

LES



2025 Annual Report

HISTORICAL FINANCIAL SUMMARY

(dollars in thousands)

LINCOLN ELECTRIC SYSTEM

(Unaudited)

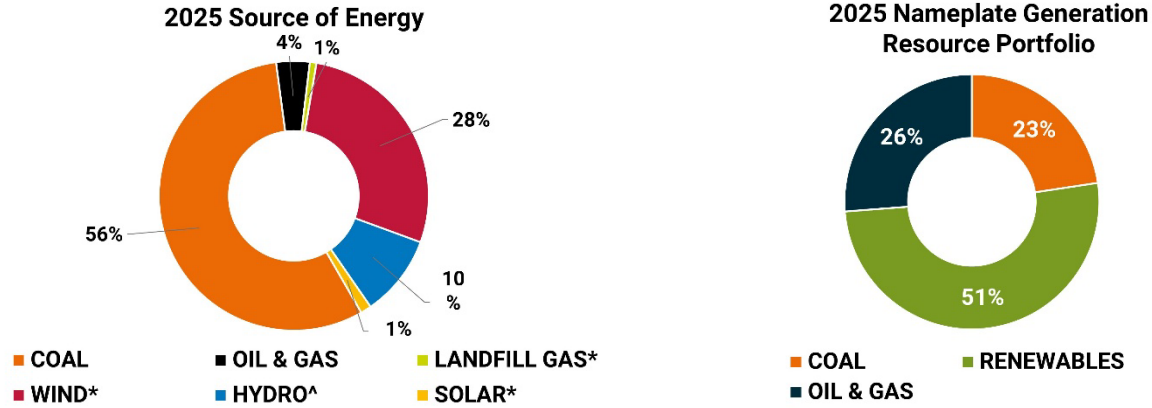
	2025	2024	2023	2022	2021
Operating Revenues					
Electric retail	\$ 326,759	\$ 301,140	\$ 290,674	\$ 275,492	\$ 273,557
Electric wholesale	58,925	58,677	38,713	65,330	74,594
Other revenue	10,639	22,952	20,642	20,561	20,747
Total Operating Revenues	396,323	382,769	350,029	361,383	368,898
Operating Expenses					
Purchased power	86,263	75,110	76,378	90,005	94,240
Produced power	67,456	63,003	61,048	74,377	73,983
Operations	29,711	27,693	25,565	16,797	15,022
Maintenance	15,159	13,254	12,437	9,815	8,070
Administration and general	66,354	66,773	59,032	56,643	51,111
Depreciation and amortization	40,829	35,851	35,555	34,495	35,926
Total Operating Expenses	305,772	281,684	270,015	282,132	278,352
Operating Income	90,551	101,085	80,014	79,251	90,546
Noncapital Subsidies (Net)	(15,491)	-	-	-	-
Operating Income and Noncapital Subsidies	75,060	101,085	80,014	79,251	90,546
Nonoperating Expenses (Net)	(9,692)	(35,588)	(31,606)	(37,627)	(41,307)
Income Before Capital Contributions	65,368	65,497	48,408	41,624	49,239
Net capital contributions	-	-	-	-	-
Change in Net Position	65,368	65,497	48,408	41,624	49,239
Total Capital Assets (Net)	\$ 1,108,724	\$ 1,062,826	\$ 1,011,884	\$ 995,864	\$ 980,496
Peak Hour Use (MW)	801	784	819	763	769
Megawatt-Hour Sales (MWh)					
Residential	1,378,273	1,307,692	1,347,649	1,345,068	1,310,455
Commercial ^[1] & street/highway lighting	1,555,568	1,473,539	1,481,761	1,475,289	1,443,632
Industrial	441,845	469,693	466,063	455,298	477,804
Subtotal retail	3,375,686	3,250,924	3,295,473	3,275,655	3,231,891
Wholesale	630,886	622,119	740,216	968,125	832,831
Total Megawatt-Hour Sales (MWh)	4,006,572	3,873,043	4,035,689	4,243,780	4,064,722
Revenue from Electric Sales					
Residential	\$ 153,700	\$ 141,988	\$ 137,735	\$ 130,691	\$ 127,733
Commercial ^[1] & street/highway lighting	138,918	125,713	121,124	114,501	113,358
Industrial	34,141	33,439	31,815	30,300	32,467
Subtotal retail	326,759	301,140	290,674	275,492	273,557
Wholesale	58,925	58,677	38,713	65,330	74,594
Total Revenue from Electric Sales	\$ 385,684	\$ 359,817	\$ 329,387	\$ 340,822	\$ 348,151
Average Number of Customers					
Residential	136,859	134,912	132,338	130,067	128,256
Commercial ^[1] & street/highway lighting	18,025	17,920	17,751	17,539	17,345
Industrial	236	237	233	231	233
Total Retail Customers	155,120	153,069	150,322	147,837	145,834
Wholesale	5	6	7	7	8
Total Average Number of Customers	155,125	153,075	150,329	147,844	145,842
Retail (12-Month Average Basis)					
Average kWh/customer	21,762	21,238	21,923	22,157	22,161
Cents/kWh	\$ 0.0968	\$ 0.0926	\$ 0.0882	\$ 0.0841	\$ 0.0846

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

2025 SIGNIFICANT EVENTS

- In 2025, LES experienced two of the largest storm events in its history. In March, a blizzard damaged 93 poles and left nearly 5,000 customers without power. LES crews restored service to affected customers, and once restoration was complete, LES deployed eight crews to assist neighboring utilities with their restoration efforts. In August, a severe thunderstorm with 91-mph winds impacted approximately 38,000 customers and required mutual aid from utility partners. Despite these significant storm events, LES ranked second in reliability among 82 cities (excluding major event days).
- In response to new resource adequacy requirements adopted by the Southwest Power Pool (SPP), LES' regional transmission organization, LES took steps to ensure sufficient generation capacity to support system reliability. LES executed a power purchase agreement with Central Nebraska Public Power & Irrigation District for the 22 MW Jeffrey Reservoir Hydroplant and added 423 MW of wind capacity in partnership with Google to support Lincoln's new data center. LES also began advancing plans for two natural gas combustion turbines expected to add a total of 100 MW to the Terry Bundy Generating Station. To fund these investments, LES implemented a 4% rate increase effective July 1, 2025.
- After nearly two years of construction, LES completed the 56th Street Reliability Project in April. The project relocated overhead distribution lines underground, renewed the transmission line, increased 115 kV capacity, reduced outage risk, and improved neighborhood aesthetics.
- LES expanded energy-efficiency efforts for affordable housing in Lincoln after receiving \$300,000 in funding from Google. The funding supports the installation of high-efficiency heat pumps, insulation improvements, smart thermostats, and other energy-saving technologies for underserved communities.
- After nearly a year of collaboration, LES finalized its strategic plan, Powering LES Forward. The plan establishes strategic priorities to guide the utility while reinforcing its commitment to responsible stewardship and service to the community.
- In September, LES energized the North Bluff Substation, one of the largest substations in LES' history. The substation delivers power to Lincoln's first large-scale data center and, upon completion of all phases, will span approximately 880,000 square feet.

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.

