HOPKINSVILLE ELECTRIC SYSTEM

OF THE

CITY OF HOPKINSVILLE, KENTUCKY

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JUNE 30, 2026 AND 2025

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY

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OF THE
CITY OF HOPKINSVILLE, KENTUCKY

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Internal Control and Compliance

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards* 67

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INDEPENDENT AUDITORS' REPORT

To the Board of the
Hopkinsville Electric System of the
City of Hopkinsville, Kentucky
Hopkinsville, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky as of and for the years ended June 30, 2026 and 2025, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky as of June 30, 2026 and 2025, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky'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.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's ability to continue as a going concern for a reasonable period of time.

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 and other required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's basic financial statements. The accompanying additional information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2026, on our consideration of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's internal control over financial reporting and compliance.

DGA, PSC

Certified Public Accountants
Hopkinsville, Kentucky

October 23, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2026 AND 2025

The management of Hopkinsville Electric System of the City of Hopkinsville, Kentucky (HES or the System) offers this Management's Discussion and Analysis to provide an overview and analysis of the System's financial activities for the year ended June 30, 2026, with comparative information for 2025. To fully understand the entire scope of the System's financial activities, this information should be read in conjunction with the financial statements provided in this document.

Overview of the Financial Statements

HES provides electric service in Hopkinsville and, through its Energynet division, broadband, voice and data services in Hopkinsville and the Pennyrile Rural Electric Cooperative (PRECC) service territory. The System is a proprietary (enterprise) activity. It reports using the economic resources measurement focus and the accrual basis of accounting, similar to a private business. The basic financial statements consist of the following:

- **Statement of Net Position** reports the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30.

- **Statement of Revenues, Expenses and Changes in Net Position** reports operating and nonoperating results for the year. Operating revenues and expenses come from providing electric and telecommunications services. Investment income, interest expense, and other financing-related items are reported as nonoperating.

- **Statement of Cash Flows** reports cash receipts and payments from operating, noncapital financing, capital and related financing, and investing activities.

- **Notes to the Financial Statements** provide information needed to understand the amounts reported in the statements.

Required supplementary information following the notes presents pension and other postemployment benefit schedules. Supplementary information presents combining schedules for the electric and telecommunications operations.

Financial Summary

- Total net position increased $5.3 million, or 22.52%, to $29.0 million.
- Operating revenues increased $2.9 million, or 5.09%, to $59.0 million. Telecommunications revenues accounted for $2.1 million of the increase.
- Operating expenses increased $2.8 million, or 5.56%, to $53.4 million. Operating income was $5.6 million, compared with $5.5 million in 2025.
- Net capital assets increased $2.5 million to $45.4 million, and outstanding debt principal declined $1.1 million to $22.0 million.

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2026 AND 2025

Table 1 – Condensed Statements of Net Position, June 30

	2026	2025	Change	%
ASSETS				
Current assets	$ 20,691,070	$ 17,305,410	$ 3,385,660	19.56%
Other noncurrent assets	5,198,934	7,724,030	(2,525,096)	-32.69%
Capital assets, net	45,447,562	42,937,109	2,510,453	5.85%
Total assets	71,337,566	67,966,549	3,371,017	4.96%
DEFERRED OUTFLOWS OF RESOURCES	2,097,072	2,538,283	(441,211)	-17.38%
LIABILITIES				
Current liabilities	12,108,787	11,379,343	729,444	6.41%
Long-term liabilities	29,281,580	30,935,191	(1,653,611)	-5.35%
Total liabilities	41,390,367	42,314,534	(924,167)	-2.18%
DEFERRED INFLOWS OF RESOURCES	3,070,943	4,543,373	(1,472,430)	-32.41%
NET POSITION				
Net investment in capital assets	23,429,838	19,842,037	3,587,801	18.08%
Restricted	3,565,093	6,018,989	(2,453,896)	-40.77%
Unrestricted	1,978,397	(2,214,101)	4,192,498	189.35%
Total net position	$ 28,973,328	$ 23,646,925	$ 5,326,403	22.52%

Table 2 – Condensed Statements of Revenues, Expenses, and Changes in Net Position, years ended June 30

	2026	2025	Change	%
OPERATING REVENUES				
Electric revenues	$43,948,749	$43,146,949	$ 801,800	1.86%
Telecom revenues	15,049,107	12,993,708	2,055,399	15.82%
Total operating revenues	58,997,856	56,140,657	2,857,199	5.09%
OPERATING EXPENSES				
Cost of power	31,380,518	30,684,222	696,296	2.27%
Cost of sales - telecommunications	5,490,516	4,429,129	1,061,387	23.96%
Distribution	6,108,757	5,685,476	423,281	7.44%
Customer accounts	2,351,962	2,248,204	103,758	4.62%
Sales	297,449	265,718	31,731	11.94%
Administrative and general	2,498,063	2,150,014	348,049	16.19%
Depreciation and amortization	3,558,631	3,474,349	84,282	2.43%
Taxes	1,756,381	1,689,964	66,417	3.93%
Total operating expenses	53,442,277	50,627,076	2,815,201	5.56%
Operating income	5,555,579	5,513,581	41,998	0.76%
Net nonoperating revenues (expenses)	(229,176)	(146,754)	(82,422)	56.16%
Change in net position	5,326,403	5,366,827	(40,424)	-0.75%
Net position, beginning of year	23,646,925	18,280,098	5,366,827	29.36%
Net position, end of year	$28,973,328	$23,646,925	$ 5,326,403	22.52%

Detailed Analyses

Financial Position

Total assets increased $3.4 million, to $71.3 million. Current assets increased $3.4 million, led by a $2.4 million increase in unrestricted cash because operating cash flows exceeded capital spending funded from operations and debt service. Materials and supplies inventory increased $517K, almost entirely from fiber optic materials purchased for completion of the Hopkinsville fiber build. Prepayments increased $436k, mainly because of the timing of the annual insurance renewal ($348k).

Other noncurrent assets decreased $2.5 million, mainly because restricted cash and investments declined $2.5 million. The System spent $2.4 million of 2025 bond proceeds on electric grid modernization and $217,000 of 2024F bond proceeds on network operations center (NOC) resiliency projects. These decreases were offset by the new 2025 bond sinking fund ($81k).

Total liabilities decreased $924k. Long-term liabilities decreased $1.7 million because of scheduled debt principal repayments of $1.1 million and a $712k decrease in the net pension liability. Current liabilities increased $729k, mainly because general accounts payable increased $524k due to the timing of purchased power and capital project payments.

Deferred outflows of resources decreased $441k and deferred inflows of resources decreased $1.5 million. Both changes reflect the annual pension and OPEB actuarial measurements.

Net position increased $5.3 million, to $29.0 million. Net investment in capital assets increased $3.6 million as capital spending and debt repayment outpaced depreciation. Restricted net position decreased $2.5 million as bond proceeds were spent. Unrestricted net position improved $4.2 million, from a deficit of $2.2 million to a positive $2.0 million. These changes reflect both current-year operating results and the composition of capital-related and restricted resources.

Operating Revenues

Operating revenues increased $2.9 million, or 5.09%, to $59.0 million.

