interest-bearing time deposits or savings accounts, state and/or local government taxable and/or tax-exempt debt, and other fixed term investments, as designated in LES Policy 510 (Investments).

Fair Value Measurements

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction among market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. A hierarchy of three levels of inputs may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable, or can be corroborated by observable market data, for the full term of the assets or liabilities.

Level 3 – Unobservable inputs, supported by little or no market activity, and are significant to the fair value of the assets or liabilities.

Money market mutual funds are carried at cost and thus are not included within the fair value hierarchy.

The table below presents the fair value measurement of LES' assets recognized in the accompanying financial statements, measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurement falls at year-end.

As of December 31, 2024, LES had the following investments (dollars in thousands):

	Carrying Value	Maturities in Years		Credit Ratings Moody's / S&P	Fair Value Hierarchy Level
		Less Than 1	1-5		
Money market mutual funds	\$ 34,492	\$ 34,492	\$ -	Aaa	N/A
U.S. Treasury securities	16,165	9,416	6,749	Aaa/AA+	2
U.S. agency obligations	65,247	51,090	14,156	P-1/A-1+	2
Corp. Issues (Commercial Paper)	39,129	25,660	13,470	P-1/A-1	2
	<u>\$ 155,033</u>	<u>\$ 120,658</u>	<u>\$ 34,375</u>		

Interest Rate Risk

Interest rate risk is the potential for interest rate changes to adversely affect an investment's fair value. It is LES' intent to buy and hold securities to maturity, which reduces interest rate risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Corporate issues, state and/or local government taxable and/or tax-exempt debt, and money market funds are the only current investment types that require a minimum specific rating. All such investments held as of December 31, 2024, meet the minimum credit rating required by LES' investment policy at the time of purchase. Any investment that falls below the minimum credit rating requirement held in LES' investment portfolio, will follow pre-approved guidelines within the investment policy.

Custodial Credit Risk

For an investment, custodial credit risk is a risk that, in the event of a failure of the counterparty, LES would be unable to recover the value of its investment securities in possession of an outside party. LES manages this risk by holding all investments in LES' name, as required by LES' investment policy.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with the amount of investments LES has with any one issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from this requirement. LES' investment policy places limits on the amount that may be invested in any one type of investment and/or issuer. Investment authorization is measured at the time of acquisition.

Investment Type	Portfolio Composition	Limits of Individual Issuers	Maturity Limitations
U.S. government securities	100%	None	10 years
U.S. government agencies	100%	None	10 years
Federal instrumentalities	100%	None	10 years
Instrumentalities of the U.S.	20%	5%	10 years
Interest-bearing time deposit or savings accounts	100%	15%	5 years
Repurchase agreements	50%	15%	90 days
Corporate issues	50%	5%	-
Banker's acceptances	-	-	180 days
Commercial paper	-	-	270 days
Corporate notes	-	-	5 years
Money market mutual funds	100%	25%	N/A
State and/or local government taxable and/or tax-exempt deb	30%	5%	3 years
Other fixed term investments	25%	25%	5 years

On December 31, 2024, LES had the following investment concentrations:

U.S. sponsored agency obligations

Federal Home Loan Bank	19.42%
Federal National Mortgage Association	18.53%

Summary of Carrying Values

Deposits and investments were included in the following Statement of Net Position captions on December 31, 2024:

	2024
	(Dollars in thousands)
Current Assets	
Cash and cash equivalents	
Operating cash and cash equivalents	\$ 56,199
Rate stabilization fund	41,357
Total cash and cash equivalents	<u>97,556</u>
Restricted cash, cash equivalents and investments	
Bond principal and interest funds	17,907
Segregated funds - customer deposits	1,131
Health and dental claims funds	3,027
Total restricted cash, cash equivalents and investments	<u>22,065</u>
Noncurrent Assets	
Restricted cash and investments	
Bond reserve funds	9,397
Segregated funds - developer deposits	25,122
Health and dental claims reserve funds	893
	<u>35,412</u>
Total restricted cash and investments	<u>\$ 155,033</u>

Rate Stabilization Fund

LES maintains a Rate Stabilization Fund (RSF) to provide a method of mitigating risks that may result from unforeseen, or one-time events, and may have a significant financial impact on LES. It is not the intent to fund routine rate adjustments with funds from the RSF. Deposits to and withdrawals from the RSF are subject to approval by the LES Administrative Board. An annual liquidity study determines the target RSF balance, which evaluates the probability and financial impact of LES' risks, as determined via the Enterprise Risk Management program.