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

	Fuel Type	Commercial Operation/ Commencement Date	Net Capability (MW)	LES Share (%)	LES Share (MW) ⁽¹⁾
OWNED UNITS					
Laramie River Station (Net to LES) ^[2]	Coal	1982	1,698	10.5	178
Walter Scott Energy Center #4 ^[3]	Coal	2007	816	12.66	102
J Street Generating Station	Gas/Oil	1972	30	100	30
Terry Bundy Generating Station ^[4]	Gas/Oil	2003/2004	169	100	169
Rokeby Generation Station ^[4]	Gas/Oil	1975/1996/2001	253	100	253
Bluff Road Landfill Gas to Energy Plant ^[5]	Gas	2014	5	100	5
PARTICIPATION UNITS					
Gerald Gentleman Station	Coal	1982	1,365	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
Bluestem Wind Project ^[6]	Wind	2025	198	100	198
Great Western Wind Project ^[6]	Wind	2025	225	100	225
Community Solar ^[5]	Solar	2016	4	100	4
Western Area Power Administration	Hydro	1974	-	-	126
Jeffrey Hydroplant ^[5]	Hydro	2025	22	100	22
TOTAL					1,723

(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

(6) Capacity only. Does not include any energy or renewable attributes.

RENEWABLE RESOURCES

Western Area Power Administration: LES purchases approximately 54 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: LES began receiving energy from a share of the Crofton Bluffs Wind Farm located southwest of Crofton in northeast Nebraska in 2012. 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: LES began receiving energy from the Community Solar Project, located on the west edge of Lincoln, Nebraska, in 2016. 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.

Jeffrey Hydroplant: LES has entered into a Power Purchase Agreement for 21.6 MW of capacity and energy from the Jeffrey Reservoir Hydro located in western Nebraska. The power purchase agreement expires in 2037.

Bluestem Wind Project: LES began receiving capacity from the Bluestem Wind Project in 2025. LES entered into an agreement for all capacity associated with the full 198-MW project, consisting of 60 wind turbines. The project is in Beaver County, Oklahoma. This agreement, which expires in 2031, does not include any energy or renewable attributes.

Great Western Wind Project: LES began receiving capacity from the Great Western Wind Project in 2025. LES entered into an agreement for all capacity associated with the full 225-MW project, consisting of 93 turbines. The project is in Woodward and Ellis counties in Oklahoma, near the base of the Oklahoma panhandle. This agreement, which expires in 2031, does not include any energy or renewable attributes.

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, 169-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 253 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.

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, 2025, 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, 2025, 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 Matters

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, 2025, 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 with respect to this matter.

As discussed in Note 1, in 2025, Lincoln Electric System adopted Governmental Accounting Standards Board Statement No. 103, *Financial Reporting Model Improvements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 GAAS, 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
March 31, 2026**

Management's Discussion and Analysis (Unaudited)

This annual report for Lincoln Electric System consists of Management's Discussion and Analysis (MD&A) and the financial statements, including the notes to financial statements. The following MD&A serves as an introduction to the financial statements of LES. It is intended to be an objective and easily understandable analysis of significant financial and operating activities for the fiscal year ended December 31, 2025, compared to the fiscal year ended December 31, 2024. The MD&A should be read in conjunction with the financial statements and the notes to the financial statements.

LES prepares its financial statements in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB).

In accordance with GASB Statement No. 100, *Accounting Changes and Error Corrections*, the prior period information contained in the MD&A was not restated for a change in accounting principle. As a result, the MD&A contains condensed comparative financial information for the prior period ending December 31, 2024, that is not consistent with the current period ending December 31, 2025, due to a change in accounting principle. The change in accounting principle resulted from an accounting pronouncement, GASB Statement No. 103, *Financial Reporting Model Improvements*, which was adopted by LES during 2025. See Note 2 – Accounting Change for additional information regarding this implementation.

OVERVIEW OF THE FINANCIAL STATEMENTS

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 between 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, noncapital subsidies, 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.

FINANCIAL SUMMARY AND DETAILED ANALYSES

CONDENSED STATEMENTS OF NET POSITION

	2025	2024
	(Dollars in thousands)	
Current Assets	\$ 277,780	\$ 227,069
Noncurrent Assets	47,539	50,516
Capital Assets (Net)	1,108,724	1,062,826
Deferred Outflows of Resources	9,072	9,807
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,443,115	\$ 1,350,218
Current Liabilities	\$ 262,868	\$ 179,803
Noncurrent Liabilities	470,888	508,884
Deferred Inflows of Resources	6,892	24,432
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	740,648	713,119
Net Investment in Capital Assets	488,241	487,477
Restricted	15,624	15,243
Unrestricted	198,602	134,379
NET POSITION	702,467	637,099
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 1,443,115	\$ 1,350,218

Comparison of 2025 to 2024

Total assets and deferred outflows of resources increased \$92,897,000 (6.9%) in 2025, compared to 2024. Current assets increased by \$50,711,000, primarily due to an increase in cash and short-term investments which resulted from commercial paper issuances. Noncurrent assets decreased \$2,977,000 in 2025, compared to 2024, primarily due to the use of restricted cash for electric system infrastructure required to serve a new data center. Capital assets increased by \$45,898,000 due to increased capital expenditures, net of depreciation. The *Capital Expenditures* section of the MD&A details specific asset additions during 2025. Deferred outflows of resources decreased by \$735,000 due to the scheduled amortization associated with debt refunding and bond defeasance.

Current liabilities increased by \$83,065,000, primarily due to the issuance of \$84,500,000 of commercial paper to finance capital additions. Noncurrent liabilities decreased by \$37,996,000, primarily due to payments of bond principal. Deferred inflows of resources decreased by \$17,540,000 due to recognition of the remaining deferred revenue resulting from Winter Storm Uri, which occurred in February 2021.

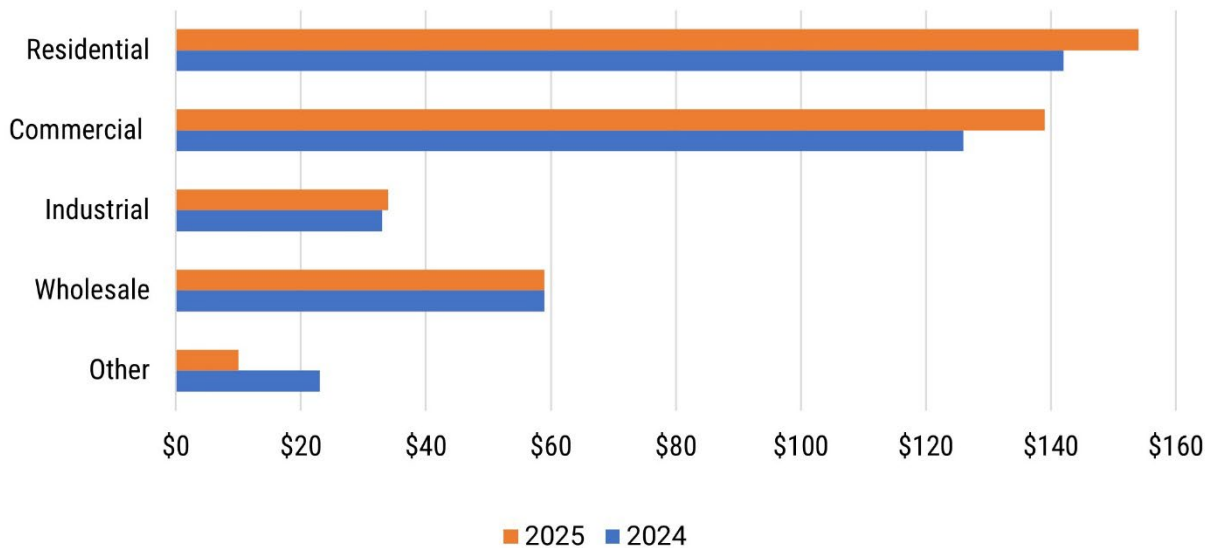
Net position increased by \$65,368,000 due to favorable operating results and the recognition of previously deferred revenues, with the increase primarily reflected in unrestricted net position.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2025	2024
	(Dollars in thousands)	
Operating Revenues	\$ 396,323	\$ 382,769
Operating Expenses	(305,772)	(281,684)
Noncapital Subsidies	(15,491)	-
OPERATING INCOME & NONCAPITAL SUBSIDIES	75,060	101,085
Interest Expense	(17,410)	(16,946)
Other Nonoperating Revenues (Expenses) (net)	7,718	(18,642)
TOTAL NONOPERATING EXPENSES	(9,692)	(35,588)
CHANGE IN NET POSITION	\$ 65,368	\$ 65,497