Electric revenues increased $802k, or 1.86%, to $43.9 million. Residential revenue increased $404k (2.5%) and small commercial revenue increased $335k (5.6%). The customer base did not change significantly, and there was no retail rate adjustment during the year. Because system sales are primarily weather-driven, less mild temperatures than the prior year increased heating and cooling load. Large commercial and industrial revenue was flat at $19.4 million.

Telecommunications revenues increased $2.1 million, or 15.82%, to $15.0 million, and were 25.5% of operating revenues compared with 23.1% in 2025. The increase was driven primarily by subscriber growth. Energynet is in a multi-year expansion of broadband service in Hopkinsville and the Pennyrile Rural Electric Cooperative (PRECC) service area, and subscribers grew 12.5%, from 14,069 at June 30, 2025, to 15,821 at June 30, 2026.

Operating Expenses

Operating expenses increased $2.8 million, or 5.56%, to $53.4 million.

- **Cost of power** increased $696k, or 2.3%, to $31.4 million. HES buys all of its wholesale power from TVA. The increase reflects the additional power purchased to serve higher sales.
- **Telecommunications cost of sales** increased $1.1 million, or 24.0%. The PRECC dark fiber revenue share accounts for $960k of the increase. This cost varies directly with PRECC revenue and increased with growth in the PRECC customer base.
- **Distribution** increased $423k, or 7.4%. Maintenance increased $723k. Right-of-way maintenance rose $365k reflecting a greater emphasis on vegetation management, and $229k of software costs were reclassified to FERC maintenance accounts, consistent with FERC Order No. 898. Distribution operations expenses decreased $300k, mainly because of lower fiber customer installation costs ($153k) and bandwidth costs ($71k).
- **Administrative and general** increased $348k, or 16.2%. The software reclassification added a net $167k, consulting and legal fees increased $94k, and miscellaneous general payroll increased $67,000.
- **Depreciation and amortization** increased $84k, or 2.4%, as assets were placed in service.

Nonoperating Revenues and Expenses

Net nonoperating expenses increased $82k, to $229k. Interest expense increased $130k, mainly because of the first full year of interest on the 2025 bonds ($183k). Interest on other debt declined $54k as principal was repaid. Investment income increased $73k because of interest earned on higher unrestricted cash balances. Other nonoperating income decreased $26k, mainly because of lower gains on disposal of property.

Cash Flows and Liquidity

Operating activities provided $7.5 million in cash, compared with $7.3 million in 2025. Capital and related financing activities used $7.9 million for capital expenditures of $6.2 million, debt principal, and interest. Investing activities provided $328k. Total cash and investments, including restricted balances, decreased $74k to $15.7 million. Unrestricted cash increased $2.4 million and restricted cash decreased $2.5 million.

Significant Capital Asset and Long-Term Financing Activity

Capital Assets

Net capital assets increased $2.5 million, to $45.4 million. Capital expenditures totaled $6.2 million, compared with $4.1 million in 2025, and depreciation and amortization was $3.6 million.

Table 3 – Capital Assets, Net of Depreciation and Amortization, June 30

	2026	2025	Change
Land	$ 326,709	$ 326,709	$ -
Construction in progress			
Electric	3,007,044	243,389	2,763,655
Telecommunications	2,198,978	1,550,030	648,948
Transmission plant	294,056	310,467	(16,411)
Distribution plant	22,609,695	22,736,575	(126,880)
General plant	2,809,043	3,539,836	(730,793)
Telecommunications plant	14,156,839	14,230,103	(73,264)
Intangible assets	45,198	-	45,198
Total capital assets	$ 45,447,562	$ 42,937,109	$ 2,510,453

Construction in progress increased to $5.2 million from $1.8 million. Electric construction in progress of $3.0 million reflects the grid modernization program funded by the 2025 bonds. These projects are scheduled to be completed in calendar year 2027. Telecommunications construction in progress of $2.2 million reflects the NOC resiliency and Oak Grove network expansion projects, which are expected to be completed in early 2027. Unspent bond proceeds of $1.6 million (2025 bonds) and $488k (2024B bonds) are expected to be used to complete these projects.

Long-Term Debt

Outstanding debt principal decreased $1.1 million, to $22.0 million, because of scheduled repayments. No new long-term debt was issued in fiscal 2026.

Table 4 – Bonds and Notes Payable, June 30

	2026	2025	Change
KIA loan 2018	$ 3,206,604	$ 3,399,161	$ (192,557)
Revenue bond - 2020	5,270,000	5,485,000	(215,000)
Revenue bond - 2021F	7,955,000	8,570,000	(615,000)
Revenue bond - 2024B	1,475,000	1,530,000	(55,000)
Revenue bond - 2025A	4,115,000	4,115,000	-
	$ 22,021,604	$ 23,099,161	$ (1,077,557)

The debt financed electric and telecommunications infrastructure. The 2025 bonds, issued in June 2025, fund electric grid modernization. The System was in compliance with its revenue bond covenants, including the debt service coverage requirement, for fiscal 2026. The System's credit rating did not change during the fiscal year. Additional information is in Note 9.

Currently Known Facts, Decisions, or Conditions

Wholesale power. HES buys all of its wholesale power from TVA under a long-term contract with a twenty-year term. Purchased power cost of $31.4 million was 71% of electric operating revenues in fiscal 2026. The TVA Board has approved a new rate schedule for data center loads (the DCB rate schedule).

According to TVA, data center load profiles are materially different from traditional industrial loads. As a result, TVA is updating its rate structure to better align rates with the costs associated with these unique loads and to help prevent cross-subsidization between rate classes. The DCB rate schedule took effect October 1, 2026. It will increase HES's wholesale cost to serve data center load; those costs will be passed through to the data center customers served under the rate schedule.

Retail rates. No HES retail rate adjustments have been approved or have taken effect since June 30, 2026, and none are planned for fiscal year 2027.

Electric load. Weather remains the main driver of residential and commercial electric sales, and energy efficiency continues to temper usage per customer. Less mild temperatures and increased industrial load have led to increases in kWh sold in each of the last three fiscal years.

In October 2026, HES signed a ten-year power contract with Pennyrile Holdings, LLC (Dark Horse Technologies, Inc.) to serve a planned 50 MW data center. The customer has agreed to fund a new 65 MW, 161 kV substation, at an estimated cost of $10 million, which HES will own and operate. The project is contingent on the customer obtaining the required local permits for data centers.

Broadband. Energynet served 15,821 broadband customers at June 30, 2026, compared with 14,069 a year earlier. Revenue under the PRECC arrangement was $10.0 million, or 17% of operating revenues. The PRECC dark fiber lease agreement was signed in October 2018 with a ten-year term, which runs through October 2028. The partners will continue expansion into Trigg County and Oak Grove in calendar year 2027, completing the regional connectivity project in PRECC's service territory.

Energynet's City of Hopkinsville fiber-to-the-home project will be completed in late 2026, making service available to all customers in HES's electric service territory. In 2027, Energynet also plans to expand into northern Christian County, an area served electrically by Kentucky Utilities, to complete its Christian County build-out.

Capital plan and financing. The Board approved a fiscal year 2027 capital plan totaling $3.6 million. Significant items include Energynet customer premise installations ($977,000), fiber hub equipment ($615,000), electric distribution line devices ($474,000), and an uninterruptible power supply (UPS) replacement for the System's data center ($300,000). The remaining items consist of annual system maintenance, meter replacements, and fleet additions consistent with prior years.