The RSF balance was \$41,357,000 as of December 31, 2024.

Note 3: Capital Assets

Capital asset activity for the year ended December 31, 2024 was as follows (dollars in thousands):

	January 1, 2024	Increases	Decreases	Transfers	December 31, 2024
Construction work in progress (not depreciated)	\$ 104,732	\$ 78,718	\$ (2,564)	\$ (23,399)	\$ 157,487
Utility plant	1,842,990	9,097	(3,280)	23,399	1,872,206
Less: Accumulated depreciation	(935,838)	(37,045)	6,016	-	(966,867)
Totals	<u>\$ 1,011,884</u>	<u>\$ 50,770</u>	<u>\$ 172</u>	<u>\$ -</u>	<u>\$ 1,062,826</u>

Note 4: Leases

LES leases communication tower space to third parties, the terms of which expire in 2050. The leases were measured at lease commencement. The lease receivables balance for these agreements was \$6,843,000 on December 31, 2024, of which \$320,000 is presented as current, and \$6,523,000 as long-term on the Statement of Net Position. Total revenue recognized in 2024 was \$730,000, which was reported as other income and interest income on the Statement of Revenues, Expenses and Changes in Net Position.

The following table summarizes future lease principal and interest payments LES expects to receive as of December 31, 2024 (dollars in thousands):

Year Ending December 31	Principal	Interest	Total
2025	\$ 320	\$ 130	\$ 450
2026	302	126	428
2027	301	146	447
2028	236	167	403
2029	177	170	347
2030-2034	1,179	860	2,039
2035-2039	1,801	517	2,318
2040-2044	1,614	241	1,855
2045-2049	874	63	937
2050	39	1	40
Total	<u>\$ 6,843</u>	<u>\$ 2,421</u>	<u>\$ 9,264</u>

Note 5: Subscription Based Information Technology Agreements (SBITAs)

LES has entered into several SBITAs with subscription terms ranging from one to four years. As of December 31, 2024, SBITA assets totaling \$4,592,000, and associated accumulated amortization of \$1,287,000 are included in utility plant and accumulated depreciation, respectively, on the Statement of Net Position. There were no SBITA impairments as of December 31, 2024.

The following table summarizes future SBITA principal and interest payments as of December 31, 2024 (dollars in thousands):

Year Ending December 31	Principal	Interest	Total
2025	992	98	1,090
2026	946	61	1,007
2027	239	21	260
2028	256	11	267
Total	\$ 2,433	\$ 191	\$ 2,624

Note 6: Long-Term Debt and Liabilities

Long-term debt on December 31, 2024, was presented on the Statement of Net Position as shown below:

	Date Callable	(Dollars in thousands)
Serial Bonds		
2013 Electric revenue and refunding, 2.70% - 5.00%, due from Sep. 1, 2021 to 2025	2023	\$ 12,385
2015 Electric revenue and refunding, 3.00% - 5.00%, due from Sep. 1, 2019 to 2036; partially refunded in 2020	2025	29,895
2016 Electric revenue and refunding, 3.00% - 5.00%, due from Sep. 1, 2017 to 2034	2027	65,960
2018 Electric revenue, 3.00% - 5.00%, due from Sep. 1, 2025 to 2034	2027	121,205
2020A Electric revenue, 5.00%, due from Sep. 1, 2025 to 2033	2030	72,200
2020B Electric revenue refunding, taxable, 0.40% - 2.10%, due from Sep 1, 2023 to 2037	N/A	151,300
Term Bonds		
2015 Electric revenue and refunding, 4.00%, due Sep. 1, 2040	2025	40,710
Long-term debt		493,655
Bond issuance premiums		28,799
Less: current maturities of long-term debt		(35,740)
Long-term debt, net		\$ 486,714

Long-term debt and liability activity for the year ended December 31, 2024, was as follows (dollars in thousands).