OPERATING REVENUES

(DOLLARS IN MILLIONS)

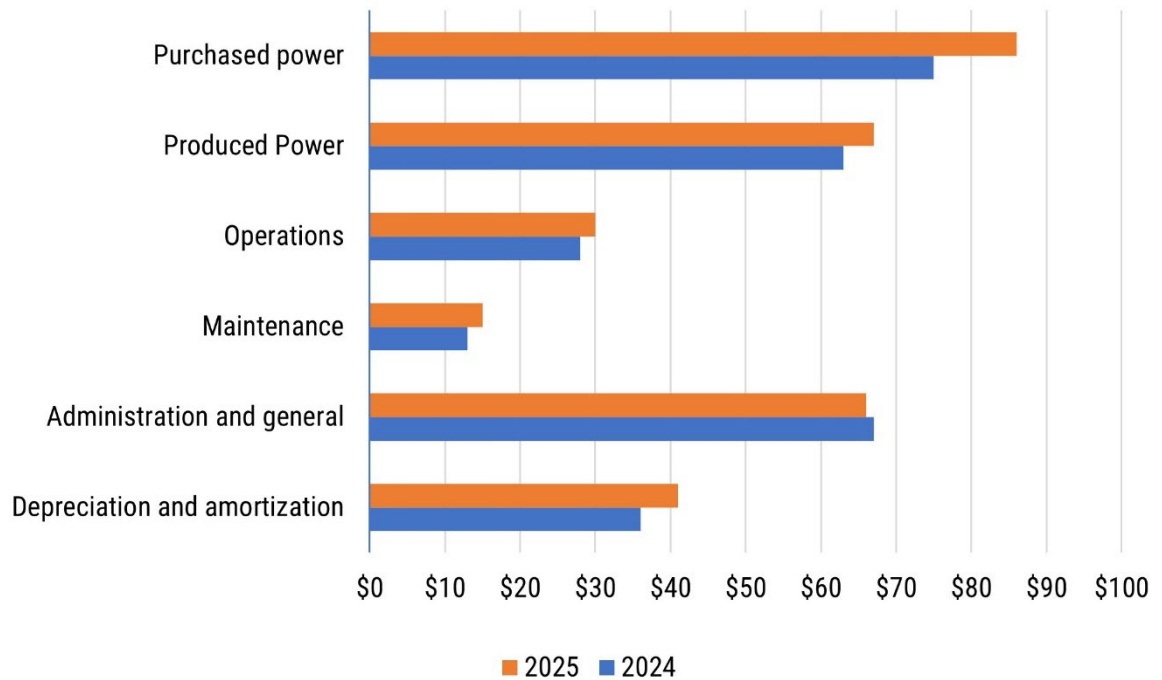


Comparison of 2025 to 2024

Operating revenues in 2025 were \$396,323,000, up 3.5% from 2024. Retail revenue was \$326,759,000, which was 8.5% higher than the 2024 revenue of \$301,140,000, primarily due to retail rate increases of 3.3% on January 1 and 4.0% on July 1. Wholesale revenue was \$58,925,000, which was comparable to 2024 revenue of \$58,677,000. In 2025, \$13,817,000 of City Dividend for Utility Ownership revenue was reclassified from operating revenues to noncapital subsidies due to the adoption of GASB 103.

OPERATING EXPENSES

(DOLLARS IN MILLIONS)



Comparison of 2025 to 2024

Operating expenses in 2025 were \$305,772,000, an increase of 8.6% from 2024 expenses of \$281,684,000.

Purchased power and produced power expenses were \$153,719,000, up 11.3% from 2024 expenses of \$138,113,000, primarily due to higher SPP purchases, increased energy costs at Laramie River Station, and the addition of the Jeffrey Hydroplant. Depreciation and amortization expenses were \$40,829,000, up 13.9% from 2024 expenses of \$35,851,000, primarily due to an increase in utility plant assets being depreciated.

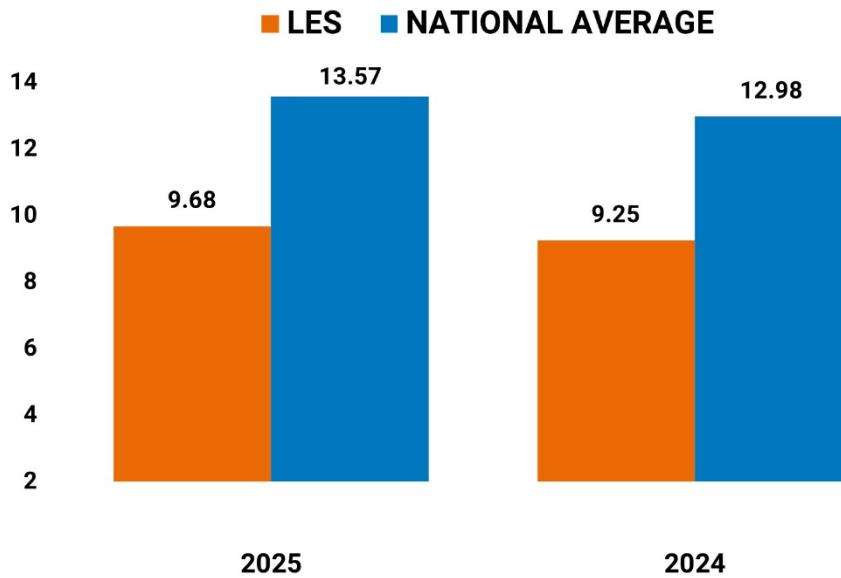
Administrative and general expenses were \$66,354,000, which were similar to 2024 expenses of \$66,773,000.

Operations and maintenance expenses were \$44,870,000, up 9.6% from 2024 expenses of \$40,947,000, primarily due to higher storm restoration costs resulting from major storm activity during the year, as well as 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 (2025 is preliminary) according to the Energy Information Administration (EIA), U.S. Department of Energy. Based on preliminary 2025 EIA data, LES' retail rates were 29% below the national average.

RATES COMPARISON

In 2025, LES implemented a system-wide retail rate increase of 3.3% and a mid-year increase of 4.0%. 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.

FINANCING

No bonds were issued in 2025.

LES uses its Commercial Paper Program to provide liquidity between long-term financings. LES' Commercial Paper Program is authorized for \$150,000,000. LES issued \$84,500,000 of new commercial paper in 2025, bringing the outstanding amount to \$150,000,000 as of December 31, 2025.

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, 2025.

LES entered into a Note Purchase Agreement simultaneously with entering into the revolving credit agreement with JPMorgan Chase Bank, National Association. 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 available amount under the revolving credit agreement that supports the Commercial Paper Program. No amounts were outstanding under the Note Purchase Agreement as of December 31, 2025.