In addition to the capital plan, HES was awarded a $1.5 million Grid Resilience and Innovation Partnerships (GRIP) grant from the U.S. Department of Energy (DOE). The grant will fund a portion of a system-wide advanced metering infrastructure (AMI) replacement project that supports grid modernization. The Board approved the project, estimated at approximately $3.0 million, in fiscal year 2026, and it is expected to be completed in calendar year 2027. Costs not covered by the grant will be paid from unrestricted cash.

HES is awaiting approval of Phase 2 of a FEMA Hazard Mitigation Grant. If approved, the funding would total approximately $6.6 million to replace 338 poles and 70 miles of distribution line. A funding decision is expected in fiscal year 2027, with project completion expected in fiscal year 2028.

Pension and OPEB. County Employees Retirement System (CERS) employer contribution rates will decrease from 18.62% in fiscal year 2026 to 17.43% in fiscal year 2027.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's finances for all those with an interest in the System's finances. Questions or requests for additional information may be addressed to Jeff Hurd, Manager, Hopkinsville Electric System, 1820 East Ninth Street, Hopkinsville, KY 42240.

FINANCIAL STATEMENTS

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2026 AND 2025

	2026	2025
ASSETS		
Current assets		
Cash	$ 12,146,848	$ 9,766,508
Accounts receivable	4,247,087	4,117,964
Unbilled revenue	1,654,652	1,722,258
Materials and supplies	1,888,399	1,371,564
Prepaid expenses	654,290	218,298
Other current assets	99,794	108,818
Total current assets	20,691,070	17,305,410
Noncurrent assets		
Restricted cash	3,565,093	6,018,989
Capital assets, net	45,447,562	42,937,109
Deferred charges	264,675	279,526
Investment in affiliated organizations	1,134,841	987,640
Heat pump loans	234,325	192,117
Net OPEB asset	-	245,758
Total noncurrent assets	50,646,496	50,661,139
Total assets	71,337,566	67,966,549
DEFERRED OUTFLOWS OF RESOURCES		
OPEB related	632,795	620,580
Pension related	1,464,277	1,917,703
Total deferred outflows of resources	2,097,072	2,538,283

Continued

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF NET POSITION, continued
JUNE 30, 2026 AND 2025

	2026	2025
LIABILITIES		
Current liabilities		
Accounts payable - purchased power	$ 5,616,207	$ 5,533,584
Accounts payable - other	1,664,063	1,140,130
Customer deposits	2,478,822	2,439,773
Accrued taxes	360,144	360,197
Accrued interest	236,168	171,670
Unearned revenue - MuniNet	99,985	113,216
Unearned revenue	142,291	201,169
Compensated absences	29,278	43,395
Other current and accrued liabilities	344,698	298,444
Current portion of bonds and notes payable	1,137,131	1,077,765
Total current liabilities	12,108,787	11,379,343
Noncurrent liabilities		
Bonds and notes payable, less current portion	20,880,593	22,017,307
Compensated absences	251,603	233,014
Net OPEB liability	134,300	-
Net pension liability	7,776,346	8,488,255
Conservation advances - TVA	238,738	196,615
Total noncurrent liabilities	29,281,580	30,935,191
Total liabilities	41,390,367	42,314,534
DEFERRED INFLOWS OF RESOURCES		
OPEB related	1,774,659	2,700,390
Pension related	1,296,284	1,842,983
Total deferred inflows of resources	3,070,943	4,543,373
NET POSITION		
Net investment in capital assets	23,429,838	19,842,037
Restricted	3,565,093	6,018,989
Unrestricted	1,978,397	(2,214,101)
Total net position	$ 28,973,328	$ 23,646,925

See accompanying notes to financial statements

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2026 AND 2025

	2026	2025
OPERATING REVENUES	$ 58,997,856	$ 56,140,657
OPERATING EXPENSES		
Cost of power	31,380,518	30,684,222
Cost of sales - telecommunications	5,490,516	4,429,129
Distribution		
Operation	4,087,717	4,387,830
Maintenance	2,021,040	1,297,646
Customer accounts	2,351,962	2,248,204
Sales	297,449	265,718
Administrative and general	2,498,063	2,150,014
Depreciation and amortization	3,558,631	3,474,349
Taxes	1,756,381	1,689,964
Total operating expenses	53,442,277	50,627,076
Operating income	5,555,579	5,513,581
NONOPERATING REVENUES (EXPENSES)		
Interest on long-term debt	(467,899)	(497,180)
Other interest	(267,160)	(108,313)
Amortization of debt expense	(14,851)	(10,670)
Interest income	517,914	444,742
Gain (loss) on sale of fixed assets	2,820	24,667
Net nonoperating revenues (expenses)	(229,176)	(146,754)
Change in net position	5,326,403	5,366,827
Net position, beginning of year	23,646,925	18,280,098
Net position, end of year	$ 28,973,328	$ 23,646,925

See accompanying notes to financial statements

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2026 AND 2025

	2026	2025
Cash flows from operating activities		
Receipts from customers and users	$ 58,873,254	$ 55,343,316
Payments to suppliers	(44,727,001)	(41,628,843)
Payments to employees	(4,932,394)	(4,747,125)
Payments of taxes	(1,756,434)	(1,656,689)
Net cash provided (used) by operating activities	7,457,425	7,310,659
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets, including cost of removal net of salvage	(6,156,520)	(4,105,926)
Principal payments on long-term debt	(1,077,557)	(1,003,294)
Proceeds from debt issuance, net	-	5,500,966
Proceeds from the sale of fixed assets	2,820	24,667
Interest paid on long-term debt	(670,352)	(587,594)
Net cash provided (used) by capital and related financing activities	(7,901,609)	(171,181)
Cash flows from noncapital financing activities		
Conservation advances from TVA	42,123	93,208
Net cash provided (used) by noncapital financing activities	42,123	93,208
Cash flows from investing activities		
Conservation loan receivable	(42,208)	(92,127)
Investment in affiliated organizations	(147,201)	(89,688)
Interest received	517,914	444,742
Net cash provided (used) by investing activities	328,505	262,927
Net increase (decrease) in cash	(73,556)	7,495,613
Cash, beginning of year	15,785,497	8,289,884
Cash, end of year	15,711,941	15,785,497
Less restricted cash	(3,565,093)	(6,018,989)
Cash, end of year, per statement of net position	$ 12,146,848	$ 9,766,508

Continued

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF CASH FLOWS, continued
FOR THE YEARS ENDED JUNE 30, 2026 AND 2025

	2026	2025
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 5,555,579	$5,513,581
Adjustments to reconcile net operating revenues to net cash provided by operating activities		
Depreciation and amortization	3,646,068	3,471,940
Changes in assets and liabilities		
Receivables	(120,099)	(520,767)
Unbilled revenues	67,606	(217,696)
Materials and supplies	(516,835)	(260,221)
Prepaid expenses	(435,992)	(14,853)
Accounts payable	606,556	652,462
Deferred pension and postemployment benefits amounts	(1,363,071)	(1,381,627)
Accrued taxes	(53)	33,275
Other current and accrued liabilities	46,254	36,517
Compensated absences	4,472	(92,166)
Customer deposits	39,049	156,505
Unearned revenue - dark fiber	(58,878)	(58,878)
Unearned revenue - MuniNet	(13,231)	(7,413)
Total adjustments	1,901,846	1,797,078
	$ 7,457,425	$7,310,659

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Electric Plant Board of the City of Hopkinsville, Kentucky (d.b.a. Hopkinsville Electric System, the Board, System) was created by Ordinance No. 382, passed June 2, 1942, pursuant to authority conferred upon the City by Chapter 119 of the General Assembly of Kentucky, 1932, amended.