	January 1, 2024	Increase	Decrease	December 31, 2024	Due Within One Year
Revenue bonds	\$ 531,455	\$ -	\$ (37,800)	493,655	\$ 35,740
Bond issuance premiums	34,655	-	(5,856)	28,799	-
Developer performance deposits	15,832	11,000	(1,712)	25,120	8,527
Health and dental plan reserve	722	441	-	1,163	-
Software liabilities	1,439	1,659	(665)	2,433	992
Totals	<u>\$ 584,103</u>	<u>\$ 13,100</u>	<u>\$ (46,033)</u>	<u>\$ 551,170</u>	<u>\$ 45,259</u>

Debt service requirements for LES' revenue bonds as of December 31, 2024 was as follows (dollars in thousands):

Bond Year Ending August 31	Principal	Interest	Total
2025	\$ 35,740	\$ 17,730	\$ 53,470
2026	37,580	16,807	54,387
2027	39,325	15,063	54,388
2028	40,915	13,458	54,373
2029	42,640	11,735	54,375
2030-2034	224,350	36,173	260,523
2035-2039	59,000	9,417	68,417
2040	14,105	564	14,669
Totals	<u>\$ 493,655</u>	<u>\$ 120,947</u>	<u>\$ 614,602</u>

All long-term debt is issued for the construction of additional utility plants, refunding of existing debt, or to reimburse LES for prior capital expenditures. All utility revenues after payment of operation and maintenance expenses are pledged for revenue bonds until the bonds are paid or defeased.

Debt Service for 2024 was \$55,280,000. Total gross revenues as reported in the Statement of Revenues, Expenses and Changes in Net Position for the same period were \$382,769,000.

Revenue and Refunding Bonds

There were no bond issuances in 2024.

As a result of refundings, the assets and related liabilities for certain defeased bonds are not included in LES' financial statements.

Bond reserves are set in accordance with terms stated upon issuance. All reserves are fully funded.

Revolving Credit Agreement

On April 6, 2023, LES entered into a revolving credit agreement with Bank of America National Association. The agreement allows LES to draw up to \$50,000,000 on a variable rate basis. The revolving credit agreement with Bank of America National Association will expire in April 2026. Electric revenues secure the agreement. There were no amounts outstanding on the agreement as of December 31, 2024.

Also in 2023, LES entered a revolving credit agreement with Union Bank and Trust Company. The revolving credit agreement allows LES to draw up to \$50,000,000 on a variable rate basis. The agreement was executed on July 12, 2023, and will expire on August 12, 2026. The Union Bank and Trust Company revolving credit agreement is secured by electric revenues and is subordinate to the Bank of America National Association revolving credit agreement. There were no amounts outstanding on the agreement as of December 31, 2024.

Note 7: Short-Term Obligations

Commercial Paper

Established by city ordinance, LES may borrow up to \$150,000,000 under a Commercial Paper Program. The payment of the Commercial Paper Notes is subordinated to the payment of the principal of, and interest, on the outstanding bonds. The commercial paper outstanding amount was \$65,500,000 on December 31, 2024. The notes mature at various dates, but no more than 270 days after the date of issuance. The weighted average interest rate was 3.56% for the year ended December 31, 2024. The outstanding commercial paper notes are secured by a revolving credit agreement with JPMorgan Chase Bank, National Association, that expires on August 19, 2027. No advances were outstanding under the revolving credit agreement as of December 31, 2024. The revolving credit agreement, which secures LES' Commercial Paper Program, also includes a Note Purchase Agreement that allows LES the ability to borrow money on a short-term basis. There were no amounts outstanding under the Note Purchase Agreement as of December 31, 2024. Amounts outstanding under the Note Purchase Agreement reduce the amount available under the revolving credit agreement.

LES uses Commercial Paper Notes as part of its long-term financing strategy. As such, commercial paper is typically renewed as it matures. The weighted average length of maturity of Commercial Paper for 2024 was 55 days.

Commercial Paper activity for the year ended December 31, 2024, was as follows (dollars in thousands):

	January 1, 2024	Increase	Decrease	December 31, 2024	Due Within One Year
Commercial Paper Notes	\$ 65,500	\$ 467,500	\$ (467,500)	\$ 65,500	\$ 65,500

Note 8: Regulatory Assets and Liabilities

Rates for LES' regulated operations are established and approved by the LES Administrative Board and Lincoln City Council. LES applies the regulated operations provision of GASB Codification Section Re10, *Regulated Operations*, which provides for the deferral of expenses that are expected to be recovered via

customer rates over a future period (regulatory assets), and reductions in earnings to cover future expenditures (regulatory liabilities).

Regulatory assets are included in other noncurrent assets on the Statement of Net Position. They are amortized in future rate periods when such costs are included in the revenue requirements to establish electric rates.

The composition of regulatory assets on December 31, 2024, was as follows:

	(Dollars in thousands)
Improvement costs on projects in which LES participates	\$ 6,694
Bond issuance costs	<u>1,754</u>
Totals	<u>\$ 8,448</u>

Regulatory liabilities are recorded as a deferred inflow of resources (reductions of future billings) on the Statement of Net Position, representing revenues related to the outcomes of Winter Storm Uri. These liabilities are recognized in future rate periods when such revenues are included in the revenue requirements to establish electric rates.