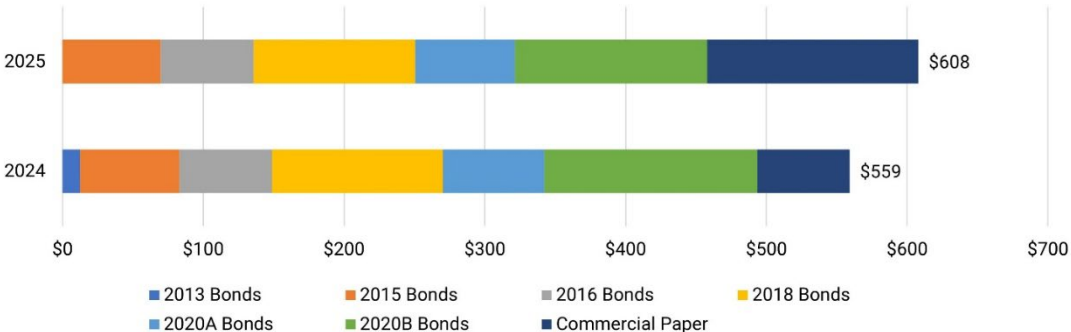
In 2023, LES entered into a revolving credit agreement with Bank of America, National Association. The agreement allows LES to draw up to \$50,000,000 on a variable rate basis. The agreement was executed on April 6, 2023, and replaced a similar agreement with U.S. Bank, National Association, which expired on March 17, 2023. The revolving credit agreement with Bank of America, National Association will expire in April 2026. Electric revenues secure the agreement. No amounts were outstanding on the agreement as of December 31, 2025.

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. No amounts were outstanding on the agreement as of December 31, 2025.

The following chart shows outstanding debt as of December 31, 2025, and 2024.

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+

FIXED CHARGE COVERAGE FOR REVENUE BONDS

1.85 **1.76**
 2025 2024

LES' bond ordinance establishes a Debt Service Coverage requirement of 1.00.

LES generally targets a minimum year-end Debt Service Coverage of 2.00 and a year-end Fixed Charge Coverage of 1.40.

FIXED CHARGE COVERAGE RATIO CALCULATION

	2025	2024
	(Dollars in thousands)	
OPERATING REVENUES	\$396,323	\$382,769
Power Costs	153,719	138,113
Operations & Maintenance	44,870	40,947
Administrative & General	66,354	66,773
OPERATING EXPENSES*	264,943	245,833
NET OPERATING REVENUE	131,380	136,936
Fixed Capacity Charges **	21,704	19,648
Payment in Lieu of Taxes	(15,065)	(13,954)
City Dividend for Utility Ownership	-	(12,944)
Interest Income ***	5,803	5,933
Rate Stabilization Fund Transfers	1,350	-
Other	-	546
OTHER ADJUSTMENTS	13,792	(771)
NET OPERATING REVENUE AND OTHER ADJUSTMENTS	\$145,172	\$136,165
Long-Term Debt Service	\$53,776	\$55,280
Short-Term Interest Expense	3,192	2,250
Fixed Capacity Charges **	21,704	19,648
FIXED CHARGES	\$78,672	\$77,179
FIXED CHARGE COVERAGE RATIO	1.85	1.76

*Excludes depreciation expense

**Includes expenses for Gerald Gentleman Station, Western Area Power Administration and 50% of renewable power purchase agreements

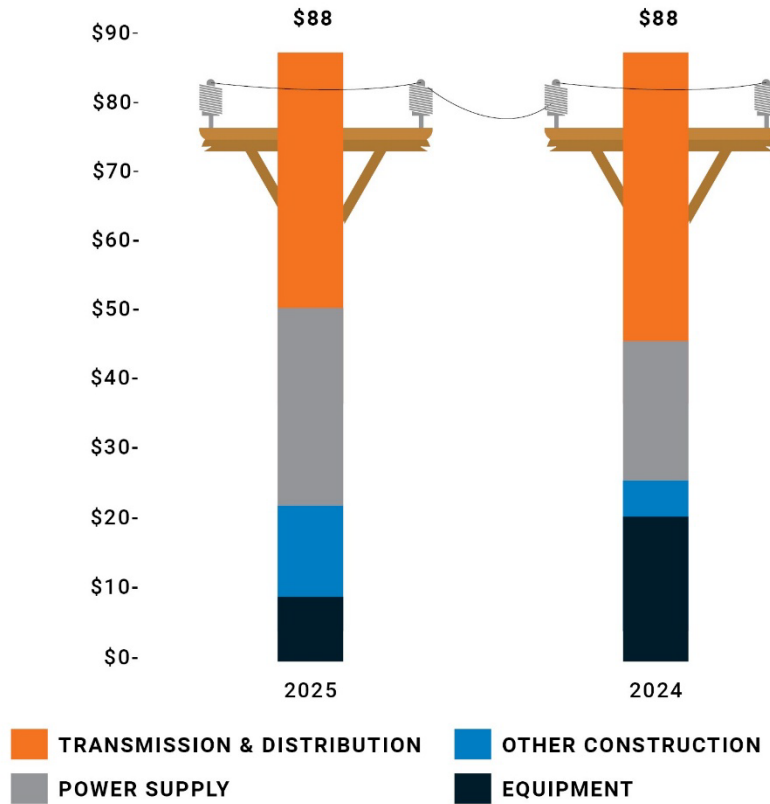
***Excludes interest earned on the Rate Stabilization Fund

CAPITAL EXPENDITURES

Capital expenditures for 2025 and 2024 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 2025 included the following:

- Capital improvements at Terry Bundy Generating Station (TBGS) resulted in \$16,523,000 in capital costs in 2025. This included \$14,546,000 related to the expansion at TBGS.
- LES' share of capital improvements at Laramie River Station (LRS) and Walter Scott, Jr. Energy Center (WSEC), for 2025, were \$3,777,000 and \$7,204,000, respectively.
- Costs for Underground Rebuilds in 2025 totaled \$7,352,000. This project rebuilt existing underground systems due to age, deterioration or other factors.
- Costs for Overhead Rebuilds in 2025 totaled \$6,322,000. This project was for the replacement or removal of deteriorated or obsolete facilities.

- Significant work on the Walter A. Canney Service Center’s HVAC and electrical systems took place in 2025, totaling \$6,095,000. The project has spanned multiple years and is nearing completion. Life-to-date spend on the project as of December 31, 2025, is \$17,385,000.
- Costs for Underground Residential Extensions and Development in 2025 totaled \$5,166,000. This project installed primary and secondary extensions to new homes, residential developments and apartment complexes.
- Costs for Underground Commercial Extension/Development in 2025 totaled \$5,413,000. This project installed primary and secondary extensions for new or existing commercial customers.
- Costs for Underground Relocations in 2025 totaled \$3,535,000. This project relocated existing underground equipment in conflict with non-LES projects and converted existing overhead electrical facilities to underground.

CURRENTLY KNOWN FACTS

STRATEGIC PLAN

In August 2025, the LES Administrative Board unanimously approved Powering LES Forward, a long-range strategic plan that provides a roadmap to guide the utility through 2035 and positions LES for success in an evolving energy landscape.

The plan reflects extensive community input gathered through public meetings, surveys and engagement sessions held throughout 2024 and 2025. This broad participation helped shape a plan that aligns customer expectations, operational and performance metrics into a cohesive, future-focused direction.

The plan redefines LES’ mission – *Powering our community through responsible stewardship of our shared resources* – and its vision: *Driving our energy future where people and power enable progress*. Grounded in these principles, Powering LES Forward responds to rapid technological change, shifting customer needs, increasingly unpredictable weather patterns, and evolving energy markets.

At the heart of the plan are five strategic objectives that guide the utility’s priorities and decision-making:

- Customer & Community: Optimally deploying LES’ resources to meet customers’ evolving needs while enhancing the customer experience and reducing energy burden.
- Infrastructure: Building and maintaining a reliable, resilient and adaptable grid capable of supporting emerging technologies and extreme weather.
- Financial Health: Ensuring LES maintains strong fiscal stability, including a solid bond rating, sufficient liquidity and transparency in long-term rate planning.
- Workforce Readiness: Retaining, developing, and attracting a talented workforce to support organizational performance and prepare for future operational demands.
- Sustainability: Reducing LES’ carbon footprint, caring for the environment and managing demand peaks.