The Board was established for the purpose of owning and operating all properties, real, personal and mixed, tangible or intangible, acquired or used or held for use, in connection with the electric plant acquired by purchase from Kentucky – Tennessee Light and Power Company.

The Board consists of four appointed members, the term of one expiring each year, and a fifth member from the City's governing body, a member of the Common Council. The Hopkinsville Electric System elects its own officers and management.

Basis of Presentation and Accounting

The financial statements of the System have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accounting records of the System are also maintained in accordance with provisions of the power contract with the Tennessee Valley Authority (TVA) and are consistent with the Federal Energy Regulatory Commission (FERC) system of accounts. These requirements supplement, but do not replace, GAAP and GASB reporting standards. The System follows the economic resources measurement focus and the accrual basis of accounting as required for proprietary fund financial statements.

Proprietary Fund Type

The System is intended to be self-supporting through user charges. All of its revenues, expenses, assets and liabilities, including capital assets, and long-term debt associated with the specific activity, are accounted for within its financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and highly liquid investments with original maturities of three months or less. For purposes of the statements of cash flows, cash and cash equivalents include both restricted and unrestricted amounts. The System did not hold any investments at June 30, 2026 and 2025. Kentucky Revised Statutes 66.480 authorize the System to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit, and other instruments as specified by statute.

Investment in Affiliated Organizations

The System's investments in affiliated organizations are reported at cost in net position. See Note 8 for additional information.

Material and Supplies

Material and supplies inventory (which consists of wire, poles and other supplies) is valued at cost determined by the weighted-average method.

System Plant

System plant is stated at original cost, which includes payroll related costs such as taxes, fringe benefits and administrative and general costs. In accordance with GASB Statement No. 89, interest cost incurred during construction is recognized as an expense in the period incurred. Construction work in progress has been included in the rate base for determining retail customer rates. The System has not recorded any significant allowance for funds used during construction.

When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its original cost, together with its cost of removal less salvage, is charged to the accumulated provision for depreciation. The System charges maintenance and repairs, including the cost of renewals of minor items of property, to maintenance expense accounts or applicable clearing accounts. Placements of property (exclusive of minor items of property) are capitalized to System plant accounts.

Depreciation and Amortization

Property and equipment in plant accounts are recorded at cost, with depreciation computed at rates recommended by the Tennessee Valley Authority. The rates used throughout the current year were consistent with those in use in the prior year.

Intangible assets, consisting primarily of computer software, are recorded at cost and amortized using the straight-line method over their estimated useful lives of 12.5 years or 8.5% amortization. Software purchased or developed for internal use is capitalized in accordance with GASB Statement No. 51; costs incurred during the preliminary project stage and after the software is placed in service are expensed. Subscription-based information technology arrangements, if any, are amortized over the shorter of the subscription term or the useful life of the underlying software, in accordance with GASB Statement No. 96.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Compensated Absences

Full-time employees are allowed to carry over a maximum of forty (40) hours accumulated annual leave. Upon retirement from Hopkinsville Electric System, the employee is entitled to payment for unused accumulated annual leave time. Accrued vacation leave was $280,881 and $276,409 at June 30, 2026 and 2025, respectively. This liability was measured in accordance with GASB 101 and reflects all leave types that meet the recognition criteria.

Impairment of Capital Assets

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, management evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service of the capital asset is large in magnitude, and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. No impairment losses were recognized in the years ended June 30, 2026 and 2025.

Pensions and Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, OPEB and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The System has two items that qualify for reporting in this category. The deferred outflows of resources relate to the net pension liability described in Note 11 and the OPEB liability described in Note 12.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The System has two items that qualify for reporting in this category. The deferred inflows of resources relate to the net pension liability as described in Note 11 and the OPEB liability described in Note 12.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Revenues and Expenses

Proprietary funds distinguish between operating and nonoperating items. In accordance with GASB Statement No. 103, *Financial Reporting Model Improvements*, nonoperating revenues and expenses include subsidies received and provided, investment income, interest and other financing-related revenues and expenses, and gains or losses on the disposal of capital assets. All other revenues and expenses are reported as operating. The principal operating revenues of the Board are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Net Position

Net position represents the difference between the System's assets plus deferred outflows of resources and the System's liabilities plus deferred inflows of resources. Net positions are classified in the following categories.

- *Net Investment in capital assets* – This category consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt attributable to the acquisition, construction, or improvement of those assets, excluding unspent debt proceeds.

- *Restricted* - This category represents those assets which have constraints externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted* - This category presents the net position of the System not included elsewhere.

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

Subscription-Based Information Technology Arrangements (SBITAs)

The Board evaluates its subscription-based information technology arrangements under GASB Statement No. 96. The Board had no SBITAs that met the recognition criteria at June 30, 2026 and 2025, and no subscription assets or liabilities have been recorded.

Income Tax Status

The System is exempt from federal and state income taxes. Accordingly, the financial statements include no provision for such taxes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Reclassifications

Certain amounts in the 2025 financial statements have been reclassified to conform to the 2026 presentation, with no effect on previously reported net position or the net change in cash.

Subsequent Events

Subsequent events have been evaluated through October 23, 2026, which is the date the financial statements were available to be issued.

NOTE 2 – REVENUE RECOGNITION

The System is engaged in the distribution and sale of electricity to residential and commercial customers. The System satisfies their performance obligation upon the delivery of electricity to customers. Revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by the System. The amount of revenue recognized is the billed volume of electricity multiplied by rate per-unit of energy, plus any applicable fixed or additional regulatory charges. Customers are billed monthly and outstanding amounts are typically due within 20 days of the date of the bill. Revenue for pole attachments is invoiced the month specified in the contract. The performance obligation is satisfied ratably over the term of the contract and revenue is recognized monthly as earned.

The Telecommunications Division is engaged in providing fiber to residential and commercial customers. The performance obligation is satisfied upon the delivery of services to customers. Revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by the Telecommunications Division. The amount of revenue recognized is based on a monthly package price per service, plus any applicable fixed or additional regulatory charges. Customers are billed monthly and outstanding amounts are typically due within 20 days of the date of the bill.