Note 9: Jointly Owned Facilities

Laramie River Station (LRS)

LES owns a 12.76% share of the Missouri Basin Power Project (MBPP) including LRS, a three-unit, 1,710-MW coal-fired generating station, in eastern Wyoming, and a related transmission system. LES has sold approximately 28 MW, or 13%, of its ownership in LRS to the Municipal Energy Agency of Nebraska (MEAN). Costs, net of accumulated depreciation, and excluding costs allocated to MEAN, for its ownership share associated with LRS of \$45,807,000, are reflected in utility plant on the Statement of Net Position on December 31, 2024.

LES has a participation power sales agreement with the County of Los Alamos, New Mexico (the County), whereby the County purchases from LES, approximately 10 MW or 5% of LES' capacity interest in LRS. The section of the agreement that provides for the County to pay LES monthly payments for the capital budget, processing and dispatch costs, was amended in September 2016. The monthly payments are subject to true-up, each January 1, based on actual costs (as compared to budget) of LRS. The agreement remains in effect until the final maturity occurs on any LRS-related debt or LRS is removed from commercial operation. LES billed the County \$2,017,000 in 2024 for demand and energy charges.

LRS has certain post-retirement obligations, which have not yet been billed to the owners, as these costs are not due and payable. Thus, LES has not reflected these costs in its financial statements. As a co-owner of LRS, LES' allocation of these post-retirement obligations was \$1,315,000 on December 31, 2024.

GASB Statement No. 83, *Certain Asset Retirement Obligations* established accounting standards for recognition and measurement, of a liability for an asset retirement obligation, and associated asset retirement cost. In accordance with this standard, LES, as a participant in MBPP, recognizes asset retirement obligations for the reclamation of wells, landfills and ash ponds.

LES recorded the following amounts as asset retirement obligations, which are offset with a deferred outflow of resources on the Statement of Net Position:

	(Dollars in thousands)	
Asset retirement obligations:		
Obligation, beginning of year	\$	5,190
Additional obligations		(419)
Accretion		327
Liabilities settled		<u>(2,125)</u>
Obligation, end of year	\$	<u>2,973</u>

Walter Scott Energy Center #4

MidAmerican Energy Company’s (MEC) WSEC includes four coal-fired units. LES maintains an ownership interest of 12.66%, or 104 MW of WSEC #4. The 811-MW, coal-fired plant was completed in 2007. To minimize unit outage risk, LES executed a power purchase and sales agreement with MEC to “swap” capacity and energy from LES’ WSEC #4 ownership with capacity and energy from WSEC #3. Under this agreement, LES schedules 50 MW of capacity and energy from WSEC #3 and 53 MW from WSEC #4. This 20-year agreement can be extended through mutual agreement of the parties. LES is responsible for the operation and maintenance expenses and maintains a fuel inventory at the plant site. LES issued debt in conjunction with the construction of WSEC #4 and has capitalized these costs plus interest. Costs, net of accumulated depreciation, associated with WSEC #4 of \$103,767,000, were reflected in utility plant on the Statement of Net Position on December 31, 2024.

Note 10: Jointly Governed Organizations

District Energy Corporation (DEC)

DEC was formed in 1989 by the City of Lincoln and Lancaster County to own, operate, maintain and finance the heating and cooling facilities utilized by certain city, county and state buildings. The DEC Board of Directors of DEC is comprised of five members: two appointed by the Lancaster County Board of Commissioners, two appointed by the mayor of Lincoln, whom the City Council must confirm, and one appointed by LES. No participant has any obligation, entitlement or residual interest.

Under a management agreement, the DEC Board of Directors has appointed LES to supervise and manage the system and business affairs of DEC. LES is reimbursed for these management services based on the actual allocated cost. LES also provides electric energy to DEC on an established rate schedule. The total amount of

payments to LES for management operations and maintenance services in 2024 was \$2,763,000. The total amount of payments to LES for energy in 2024 was \$1,020,000.