These objectives are supported by defined goals and metrics, with Key Performance Indicators aligned across departments to ensure transparent, measurable progress.

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 remains 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 continues to expand its market footprint with electric utilities west of the existing RTO footprint, effective April 1, 2026.

CYBER AND PHYSICAL SECURITY

LES continues to be heavily involved in the utility industry's cyber and physical security activities. LES staff actively participate in industry groups focused on cyber and physical security. 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 updates on cyber and physical security.

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 2025, LES sourced approximately 26% of its installed nameplate generating capacity from oil and natural gas, 23% from coal, and 51% from renewable resources, which includes hydro, landfill gas, wind, and solar. LES' 2025 energy production from renewable resources is equivalent to 38% 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. The current version of the plan was proposed on May 23, 2023, and finalized in May 2024. The rule 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 ensued. Additionally, multiple Executive Orders were issued by the current federal administration directing the EPA to remove

regulations and policies that impede coal-fired power plants. On June 17, 2025, the EPA proposed repealing all greenhouse gas emission standards for fossil fuel-fired power plants.

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 May 23, 2023, the EPA proposed standards which were finalized in May 2024. The final rule required new combustion turbines operating above 40% capacity to install 80% carbon sequestration by 2032. LES and partner facilities are not affected at this time. Additionally, on June 17, 2025, the EPA proposed repealing all greenhouse gas emission standards for fossil fuel-fired power plants.

CROSS-STATE AIR POLLUTION

The Cross-State Air Pollution Rule (CSAPR) was initially issued in 2011 to assist states in complying 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 the ozone season. Recent revisions to the rule, referred to as the Good Neighbor Plan, were 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 Gerald Gentleman Station (GGS), Laramie River Station (LRS) and Walter Scott Energy Center (WSEC). After analysis, by the State of Wyoming in 2021, it was determined that additional controls at LRS were unnecessary. The current state plans for Iowa and Wyoming have been approved by the EPA. 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) which would require GGS to install SO₂ scrubbers. The FIP has not yet been finalized or withdrawn. In December 2024, the EPA proposed a rule that would extend the due date for state plans submittals for the Regional Haze third planning period until 2031.

ACID RAIN PROGRAM

Implemented under the Clean Air Act Amendments of 1990, the Acid Rain Program is intended to achieve environmental benefits by reducing 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. However,

an Executive Order was issued in April 2025 that delays the compliance period for recent MATS revisions until mid-2029.

COOLING WATER INTAKE STRUCTURES STANDARDS 316(b)

The EPA developed regulations under Subsection 316(b) of the Clean Water Act that 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 adverse environmental impacts from impingement or entrainment.

Section 316(b) requirements are implemented through facility-specific National Pollutant Discharge Elimination System (NPDES) permits and associated compliance schedules administered by state permitting authorities. LES does not operate any generating facilities subject to Section 316(b) requirements. However, LES holds ownership or contractual participation interests in facilities owned and operated by other entities such as GGS and WSEC.

Compliance with Section 316(b) requirements, including permitting, engineering design, construction activities and post-construction performance studies is the responsibility of the respective operating agents and is subject to oversight by the applicable state regulatory authorities, including the Nebraska Department of Water, Energy & Environment and the Iowa Department of Natural Resources.

Compliance with Section 316(b) requirements may be allocated to LES based on ownership interests or contractual arrangements. LES continues to monitor regulatory developments, permit implementation, and compliance schedules related to Section 316(b) in coordination with its operating partners to assess potential cost impacts and planning considerations.

COAL COMBUSTION RESIDUALS PROPOSED RULE

The EPA's Coal Combustion Residuals (CCR) rule was first promulgated in April 2015 under Subtitle D of the Resource Conservation and Recovery Act (RCRA), establishing national minimum criteria for the safe management and disposal of coal combustion residuals in landfills and surface impoundments. The CCR regulations became effective in October 2015 and include requirements related to location restrictions, structural integrity, groundwater monitoring, corrective action, closure and post-closure care.

LES does not operate any CCR units directly. However, LES holds ownership or participation interests in facilities owned and operated by other entities, including GGS (operated by Nebraska Public Power District), LRS (operated by Basin Electric Power Cooperative), and WSEC (operated by Berkshire Hathaway Energy).

On May 8, 2024, the EPA issued the Legacy Coal Combustion Residuals Surface Impoundments and CCR Management Units (CCRMUs) Final Rule, which expanded the scope of regulated CCR units to include certain inactive or previously unregulated impoundments and land-based CCR management units. The rule became effective on November 8, 2024. The EPA has since announced that it is undertaking a reconsideration of the 2024 rule, which may result in future revisions to applicability, implementation schedules, or compliance obligations.

During 2025, the EPA finalized and proposed revisions affecting the timing of certain CCR compliance obligations, including extensions of selected deadlines under the Legacy CCR rule and a proposal to extend closure deadlines for certain unlined CCR surface impoundments. These actions were intended to address implementation and reliability considerations and remain subject to further agency action.

CCR compliance activities at facilities in which LES holds an ownership interest, including obligations related to groundwater monitoring, corrective action, closure, or post-closure care, are the responsibility of the respective operating agents. Nevertheless, costs associated with CCR compliance activities may be allocated to LES based on contractual arrangements or ownership participation.

LES continues to monitor CCR regulatory developments, including rule reconsiderations and potential compliance-date adjustments, in coordination with its operating partners in order to evaluate potential compliance obligations, timing considerations, and associated cost impacts.

CONTACT INFORMATION

This financial report is designed to provide a general overview of LES' financial status for 2025 and 2024. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the 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, 2025

Assets and Deferred Outflows of Resources	(Dollars in thousands)
Current Assets	
Cash and cash equivalents	\$ 140,927
Restricted cash, cash equivalents and investments	22,126
Accounts receivable, net	27,851
Lease receivable	330
Accrued lease interest	1
Unbilled revenues	20,482
Accrued interest receivable	526
Materials, supplies and fuel inventory	37,329
Plant operation assets	19,996
Other current assets	8,212
Total current assets	<u>277,780</u>
Noncurrent Assets	
Restricted cash, cash equivalents and investments	31,916
Lease receivable	7,285
Accrued lease interest	184
Other noncurrent assets	8,154
Total noncurrent assets	<u>47,539</u>
Capital Assets	
Utility plant	1,896,196
Accumulated depreciation	(1,003,816)
Construction work in progress	216,344
Total capital assets	<u>1,108,724</u>
Deferred Outflows of Resources	
Deferred loss on refunded debt	5,687
Deferred costs for asset retirement obligations	3,385
Total deferred outflows of resources	<u>9,072</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1,443,115</u>
Liabilities and Deferred Inflows of Resources	
Current Liabilities	
Accounts payable	\$ 24,197
Accrual for payments in lieu of taxes	14,800
Commercial paper	150,000
Accrued software interest	41
Accrued liabilities	28,944
Current maturities of long-term debt	37,580
Current maturities of software liabilities	1,372
Accrued interest payable	5,934
Total current liabilities	<u>262,868</u>
Noncurrent Liabilities	
Long-term debt, net	443,603
Developer performance deposits	21,326
Health and dental plan reserves	1,235
Asset retirement obligation	3,385
Software liabilities	1,339
Total noncurrent liabilities	<u>470,888</u>
Deferred Inflows of Resources	
Leases	6,892
Total deferred inflows of resources	<u>6,892</u>
Total liabilities and deferred inflows of resources	<u>740,648</u>
Net Position	
Net investment in capital assets	488,241
Restricted for debt service	12,969
Restricted for employee health insurance claims	2,655
Unrestricted	198,602
Total net position	<u>702,467</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 1,443,115</u>

See Notes to the Financial Statements.