Operating revenues by customer class for the years ended June 30, 2026 and 2025 were as follows:

	2026	2025
Residential	$ 16,334,647	$ 15,931,006
Small commercial	6,307,284	5,972,106
Large commercial	19,403,534	19,368,158
Public lights	932,091	892,362
Rent from electric property	408,724	406,200
Miscellaneous service revenue	562,469	577,117
Telecommunications	15,049,107	12,993,708
	$ 58,997,856	$ 56,140,657

NOTE 3 – PLANT AND DEPRECIATION PROCEDURES

A summary of changes in major classifications of the System plant in service as of June 30, 2026 follows:

	Balance July 1, 2025	Reclassifications/ Additions	Reclassifications/ Deductions	Balance June 30, 2026
Utility plant not depreciated				
Land	$ 326,709	$ -	$ -	$ 326,709
Construction in progress - electric	243,389	2,763,655		3,007,044
Construction in progress - telecommunications	1,550,030	648,948	-	2,198,978
Total utility plant not depreciated	2,120,128	3,412,603	-	5,532,731
Utility plant depreciated				
Transmission plant	730,867	-	-	730,867
Distribution plant	38,023,460	1,128,857	286,581	38,865,736
General plant	18,841,396	327,042	-	19,168,438
Telecommunications plant	22,208,857	1,360,971	245,529	23,324,299
Total utility plant depreciated	79,804,580	2,816,870	532,110	82,089,340
Accumulated depreciation	(38,987,599)	(3,571,406)	339,298	(42,219,707)
Total utility plant depreciated, net	40,816,981	(754,536)	192,812	39,869,633
Intangible assets, amortized				
Computer software	-	48,084	-	48,084
Accumulated amortization	-	(2,886)	-	(2,886)
Total intangible assets, net	-	45,198	-	45,198
Total capital assets	$ 42,937,109	$ 2,703,265	$ 192,812	$ 45,447,562

NOTE 3 – PLANT AND DEPRECIATION PROCEDURES, continued

A summary of changes in major classifications of the System plant in service as of June 30, 2025 follows:

	Balance July 1, 2024	Additions	Deductions	Balance June 30, 2025
Utility plant not depreciated				
Land	$ 326,709	$ -	$ -	$ 326,709
Construction in progress - electric	453,107	-	209,718	243,389
Construction in progress - telecommunications	931,144	618,886	-	1,550,030
Total utility plant not depreciated	1,710,960	618,886	209,718	2,120,128
Utility plant depreciated				
Transmission plant	730,867	-	-	730,867
Distribution plant	36,676,699	1,544,001	197,240	38,023,460
General plant	18,626,109	215,287	-	18,841,396
Telecommunications plant	20,499,160	2,169,565	459,868	22,208,857
Total utility plant depreciated	76,532,835	3,928,853	657,108	79,804,580
Accumulated depreciation	(35,940,672)	(3,471,940)	425,013	(38,987,599)
Total utility plant depreciated, net	40,592,163	456,913	232,095	40,816,981
Total utility plant	$ 42,303,123	$ 1,075,799	$ 441,813	$ 42,937,109

NOTE 3 – PLANT AND DEPRECIATION PROCEDURES, continued

Telecommunications plant depreciation rates have been applied on a straight-line basis and are as follows:

General plant	3.00 %
Poles	4.00
Office furniture and equipment	7.25
Computers	VAR
Vehicles	VAR
Transmission tower and fixtures	14.00
Telecommunications equipment	6.67

Transmission plant depreciation rates have been applied on a straight-line basis and are as follows:

Towers and fixtures	0.00 %
Poles and fixtures	3.00
Overhead conductors and devices	2.00

Provision has been made for depreciation of distribution plant on a straight-line basis and rates are as follows:

Structures and improvements	3.00 %
Station equipment	4.00
Poles, towers and fixtures	4.00
Overhead conductors and devices	1.75
Underground equipment	4.00
Line transformers	2.00
Services	5.00
Meters	5.00
Installation on customers' premises	6.00
Street lighting and signal systems	4.00

General plant depreciation rates have been applied on a straight-line basis and are as follows:

Structures and improvements	3.00 %
Office furniture	7.25
Transportation equipment	VAR
Tools, shop and garage equipment	8.00
Laboratory equipment	8.00
Communication equipment	8.00

NOTE 3 – PLANT AND DEPRECIATION PROCEDURES, continued

Transactions through the Accumulated Provision for Depreciation account for the years ended June 30, 2026 and 2025 are summarized as follows:

	2026	2025
Accumulated provision for depreciation, July 1	$ 38,987,599	$ 35,940,672
Add		
Depreciation charged directly to expense	3,483,967	3,463,430
Depreciation charged to transportation - clearing	87,439	8,510
Subtotal	42,559,005	39,412,612
Deduct		
Original cost of plant retired	174,089	238,384
Cost of removal less salvage	215,871	165,254
Salvage	(7,260)	(1,971)
Other subtractions	(43,402)	23,346
	-	
Total charges against provision	339,298	425,013
Accumulated provision for depreciation, June 30	$ 42,219,707	$ 38,987,599

NOTE 4 – CASH AND CASH EQUIVALENTS

At June 30, 2026, the System's deposits in depository institutions had a carrying amount of $15,710,191 and bank balances of $15,905,272. At June 30, 2026, the deposits were covered entirely by FDIC insurance or a properly executed collateral security agreement. At June 30, 2025, the System's deposits in depository institutions had a carrying amount of $15,783,747 and bank balances of $16,119,065. At June 30, 2025, the deposits were covered entirely by FDIC insurance or a properly executed collateral security agreement.

NOTE 4 – CASH AND CASH EQUIVALENTS, continued

The carrying amounts are reflected in the financial statements as follows:

Unrestricted cash at June 30 consisted of:

	2026	2025
Change funds	$ 1,750	$ 1,750
Checking accounts	11,835,740	9,560,875
TVA power bill early payment	-	2,743
Cash - Health Insurance Fund	296,538	188,320
Other	12,820	12,820
Total	$ 12,146,848	$ 9,766,508

Restricted cash at June 30 consisted of:

	2026	2025
US Bank 2018 Series	$ 1,331	$ 1,284
KIA Reserve	70,968	57,699
2020 Bond issue	634,923	610,533
2021F Debt service revenue	205,700	205,700
2021F BYN Mellon bond sinking fund	404,190	387,384
2024F BYN Mellon bond sinking fund	52,068	51,186
2024B Construction fund	487,691	704,237
2025F Construction fund	1,627,188	4,000,966
2025 Bond Sinking Fund	81,034	-
Total	$ 3,565,093	$ 6,018,989

Unrestricted cash and cash equivalents include $296,538 and $188,320 at June 30, 2026 and 2025, respectively, held in a separate account designated by the Board for payment of employee health claims under the System's self-insured health plan. This designation is not an external restriction and may be modified by the Board; accordingly, these amounts are reported as unrestricted.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a depository institution failure, the System's deposits may not be returned to it. The System does not have a policy regarding custodial credit risk for deposits.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Kentucky; bonds of any city, county, school district or special road district of the State of Kentucky; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of deposits.

NOTE 4 – CASH AND CASH EQUIVALENTS, continued

At June 30, 2026 and 2025, the System was not exposed to custodial credit risk.

Interest Rate Risk

The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Under Kentucky Revised Statutes Section 66.480, the System is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds. The System has no investment policy that would further limit its investment choices.