Note 11: Employee Benefit Plans

Retirement Plan

LES has a Defined Contribution Retirement Savings Plan, created in accordance with Internal Revenue Code Section 401(k) (401k Plan). Vanguard Fiduciary Trust Company serves as the plan custodian for the 401k Plan. The LES Administrative Board established the 401k Plan under its authority and is responsible for approving all amendments to the 401k Plan. LES' contribution is equal to 200% of the employee contributions, up to 5% of applicable compensation for eligible employees hired prior to January 1, 2011. The contributory rate for eligible employees hired after that date is equal to 100% of the employee contribution, up to 10% of applicable compensation. Vesting of LES matching contributions occurs over a three-year period, with LES contributions being 100 percent vested after three years of service.

Employees who have not met the vesting criteria forfeit the employer matching contributions at termination, which are used to reduce LES' future matching contribution obligations. Forfeitures reduced LES' contributions by \$96,000 in 2024. Vested benefits are fully funded. December participant contributions of \$286,000 were accrued in accounts payable as of December 31, 2024.

Contribution information for 2024 is shown in the table below:

(Dollars in thousands)	
Employer contributions	\$ 5,930
Employee contributions	<u>6,250</u>
Totals	<u>\$ 12,180</u>

LES also offers all eligible employees a Deferred Compensation Plan created in accordance with the Internal Revenue Code Section 457(b) (457 Plan). LES' 457 Plan custodian, Vanguard Fiduciary Trust Company, manages the 457 Plan's assets. The 457 Plan permits the employees to defer a portion of their salary until termination, retirement, or death. LES does not match any employee contributions to the 457 Plan.

Assets and liabilities of the 401k Plan and 457 Plan are not included in the LES financial statements, as all plan assets are held, managed and administered by the plan custodian, and the 401k Plan and 457 Plan are not considered to be component units or fiduciary activities of LES under the applicable accounting guidance.

Employee Health and Dental Insurance

LES has self-funded health and dental insurance programs with claims processed by a third-party administrator on behalf of the utility. A separate fund has been established into which accruals are made

and from which actual claims and other program costs are paid. As part of the health plan, a reinsurance policy has been purchased that covers claims in excess of \$150,000 per individual. Accruals to the self-insured account in excess of the claims, and other costs paid, are monitored by LES. Health care claims and fees incurred (prior to reduction for premium payments from participants) were \$8,784,000 for the year ending December 31, 2024.

As required by Nebraska law, LES maintains an Incurred But Not Reported (IBNR) claims reserve, which is actuarially determined. The balance of the IBNR reserve was \$1,163,000 on December 31, 2024. LES established two separate bank accounts for the self-funded employee health and dental insurance plan reserves to ensure compliance with statutory requirements. Although not required by the statute, LES maintains excess insurance that limits the total claims liability for each plan year to not exceed more than 125% of the expected claims liability, up to an annual aggregate maximum of \$1,000,000.

Note 12: Derivatives

LES utilizes Auction Revenue Rights (ARRs) and Transmission Congestion Rights (TCRs) to hedge against congestion costs in the Southwest Power Pool Integrated Market (SPP IM). Awarded ARRs provide a fixed revenue stream to offset congestion costs. TCRs can be acquired through the conversion of ARRs or purchases from SPP auctions. ARRs do not meet the definition of a derivative because, once awarded, they cannot be sold, or assigned, to another party. TCRs meet the definition of a derivative; however, LES' TCRs meet the normal purchases and sales scope exception, of the applicable accounting guidance, because they are used by LES as factors in the cost of transmission. As such, GASB guidance for derivative accounting does not apply. Accrued liabilities included \$1,407,000 for ARRs on December 31, 2024.

Note 13: Risk Management

Insurance

LES is exposed to various risks of loss related to liability and property. LES carries commercially available insurance, subject to certain limits and deductibles, to reduce the financial impact for claims arising from such matters. Claims have not exceeded this coverage in any of the three preceding years.

To protect against other risks, LES participates in the City of Lincoln's self-insurance program, administered by the City's Risk Management Division. Premium amounts are paid annually to the city's Risk Management Division. LES continues identifying, evaluating, and mitigating inherent business risks as part of its Enterprise Risk Management (ERM) Program. LES has implemented a formalized process to expand the scope of risk identification and awareness. Throughout the organization, divisions and departments are encouraged to participate in the identification of risks, implementation of controls, and mitigation assessment process.

Risk oversight is held by the LES Executive Team and assigned risk owners. Executive team members, risk owners and subject matter experts manage current risks and recommend new risks as needed. The LES Administrative Board maintains a high-level awareness of significant risks facing LES, potential impacts,

and related controls and mitigation strategies. To guide employees in their decision-making, the LES Administrative Board has adopted the following as the risk appetite statement for LES:

Risks will be managed in a manner that will not materially jeopardize LES' ability to serve its customers, achieve its performance targets, and maintain its AA-bond rating. LES has high standards of safety, regulatory, legal, and ethical conduct.