LINCOLN ELECTRIC SYSTEM**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

For the Year Ended December 31, 2025

	(Dollars in thousands)
Operating Revenues	
Electric retail	\$ 326,759
Electric wholesale	58,925
Other	10,639
Total operating revenues	<u>396,323</u>
Operating Expenses	
Purchased power	86,263
Produced power	67,456
Operations	29,711
Maintenance	15,159
Administration and general	66,354
Depreciation and amortization	40,829
Total operating expenses	<u>305,772</u>
Operating Income	<u>90,551</u>
Noncapital Subsidies	
City dividend for utility ownership revenue	13,817
City dividend for utility ownership expense	(14,243)
Payment in lieu of taxes	(15,065)
Total noncapital subsidies	<u>(15,491)</u>
Operating Income and Noncapital Subsidies	<u>75,060</u>
Nonoperating Revenues (Expenses)	
Interest expense	(17,410)
Other expense	(139)
Interest income	7,857
Total nonoperating expenses	<u>(9,692)</u>
Capital Contributions	24,875
Plant Costs Recovered through Capital Contributions	<u>(24,875)</u>
Change in Net Position	65,368
Net Position - Beginning of Year	<u>637,099</u>
Net Position - End of Year	<u>\$ 702,467</u>

See Notes to the Financial Statements.

LINCOLN ELECTRIC SYSTEM

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2025

(Dollars in thousands)

Operating Activities	
Received from sales to customers and users	\$ 382,005
Sales tax receipts	18,175
Paid to suppliers for goods and services	(221,518)
Paid to employees for services	(49,670)
Payments for sales tax	(17,974)
Net cash provided by operating activities	<u>111,018</u>
Noncapital Financing Activities	
Payment in lieu of taxes	(13,970)
City Dividend for Utility Ownership revenue	13,817
City Dividend for Utility Ownership payments	(13,719)
Net cash used in noncapital financing activities	<u>(13,872)</u>
Capital and Related Financing Activities	
Capital expenditures	(108,883)
Net cost/salvage value of retiring plant	(2,294)
Capital contributions	15,888
Capital contributions received in advance	3,252
Cash received from leases	514
Principal payments on software agreements	(1,419)
Interest payments on software agreements	(113)
Proceeds from commercial paper issuance	84,500
Principal payments on long-term debt	(35,740)
Interest payments on long-term debt	(20,773)
Net cash used in capital and related financing activities	<u>(65,068)</u>
Investing Activities	
Net purchases of investments	(27,960)
Interest received	7,858
Net cash used in investing activities	<u>(20,102)</u>
Net Change in Cash and Cash Equivalents	11,976
Cash and Cash Equivalents - Beginning of Year	<u>47,368</u>
Cash and Cash Equivalents - End of Year	<u>\$ 59,344</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheet	
Cash and cash equivalents	\$ 140,927
Restricted cash, cash equivalents and investments - current	22,126
Restricted cash, cash equivalents and investments - noncurrent	31,916
Total cash, cash equivalents and investments	<u>194,969</u>
Less: investments not classified as cash equivalents	(135,625)
Total cash and cash equivalents	<u>\$ 59,344</u>

See Notes to the Financial Statements.

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

For the Year Ended December 31, 2025

	(Dollars in thousands)
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 90,551
Lease revenue	(531)
Noncash items included in operating income	
Depreciation charged to other accounts	1,320
Depreciation and amortization	40,829
Changes in operating assets and liabilities	
Accounts receivable	(1,804)
Unbilled revenues	(2,475)
Materials, supplies and fuel inventories	(2,395)
Plant operation assets	1,625
Other current assets	(2,436)
Other noncurrent assets	(4)
Accounts payable	(1,189)
Sales tax payable	201
Accrued expenses	5,386
Health and dental plan reserve	72
Reductions in future billings	(18,132)
Net cash provided by operating activities	<u>\$ 111,018</u>
Supplemental Noncash Activities	
Capital asset acquisitions included in accounts payable	\$ 639
Capital assets acquired through addition of software liabilities	1,697

See Notes to the Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

Reporting Entity

Lincoln Electric System 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, 2025 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 Licensees 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, 2025, 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 3) 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 for comparable securities of issuers with similar credit ratings.

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

Accounts Receivable

Accounts receivable are reported net of the allowance for uncollectible accounts of \$3,339,000 on December 31, 2025.

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 10) 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 electric utility plant additions, replacements of property units and betterments to the electric system are capitalized. These costs include material, labor, vehicle and equipment usage, related overhead costs and certain administrative and general costs. LES' capitalization threshold was \$5,000 in 2025.

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 operating expenses. 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 from 2.0% and 20.0%, depending on the asset type.

Leases

LES accounts for leases in accordance with GASB Statement No. 87, *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. See Note 5 - Leases for additional information regarding leases.

For lessee contracts, lease assets and liabilities are reported on the Statement of Net Position at present value using LES' incremental borrowing rate. The lease assets are amortized over the shorter of the lease term or the useful life of the underlying asset. The amortization of the discount is recorded as accrued interest payable on the Statement of Net Position, with the offset to interest expense on the Statement of Revenues, Expenses and Changes in Net Position.

For lessor contracts, lease receivables and deferred inflows of resources are reported on the Statement of Net Position at present value using LES' incremental borrowing rate. The amortization of the discount is recorded as accrued lease interest on the Statement of Net Position, with the offset to interest income on the Statement of Revenues, Expenses and Changes in Net Position. The deferred inflows of resources are amortized over the lease term and lease revenue is recognized as other operating revenues on the Statement of Revenues, Expense and Changes in Net Position.

Subscription-Based Information Technology Arrangements (SBITAs)

LES accounts for SBITAs in accordance with GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. SBITAs are contracts that convey control of the right to use another party's information technology (IT) 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 IT asset. See Note 6 - Subscription-Based Information Technology Arrangements (SBITAs) for additional information.

For SBITA contracts, subscription assets and liabilities are reported on the Statement of Net Position at present value using LES' incremental borrowing rate. The subscription assets are amortized over the shorter of the contract term or the useful life of the underlying IT assets. The amortization of the discount for SBITA contracts is recorded as accrued software interest on the Statement of Net Position with the offset to interest expense on the Statement of Revenues, Expenses and Changes in Net Position.

Compensated Absences

LES accounts for compensated absences in accordance with GASB Statement No. 101, *Compensated Absences*. LES accrues vacation leave and vested sick leave when the employee earns the benefit. Since there is no cash payment for non-vested sick leave when an employee terminates or retires, non-vested sick leave is accrued when the employee has earned the benefit, to the extent it is probable that the leave will be used. Salary-related payments, such as payroll taxes, are also accrued with the compensated absence liabilities. The compensated absence liabilities are included in accounts payable and accrued liabilities on the Statement of 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 \$5,687,000 as of December 31, 2025.

Recovery of Plant Costs

Capital contributions are received from customers and other third parties, primarily to offset the costs associated with expanding 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. 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 must 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 resources as needed.

Classification of Revenues and Expenses

Beginning in 2025, in accordance with GASB Statement No. 103, *Financial Reporting Model Improvements*, LES reports operating revenues and expenses as all revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are defined as subsidies received and provided, contributions to permanent and term endowments, revenues and expenses related to financing, resources from the disposal of capital assets and inventory, and investment income 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 2025, LES transferred a total of \$13,970,000 to the City of Lincoln,

Lancaster County, Lincoln Public Schools and the City of Waverly for payment in lieu of taxes. The accrued liability for payment in lieu of taxes was \$14,800,000 as of December 31, 2025.