NOTE 5 – RECEIVABLES

Net receivables include the following at June 30:

	2026	2025
Accounts receivable		
Electric	$ 3,048,862	$ 3,038,115
Telecom	1,181,819	1,073,518
Other miscellaneous	61,132	48,623
	4,291,813	4,160,256
Less		
Reserve for uncollectible accounts	(44,726)	(42,292)
Total net receivables	$ 4,247,087	$ 4,117,964

NOTE 5 – RECEIVABLES, continued

Electric accounts and miscellaneous accounts receivable, together with the current billing for home insulation, heat pump and wood burning stove loans, were aged as follows:

	June 30, 2026		June 30, 2025	
	Amount	Percent	Amount	Percent
Accounts having discount dates after June 30	$ 1,630,642	37.99%	$ 1,745,284	41.95%
Accounts less than one month past due	2,551,651	59.45%	2,257,461	54.26%
Accounts 31 to 60 days past due	65,756	1.53%	103,239	2.48%
Accounts 61 to 90 days past due	13,127	0.31%	18,062	0.43%
Accounts over 90 days past due	30,637	0.71%	36,210	0.87%
	$ 4,291,813	100.00%	$ 4,160,256	100.00%

A reserve for uncollectible electric accounts is maintained by means of monthly charges to operations. Lists of accounts considered to be worthless are charged to the reserve account annually, with the last such list having been prepared as of June 30, 2026. Accounts charged off are turned over to various agencies for collection as authorized by the System.

A summary of the reserve's transactions for each year is as follows:

	2026	2025
Beginning balance	$ 18,795	$ 25,071
Monthly additions and adjustments	72,000	72,000
Charge-off of bad accounts	(71,278)	(78,276)
Balance, June 30	$ 19,517	$ 18,795

NOTE 6 – MATERIALS AND SUPPLIES

The values of electric materials at balance sheet dates were ascertained by reference to perpetual inventory records. The System’s personnel make physical counts of stock at the end of each year and adjust the perpetual inventory records to actual count. The adjustment to the general ledger control is made to bring it into conformity with perpetual stock records. This amount is charged against distribution overhead lines expense (clearing) in January of each year.

NOTE 7 – DEFERRED CHARGES

Deferred charges at June 30 consisted of:

	2026	2025
Deferred costs on bond issue - 2020	$ 62,871	$ 66,254
Deferred costs on bond issue - 2021F	55,951	61,237
Deferred costs on bond issue -2024B	36,000	38,000
Deferred costs on bond issue -2025A	109,853	114,035
Total	$ 264,675	$279,526

NOTE 8 – INVESTMENT IN AFFILIATED ORGANIZATIONS

	2026	2025
Central Service Association	$ 101,830	$ 89,766
Seven States Power	4,252	3,068
MuniNet	1,028,759	894,806
Total	$ 1,134,841	$ 987,640

Central Service Association is a computer technology company that serves municipals throughout the region and provides them software and support tailored to the electric industry.

Seven States Power is an energy solutions cooperative that empowers members to meet consumer demand for technology and innovation in the utility marketplace.

MuniNet is an interlocal agency that is working to provide fiber service throughout western Kentucky (See Note 17).

NOTE 9 – LONG-TERM OBLIGATIONS

Issue	Proceeds	Rates	Maturity Date
KIA B18-009	$ 2,500,000	1.75%	6/1/2040
KIA C18-008	1,800,000	3.00%	6/1/2040
Series 2020	6,445,000	2.00%	2/1/2045
Series 2021F	10,285,000	2.00-2.125%	2/1/2038
Series 2024B	1,540,000	4.00-4.125%	2/1/2044
Series 2025A	4,115,000	4.25-4.75%	2/1/2045

All the revenue bonds are payable solely from and secured by revenues. So long as any of the bonds are outstanding and unpaid, the System will ensure that the electric and telecom plant be continuously operated and maintained in good condition, and rates and charges of services rendered will be imposed and collected so that gross revenues will be sufficient at all times to provide for the payment of the operation and maintenance of the electric and telecom plant.

On June 4, 2025, the System issued Kentucky Bond Corporation Financing Program Revenue Bonds, 2025 First Series A in the amount of $4,115,000 to strengthen and modernize its electric grid.

The changes in outstanding debt as of June 30, 2026 follows:

	Balance July 1, 2025	Additions	Deductions	Balance June 30, 2026	Amounts Due Within One Year
Revenue bonds	$ 19,700,000	$ -	$ 885,000	$ 18,815,000	$ 940,000
Notes payable	3,399,161	-	192,557	3,206,604	196,922
Premium (discount)	(4,089)	209	-	(3,880)	209
Compensated absences	276,409	4,472	-	280,881	29,278
Net OPEB Liability (asset)	(245,758)	380,058	-	134,300	-
Net pension liability	8,488,255	-	711,909	7,776,346	-
Total long-term liabilities	$ 31,613,978	$ 384,739	$ 1,789,466	$ 30,209,251	$ 1,166,409

Net OPEB was an asset in the prior year and not presented in the long-term liabilities footnote. Presented above to disclose the change in the account balance.

NOTE 9 – LONG-TERM OBLIGATIONS, continued

The changes in outstanding debt as of June 30, 2025 follows:

	Balance July 1, 2024	Additions	Deductions	Balance June 30, 2025	Amounts Due Within One Year
Revenue bonds	$ 14,860,000	$ 5,655,000	$ 815,000	$ 19,700,000	$ 885,000
Notes payable	3,587,455	-	188,294	3,399,161	192,557
Premium (discount)	(4,298)	209	-	(4,089)	209
Compensated absences	368,575	-	92,166	276,409	43,395
Net pension liability	9,569,452	-	1,081,197	8,488,255	-
Total long-term liabilities	$ 28,381,184	$ 5,655,209	$ 2,176,657	$ 31,859,736	$ 1,121,161

The discount associated with the issuance of the revenue bonds payable is being amortized on the straight-line method over the term of the bonds. The amount charged to interest expense for the year ending June 30 follows:

	2026	2025
Series 2020	$ -	$ 209
	$ -	$ 209

The cost of issuance associated with the issuance of the revenue bonds payable is being amortized on the straight-line method over the term of the bonds. Amortization charged to expense for the year ending June 30 follows:

	2026	2025
Series 2020	$ 3,383	$ 3,383
Series 2021F	5,287	5,287
Series 2024B	2,000	2,000
Series 2025A	4,181	-
	$ 14,851	$ 10,670

NOTE 9 – LONG-TERM OBLIGATIONS, continued

The following represents principal and interest payments on outstanding debt:

	KIA B18-009			KIA C18-008		
	Principal	Interest	Total	Principal	Interest	Total
2027	$ 117,013	$ 31,675	$ 148,688	$ 79,909	$ 40,428	$ 120,337
2028	119,070	29,619	148,689	82,325	38,013	120,338
2029	121,162	27,526	148,688	84,813	35,526	120,339
2030	123,293	25,397	148,690	87,376	32,961	120,337
2031	125,459	23,229	148,688	90,017	30,321	120,338
2032-2036	661,161	82,286	743,447	492,580	109,108	601,688
2037-2040	572,006	22,752	594,758	450,420	30,932	481,352
	$ 1,839,164	$ 242,484	$ 2,081,648	$ 1,367,440	$ 317,289	$ 1,684,729