The active participation and engagement of the LES Administrative Board and executive management supports the success of LES' ERM Program. A report reflecting the status of LES' ERM Program is presented annually to the LES Administrative Board. Enhancements to the ERM Program are ongoing and will provide increased awareness of risks throughout the organization. The information gathered will improve risk control and mitigation efforts to support LES' strategic plan, prioritize use of LES resources for decision-making purposes and eliminate duplicative efforts.

LES has a Commercial Risk Management Team (CRMT) to manage the risks associated with operating in the SPP IM. The CRMT provides general oversight of the financial, market and other risk exposures related to operating in the SPP IM. Members of the CRMT include the following LES employees: Energy and Environmental Operations manager (CRMT Chair), chief executive officer, Power Supply vice president, vice president & chief financial officer, vice president & general counsel, and Energy Management supervisor.

Note 14: Commitments and Contingencies

Western Area Power Administration (WAPA)

LES has an allocation from the U.S. Department of Energy, through WAPA, of firm power under contract from Upper Missouri Basin hydroelectric plants of approximately 54 MW. LES also receives an allocation of 72 MW of firm peaking power from WAPA for the six-month summer season and 22 MW for the remaining months. In 2017, LES signed an amendment which extends the contract from 2021 through 2051.

Participation Contracts with Nebraska Public Power District (NPPD)

During 2024, LES had a participation contract in one existing NPPD coal-fired power plant that provided for an entitlement of 8% (109 MW) of the output of the Gerald Gentleman Station (GGS) power plant (nominally rated 1,365-MW).

LES is responsible for its respective participating interests in GGS capital additions and improvements. LES recognizes its share of capital acquisition costs and debt service payments, as power costs in the period the costs are billed, except costs approved for deferral under GASB Codification Section Re10, *Regulated Operations*. Fixed cost payments under the agreement are on made on a participation basis, whether the plant is operating or operable.

The participation contract for GGS continues until the facilities are removed from commercial operation or the final maturity occurs on the related debt incurred by NPPD to finance the facilities, whichever occurs last. The payments to NPPD under this contract, including capital additions and improvements, debt service payments, fixed costs and credits, were \$7,720,000 in 2024. Through the participation contract, LES may be required to pay costs associated with compliance of environmental regulations for GGS.

Other Power Purchase Agreements

LES participates in three wind plants through direct Power Purchase Agreements with the plant developer/owner: 100-MW Arbuckle Mountain Wind Farm in Oklahoma, 100-MW Buckeye Wind Energy Center in Kansas, and 73-MW Prairie Breeze II Wind Energy Center in Nebraska. In 2015 these wind energy facilities were placed in commercial operation. LES also participates in four Nebraska-based wind plants through Power Sales Agreements with NPPD: Laredo Ridge (10 MW), Broken Bow (10 MW), Elkhorn Ridge (6 MW) and Crofton Bluffs (3 MW). NPPD has a direct Power Purchase Agreement for each of these plants with the wind plant developer/owner.

Commitments for Contracts over One Million Dollars

LES has outstanding contract commitments totaling \$16,295,000 on December 31, 2024. These are primarily contracts for purchasing equipment related to large substation and transmission projects to serve a large data center in the service territory and a five-year contract to purchase 345kv circuit breakers as needed.

Claims and Judgments

From time to time, LES is party to various claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and legal counsel, that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the financial statements of LES.

Note 15: Environmental Regulations

Electric utilities are subject to continued environmental regulation. Federal, state and local standards and procedures, which regulate the environmental impact of electric utilities, are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance LES' facilities will remain subject to the regulations currently in effect, will meet future regulations without retrofit, anticipate the outcome of current regulatory and legislative processes, or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital and operating expenditures, reduced operating levels, or the complete shutdown of individual units not in compliance. As necessary, LES will make applications to the appropriate federal and state authorities for any permits, certifications and renewals required by federal and state law; regulations for the operations of its existing plants and for the construction of capital additions and improvements.

Note 16: Subsequent Events

On February 20, 2025, LES issued \$42,000,000 of new commercial paper notes. LES uses its Commercial Paper Program to provide liquidity between long-term financings. The Commercial Paper Program is authorized for \$150,000,000, and following the issuance, the amount of commercial paper outstanding is \$107,500,000. Additional details on the Commercial Paper Program can be found in Note 7.



Lincoln Electric System