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 2025, LES submitted CDFUO payments totaling \$13,719,000.

The CDFUO is assessed on all retail customer billings and is treated as a noncapital subsidy received on the Statement of Revenues, Expenses and Changes in Net Position. LES records the expense for the CDFUO as a noncapital subsidy provided on the Statement of Revenues, Expenses and Changes in Net Position. The accrued liability for CDFUO was \$5,097,000 as of December 31, 2025.

Recent Accounting Pronouncements, adopted

GASB Statement No. 102, *Certain Risk Disclosures*, was issued in December 2023, effective for fiscal years beginning after June 15, 2024. The objective of this statement is to provide users of the government's financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. LES adopted this statement in 2025 and determined that there are no additional required disclosures or impacts to LES' financial position, operating results, or cash flows.

GASB Statement No. 103, *Financial Reporting Model Improvements*, was issued in April 2024, effective for fiscal years beginning after June 15, 2025. LES early adopted this statement in 2025. See Note 2 - Accounting Change for additional information regarding this implementation.

Recent Accounting Pronouncements, not yet adopted

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, was issued in September 2024, effective for fiscal years beginning after June 15, 2025. This statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures. Lease assets and intangible right-to-use assets should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets should also be separately disclosed. In addition, this statement requires intangible assets other than those three types to be disclosed separately by major class and it requires additional disclosures for capital assets held for sale. LES is currently assessing the disclosure impact of adopting this statement.

GASB Statement No. 105, *Subsequent Events*, was issued in December 2025, effective for fiscal years beginning after June 15, 2026. This statement clarifies the subsequent events time frame and the subsequent events that constitute recognized and nonrecognized events, in addition to specifying the information items that are required to be disclosed about subsequent events. The objective of this statement is to improve the financial reporting requirements for subsequent events by enhancing consistency in their application and better meeting the information needs of financial statement users. LES is currently assessing the disclosure impact of adopting this statement.

Note 2: Accounting Change

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*, to enhance the financial reporting model's effectiveness in providing information essential to decision-making and assessing a government's accountability. This statement requires LES to reclassify line items on the financial statements. Material reclassifications that affected the Statement of Revenues, Expenses, and Changes in Net Position include reclassifying City Dividend for Utility Ownership revenues from the operating revenues section into a new section, following operating income, called Noncapital Subsidies. Additionally, Payment in lieu of taxes expense and City Dividend for Utility Ownership expense will be reclassified from the Nonoperating Revenues (Expenses) section into the new Noncapital Subsidies section. For more information on the classification of revenues and expenses, please refer to the *Classification of Revenues and Expenses* policy included in Note 1. Other financial reporting requirements established by this statement that affect LES, but did not have a material impact, were modifications to the required supplementary information included in the Management's Discussion and Analysis. This statement had no impact on beginning net position.

Note 3: Deposits and Investments

Deposits

State statute requires banks to issue a bond or pledge government securities to LES for the amount of utility deposits being held. 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, federal 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).

Interest Rate Risk

Interest rate risk is the potential for changes in interest rates 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, 2025, 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 in LES' investment portfolio will follow the pre-approved guidelines within the investment policy.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of a failure of the counterparty, LES would be unable to recover the value of its investment securities held by 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.

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 are therefore 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, 2025, 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	\$ 24,677	\$ 24,677	\$ -		Aaa	N/A
U.S. Treasury securities	102,455	102,455	-		Aaa/AA+	1
U.S. agency obligations	26,988	24,386	2,602		P-1/A-1+	2
Corp. Issues (Commercial Paper)	40,849	33,446	7,403		P-1/A-1	2
	<u>\$ 194,969</u>	<u>\$ 184,964</u>	<u>\$ 10,005</u>			

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 debt	30%	5%	3 years
Other fixed-term investments	25%	25%	5 years

On December 31, 2025, LES had the following investment concentrations.

U.S. sponsored agency obligations

Federal Home Loan Bank 7.89%

Summary of Carrying Values

Deposits and investments were included in the following Statement of Net Position captions on December 31, 2025.

	2025
	(Dollars in thousands)
Current Assets	
Cash and cash equivalents	
Operating cash and cash equivalents	\$ 98,932
Rate stabilization fund	41,995
Total cash and cash equivalents	<u>140,927</u>
Restricted cash, cash equivalents and investments	
Bond principal and interest funds	18,196
Segregated funds - customer deposits	1,151
Health and dental claims funds	2,779
Total restricted cash, cash equivalents and investments	<u>22,126</u>
Noncurrent Assets	
Restricted cash and investments	
Bond reserve funds	9,110
Segregated funds - developer deposits	21,587
Health and dental claims reserve funds	1,219
Total restricted cash and investments	<u>31,916</u>
Total	<u>\$ 194,969</u>

Rate Stabilization Fund

LES maintains a Rate Stabilization Fund (RSF) to mitigate risks arising from unforeseen or one-time events that 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 and evaluates the probability and financial impact of LES' risks, as determined via the Enterprise Risk Management program.

The RSF balance was \$41,995,000 as of December 31, 2025.

Note 4: Capital Assets

Capital asset activity for the year ended December 31, 2025 was as follows (dollars in thousands).

	January 1, 2025	Increases	Decreases	Transfers	December 31, 2025
Construction work in progress (not depreciated)	\$ 157,487	\$ 85,775	\$ (2,294)	\$ (24,624)	\$ 216,344
Utility plant	1,872,206	2,272	(2,906)	24,624	1,896,196
Less: Accumulated depreciation	(966,867)	(42,149)	5,200	-	(1,003,816)
Totals	<u>\$ 1,062,826</u>	<u>\$ 45,898</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,108,724</u>

Note 5: Leases

LES accounts for leases in accordance with GASB 87 which establishes a single model for lease accounting on the foundational principle that leases are financings of the right to use an underlying asset. See *Leases* policy in Note 1 for additional information.

LES as a Lessee

There were no lease agreements deemed material for reporting under GASB 87 as of December 31, 2025.

LES as a Lessor

LES leases communication tower space to third parties. The leases have contract terms which expire between 2027 and 2060. The leases were measured at lease commencement. The lease receivables balance for these agreements was \$7,615,000 on December 31, 2025, of which \$330,000 is presented as current, and \$7,285,000 as long-term on the Statement of Net Position. LES recognized \$531,000 of lease revenue and \$217,000 of lease interest income for the year ended December 31, 2025.

Note 6: Subscription-Based Information Technology Arrangements (SBITAs)

LES accounts for SBITAs in accordance with GASB 96, which establishes an accounting model for subscription assets. See *Subscription-Based Information Technology Arrangements (SBITAs)* policy in Note 1 for additional information.

LES has entered into several SBITAs with subscription terms ranging from one to four years. As of December 31, 2025, SBITA assets totaling \$7,140,000 and associated accumulated amortization of \$2,978,000 are included in utility plant and accumulated depreciation, respectively, on the Statement of Net Position. There were no SBITA impairments as of December 31, 2025.

The following table summarizes future SBITA principal and interest payments as of December 31, 2025 (dollars in thousands).

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 1,372	\$ 113	\$ 1,485
2027	686	54	740
2028	465	28	493
2029	<u>188</u>	<u>8</u>	<u>196</u>
Total	<u>\$ 2,711</u>	<u>\$ 203</u>	<u>\$ 2,914</u>

Note 7: Long-Term Debt and Liabilities

Long-term debt on December 31, 2025, was presented on the Statement of Net Position as shown below.