	Series 2020			Series 2021 F		
	Principal	Interest	Total	Principal	Interest	Total
2027	$ 225,000	$ 127,638	$ 352,638	$ 630,000	$ 159,350	$ 789,350
2028	230,000	118,638	348,638	645,000	146,750	791,750
2029	235,000	114,038	349,038	660,000	133,850	793,850
2030	240,000	109,337	349,337	670,000	120,650	790,650
2031	245,000	104,537	349,537	685,000	107,250	792,250
2032-2036	1,310,000	440,417	1,750,417	3,680,000	323,750	4,003,750
2037-2041	1,470,000	281,688	1,751,688	985,000	24,200	1,009,200
2042-2045	1,315,000	87,018	1,402,018	-	-	-
	$ 5,270,000	$ 1,383,311	$ 6,653,311	$ 7,955,000	$ 1,015,800	$ 8,970,800

NOTE 9 – LONG-TERM OBLIGATIONS, continued

	Series 2024B			Series 2025A		
	Principal	Interest	Total	Principal	Interest	Total
2027	$ 55,000	$ 59,281	$ 114,281	$ 30,000	$ 180,481	$ 210,481
2028	60,000	57,081	117,081	150,000	179,206	329,206
2029	60,000	54,681	114,681	160,000	172,831	332,831
2030	65,000	52,281	117,281	165,000	166,031	331,031
2031	65,000	49,681	114,681	175,000	159,019	334,019
2032-2036	375,000	206,606	581,606	990,000	677,369	1,667,369
2037-2041	465,000	124,606	589,606	1,235,000	447,119	1,682,119
2042-2045	330,000	25,134	355,134	1,210,000	144,650	1,354,650
	$ 1,475,000	$ 629,351	$ 2,104,351	$ 4,115,000	$ 2,126,706	$ 6,241,706

	All Series Combined		
	Principal	Interest	Total
2027	$ 1,136,922	$ 598,853	$ 1,735,775
2028	1,286,395	569,307	1,855,702
2029	1,320,975	538,452	1,859,427
2030	1,350,669	506,657	1,857,326
2031	1,385,476	474,037	1,859,513
2032-2036	7,508,741	1,839,536	9,348,277
2037-2041	5,177,426	931,297	6,108,723
2042-2045	2,855,000	256,802	3,111,802
	$ 22,021,604	$ 5,714,941	$ 27,736,545

NOTE 10 – ADVANCES FROM OTHERS

Advances have been received from Tennessee Valley Authority for the purpose of making long-term loans to electric customers under various energy conservation programs. The balances due Tennessee Valley Authority were $238,738 and $196,615 as of June 30, 2026 and 2025, respectively.

NOTE 11 – PENSION PLANS

General information about the County Employees Retirement System Non-Hazardous (CERS)

The Board is a participating employer of the County Employees' Retirement System (CERS). CERS is governed by the CERS Board of Trustees and administered by the Kentucky Public Pensions Authority (KPPA). CERS issues a publicly available annual comprehensive financial report that may be downloaded from KPPA's website.

Plan description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The Plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

Benefits provided – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years' service or 65 years old
	Reduced retirement	At least 5 years' service and 55 years old At least 25 years' service and any age
	Required contributions	5%
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years' service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years' service and 60 years old
	Required contributions	5% + 1% for insurance
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years' service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available
	Required contributions	5% + 1% for insurance

NOTE 11 – PENSION PLANS, continued

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are $5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and $10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions – Employer contribution rates are established by the CERS Board of Trustees in accordance with KRS 78.635 on the basis of an annual actuarial valuation. The Board is required to contribute at an actuarially determined rate. For the years ended June 30, 2026 and 2025, the Board contributed 18.62% and 19.71%, respectively, of covered payroll. The insurance (OPEB) portion of the rate was 0.00% in both years.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2026 and 2025, the System reported a liability of $7,776,346 and $8,488,255, respectively, for its proportionate share of the net pension liability. The net pension liability of the plan was measured as of June 30, 2025 and 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from June 30, 2024. The System's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2026 and 2025, the System's proportion was 0.139747% and 0.141934%, respectively.

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense, they are labeled deferred inflows. If they will increase pension expense, they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains and losses and the effects of changes in actuarial assumptions are amortized over the average expected remaining service lives of all employees provided with pensions through the plan (active and inactive members), determined at the beginning of the measurement period (2.62 years for the 2025 measurement period). Investment gains and losses are amortized over a fixed five-year period.

NOTE 11 – PENSION PLANS, continued

For the years ended June 30, 2026 and 2025, the System recognized pension expense of $114,309 and $173,744, respectively, related to CERS.

At June 30, 2026 and 2025, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2026		2025	
	Deferred Outflows of Resources	Deferred Inflows Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 257,801	$ -	$ 410,847	$ -
Changes in assumptions	-	-	-	383,502
Net difference between projected and actual earnings on pension plan investments	286,985	1,064,575	582,952	1,128,701
Changes in proportion and differences between contributions and proportionate share of contributions	-	231,709	6,412	330,780
System's contributions subsequent to the measurement date	919,491	-	917,492	-
Total	$ 1,464,277	$ 1,296,284	$ 1,917,703	$ 1,842,983

The amounts of $919,491 and $917,492, respectively, reported as deferred outflows of resources related to pensions resulting from System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended June 30, 2027 and 2026, respectively.

NOTE 11 – PENSION PLANS, continued

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

Years Ending June 30	
2026	$ (57,036)
2027	(308,859)
2028	(252,678)
2029	(132,925)
2030	-
Thereafter	-
Total	$ (751,498)

Actuarial assumptions – The total pension liability at the June 30, 2025 measurement date was determined by an actuarial valuation as of June 30, 2024, performed by Gabriel, Roeder, Smith & Company (GRS) and rolled forward to June 30, 2025, using generally accepted actuarial principles. The assumptions are based on an experience study for the period ending June 30, 2022, adopted by the CERS Board of Trustees on May 9, 2023. There have been no assumption, method or plan provision changes that would materially affect the total pension liability since June 30, 2024. The following assumptions were used:

Actuarial Cost Method:	Entry Age Normal
Investment Return:	6.50%
Inflation:	2.50%
Salary Increases:	3.30% to 10.30%, varies by service
Mortality:	System-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023

NOTE 11 – PENSION PLANS, continued

Long-term rate of return – The long-term expected return on plan assets was determined by using a building-block method in which best-estimated ranges of expected future real returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following tables. The current long-term inflation assumption is 2.50% per annum.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equity		
Public equity	45.00%	4.15%
Private Equity	8.00%	7.90%
Fixed Income		
Core fixed bonds	13.00%	2.70%
Specialty Credit	20.00%	3.83%
Cash	2.00%	1.25%
Inflation Protected		
Real Estate	5.00%	4.75%
Real Return	7.00%	5.20%
Expected Real Return	**100%**	**4.24%**
Long Term Inflation Assumption		**2.50%**
Expected Nominal Return for Portfolio		**6.74%**

NOTE 11 – PENSION PLANS, continued

Discount rate – The single discount rate used to measure the total pension liability at June 30, 2025 was 6.50%. The projection of cash flows used to determine the discount rate assumed that each participating employer contributes the actuarially determined contribution each future year under the current funding policy. House Bill 362 (2018), which limits increases in employer contribution rates to 12% over the prior fiscal year through June 30, 2028, remains in effect but does not affect the projected contributions because rates are not projected to increase by more than 12% in any year. Based on these assumptions, the plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments, and a municipal bond rate was not used.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate – The following table presents the System's proportionate share of the net pension liability, calculated using the discount rates selected by the pension system, as well as what the System's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

2025	1% Decrease 5.50%	Discount Rate 6.50%	1% Increase 7.50%
System's proportionate share of net pension liability	$ 10,280,849	$ 7,776,346	$ 5,710,071

2024	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
System's proportionate share of net pension liability	$ 10,942,747	$ 8,488,255	$ 6,451,673

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of CERS.