	<u>Date Callable</u>	<u>(Dollars in thousands)</u>
Serial Bonds		
2015 Electric revenue and refunding, 3.00% - 5.00%, due from Sep. 1, 2019 to 2036; partially refunded in 2020	2025	\$ 29,065
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	114,900
2020A Electric revenue, 5.00%, due from Sep. 1, 2025 to 2033	2030	70,740
2020B Electric revenue refunding, taxable, 0.40% - 2.10%, due from Sep 1, 2023 to 2037	N/A	136,540
Term Bonds		
2015 Electric revenue and refunding, 4.00%, due Sep. 1, 2040	2025	40,710
Long-term debt		457,915
Bond issuance premiums		23,268
Less: current maturities of long-term debt		<u>(37,580)</u>
Long-term debt, net		<u>\$ 443,603</u>

Long-term debt and liability activity for the year ended December 31, 2025, was as follows (dollars in thousands).

	January 1, 2025	Increase	Decrease	December 31, 2025	Due Within One Year
Revenue bonds	\$ 493,655	\$ -	\$ (35,740)	457,915	\$ 37,580
Bond issuance premiums	28,799	-	(5,531)	23,268	-
Developer performance deposits	25,120	7,252	(8,988)	23,384	2,058
Health and dental plan reserve	1,163	72	-	1,235	-
Software liabilities	2,433	1,697	(1,419)	2,711	1,372
Totals	<u>\$ 551,170</u>	<u>\$ 9,021</u>	<u>\$ (51,678)</u>	<u>\$ 508,513</u>	<u>\$ 41,010</u>

Debt service requirements for LES' revenue bonds as of December 31, 2025, were as follows (dollars in thousands).

Bond Year Ending August 31	Principal	Interest	Total
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	43,885	10,485	54,370
2031-2035	189,165	28,290	217,455
2036-2040	64,405	7,378	71,783
Totals	<u>\$ 457,915</u>	<u>\$ 103,216</u>	<u>\$ 561,131</u>

All long-term debt is issued for the construction of additional utility plant, 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 2025 was \$53,776,000. Total gross revenues as reported in the Statement of Revenues, Expenses and Changes in Net Position for the same period were \$396,323,000.

Revenue and Refunding Bonds

There were no bond issuances in 2025.

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. No amounts were outstanding on the agreement as of December 31, 2025.

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. No amounts were outstanding on the agreement as of December 31, 2025.

Note 8: 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. LES issued a total of \$84,500,000 of additional Commercial Paper Notes in 2025, bringing the total amount outstanding to \$150,000,000 on December 31, 2025. The notes mature at various dates, but no more than 270 days after the date of issuance. The weighted average interest rate was 2.87% for the year ended December 31, 2025. 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, 2025. 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. No amounts were outstanding under the Note Purchase Agreement as of December 31, 2025. 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 in 2025 was 55 days.

Commercial Paper activity for the year ended December 31, 2025, was as follows (dollars in thousands).

	<u>January 1, 2025</u>	<u>Increase</u>	<u>Decrease</u>	<u>December 31, 2025</u>	<u>Due Within One Year</u>
Commercial Paper Notes	\$ 65,500	\$ 620,000	\$ (535,500)	\$ 150,000	\$ 150,000

Note 9: 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 through

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, 2025, was as follows.

(Dollars in thousands)	
Improvement costs on projects in which LES participates	\$ 6,698
Bond issuance costs	1,456
Totals	<u>\$ 8,154</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. The remaining deferred revenue was recognized during 2025 and there was no related regulatory liability as of December 31, 2025.

Note 10: 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 \$46,436,000, are reflected in utility plant on the Statement of Net Position on December 31, 2025.

LES has a participation power sales agreement with the County of Los Alamos, New Mexico (the County), under which 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 based on actual LRS costs (as compared to budget). The agreement remains in effect until the final maturity of any LRS-related debt or until LRS is removed from commercial operation. LES billed the County \$2,114,000 in 2025 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 \$1,338,000 on December 31, 2025.

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 by a deferred outflow of resources on the Statement of Net Position.

(Dollars in thousands)	
Asset retirement obligations:	
Obligation, beginning of year	\$ 2,973
Additional obligations	539
Accretion	295
Liabilities settled	<u>(422)</u>
Obligation, end of year	<u>\$ 3,385</u>

Walter Scott Energy Center #4

MidAmerican Energy Company (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 \$100,487,000, were reflected in utility plant on the Statement of Net Position on December 31, 2025.

Note 11: 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 is comprised of five members: two appointed by the Lancaster County Board of Commissioners, two appointed by the mayor of Lincoln, who 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 2025 was \$2,904,000. The total amount of payments to LES for energy in 2025 was \$1,093,000.

Note 12: 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 401(k) Plan. The LES Administrative Board established the 401(k) Plan under its authority and is responsible for approving all amendments to the 401(k) 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 100% vesting after three years of service.

Employees who have not met the vesting criteria forfeit the employer’s matching contributions at termination, which are used to reduce LES’ future matching contribution obligations. Forfeitures reduced LES’ contributions by \$95,000 in 2025. Vested benefits are fully funded. December participant contributions of \$308,000 were accrued in accounts payable as of December 31, 2025.

Contribution information for 2025 is shown in the table below:

(Dollars in thousands)

Employer contributions	\$ 6,294
Employee contributions	<u>6,783</u>
Totals	<u>\$ 13,077</u>

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

Assets and liabilities of the 401(k) Plan and 457(b) Plan are not included in the LES financial statements, as all plan assets are held, managed and administered by the plan custodian. The 401(k) Plan and 457(b) 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 to cover 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 \$11,380,000 for the year ending December 31, 2025.

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 \$1,235,000 on December 31, 2025. 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 13: 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 \$2,603,000 of ARRs as of December 31, 2025.

Note 14: 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 of 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 the mitigation assessment process.

Risk oversight is the responsibility of 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 support 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 increase risk awareness throughout the organization. The information gathered will improve risk control and mitigation efforts to support LES' strategic plan, prioritize the use of LES resources for decision-making 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 15: 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 that extends the contract from 2021 through 2051.

Participation Contracts with Nebraska Public Power District (NPPD)

During 2025, 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 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 of the related debt incurred by NPPD to finance the facilities, whichever occurs later. The payments to NPPD under this contract, including capital additions and improvements, debt service payments, fixed costs and credits, were \$8,776,000 in 2025. Through the participation contract, LES may be required to pay costs associated with compliance with 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 or owner.

In 2025, LES entered into a Power Purchase Agreement with Central Nebraska Public Power and Irrigation District for 21.6 MW of capacity and energy from the Jeffrey Reservoir Hydroplant located in western Nebraska. In addition, LES began receiving capacity from the Bluestem Wind Project in Oklahoma in 2025. LES entered into an agreement with Google for all capacity associated with the full 198 MW project, consisting of 60 wind turbines. This agreement, which expires in 2031, does not include any energy or renewable attributes.

Commitments for Contracts over One Million Dollars

LES has outstanding contract commitments totaling \$3,938,000 on December 31, 2025. These are primarily contracts to construct a new metal building at Rokeby Generating Station to store additional equipment used for site maintenance and operations which are currently stored in Conex boxes and a five-year contract to purchase 345 kV 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 16: Environmental Regulations

Electric utilities are subject to ongoing environmental regulation. Federal, state and local standards that regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory, executive and judicial action regarding such standards and procedures. Consequently, there is no assurance that LES' facilities will remain subject to the regulations currently in effect, that future requirements can be anticipated with certainty, or that compliance will not require operational changes, capital investment or permitting modifications. 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 under certain circumstances. LES will make applications to the appropriate federal and state authorities for any permits, certifications and renewals as required for the operations of its existing plants and for the construction of capital additions and improvements.



Lincoln Electric System