Payable to the pension plan – At June 30, 2026 and 2025, the Board had no payable to CERS for required pension or insurance (OPEB) contributions.

NOTE 11 – PENSION PLANS, continued

System's 401 (k) plan

Plan description – The System's employees have the option to participate in the Hopkinsville Electric System Employees 401 (k) Plan which is a defined contribution plan covering full-time employees of the System who have ninety days of service and are age eighteen or older.

Funding policy – Employees who participate in the Plan may contribute up to 100% (in multiples of 1%) of their base annual compensation. After completion of twelve months of service, the System will make a matching contribution to the participant's contribution according to the plan document.

Contributions – Employer contributions, which totaled $165,774 and $146,531 in the years ended June 30, 2026 and 2025, respectively, are charged monthly to plant and expense in the same ratio as payroll.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

General Information about the OPEB Plan

The Board is a participating employer of the County Employees Retirement System (CERS). CERS is governed by the CERS Board of Trustees and administered by the Kentucky Public Pensions Authority (KPPA). CERS issues a publicly available annual comprehensive financial report that may be downloaded from KPPA's website.

Plan description – The CERS Non-Hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit OPEB plan that provides hospital and medical insurance for eligible members receiving benefits from CERS. The fund's assets are used only to pay benefits to members of the plan and related administrative costs.

Benefits provided – The CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit Other Post-Employment Benefits (OPEB) plan that covers substantially all regular full-time members employed in positions of each participating county, city and school board and any additional eligible local agencies electing to participate in the System. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances. Senate Bill 10, enacted during the 2025 legislative session, increased the monthly insurance benefit for non-hazardous members who began participating on or after July 1, 2003 to $40 per month, effective January 1, 2026, for members not eligible for Medicare who meet certain service requirements at retirement. The total OPEB liability at June 30, 2025 reflects this change.

Implicit subsidy – KPPA pays fully insured premiums for the Kentucky Health Plan. The premiums are blended rates based on the combined experience of active and retired members. Because the average cost of providing healthcare benefits to retirees under age 65 is higher than the average cost of providing healthcare benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 75 requires that the liability associated with this implicit subsidy be included in the calculation of the total OPEB liability.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

Contributions – Employer contribution rates for the insurance fund are established by the CERS Board of Trustees in accordance with KRS 78.635 on the basis of an annual actuarial valuation. For the years ended June 30, 2026 and 2025, the required employer insurance contribution was 0.00% of covered payroll.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2026 and 2025, the System reported a liability (asset) of $134,300 and $(245,758), respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2025, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2024. The total OPEB liability was rolled forward from the valuation date to the plan's fiscal year-end, June 30, 2025, using generally accepted actuarial principles. The System's proportion of the net OPEB liability was based on the System's share of contributions to the OPEB plan relative to the contributions of all participating employers. At June 30, 2026 and 2025, the System's proportion for the non-hazardous system was 0.139834% and 0.142073%, respectively.

For the years ended June 30, 2026 and 2025, the System recognized OPEB expense of ($492,773) and ($571,042), respectively. At June 30, 2026 and 2025, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2026		2025	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 435,584	$1,154,590	$ 136,344	$1,933,632
Changes of assumptions	89,576	76,898	222,686	173,408
Net difference between projected and actual earnings on OPEB plan investments	106,312	410,463	216,028	440,296
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,323	132,708	45,522	153,054
System's contributions subsequent to the measurement date	-	-	-	-
Total	$ 632,795	$1,774,659	$ 620,580	$2,700,390

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

The Utility made no OPEB contributions subsequent to the measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30	
2026	$ (621,103)
2027	(525,148)
2028	(4,338)
2029	8,725
2030	-
Thereafter	-
Total	$ (1,141,864)

Actuarial assumptions – The total OPEB liability at the June 30, 2025 measurement date was determined by an actuarial valuation as of June 30, 2024, performed by GRS and rolled forward to June 30, 2025, using generally accepted actuarial principles. The assumptions are based on an experience study for the period ending June 30, 2022, adopted by the CERS Board of Trustees on May 9, 2023. The following assumptions were used:

Actuarial Cost Method:	Entry age normal
Investment Rate of Return:	6.50%
Inflation:	2.50%
Salary Increase:	3.30% to 10.30%, varies by service
Mortality:	System-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023.
Healthcare Cost Trend Rates (Pre-65):	Initial trend starting at 6.80% at January 1, 2025 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2024 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Healthcare Cost Trend Rates (Post-65):	Initial trend starting at 8.50% at January 1, 2025 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years. The 2024 premiums were known at the time of the valuation and were incorporated into the liability measurement.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

Long-term expected rate of return – The long-term expected return on plan assets was determined by using a building-block method in which best-estimated ranges of expected future real returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table. The current long-term inflation assumptions is 2.50%.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equity		
Public equity	45.00%	4.15%
Private Equity	8.00%	7.90%
Fixed Income		
Core fixed equity	13.00%	2.70%
Specialty Credit	20.00%	3.83%
Cash	2.00%	1.25%
Inflation Protected		
Real Estate	5.00%	4.75%
Real Return	7.00%	5.20%
Expected Real Return	**100%**	**4.24%**
Long Term Inflation Assumption		**2.50%**
Expected Nominal Return for Portfolio		**6.74%**

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

Discount rate – Single discount rates used to measure the total OPEB liability for the year ended June 30, 2026 and 2025 were 6.26% and 5.99%. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.50%, and a municipal bond rate of 5.20%, as reported in Bond Buyer's "20-Year Bond GO Index" as of June 30, 2025. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy was not included in the calculation of the plans' actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the plans' trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The projection of cash flows used to determine the discount rate assumed that each participating employer contributes the actuarially determined contribution each future year under the current funding policy. House Bill 362 (2018), which limits increases in employer contribution rates to 12% over the prior fiscal year through June 30, 2028, remains in effect but does not affect the projected contributions because rates are not projected to increase by more than 12% in any year. Based on these assumptions, the plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments, and a municipal bond rate was not used.

Sensitivity of the System's proportionate share of the net OPEB liability to changes in the discount rate – The following presents the System's proportionate share of the net OPEB liability, as well as what the System's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.26% for non-hazardous) or 1-percentage-point higher (7.26% for non-hazardous) than the current rate:

2025	1% Decrease 5.26%	Current Discount Rate 6.26%	1% Increase 7.26%
System's proportionate share of net OPEB liability	$ 805,842	$ 134,300	$ (430,904)

2024	1% Decrease 4.99%	Current Discount Rate 5.99%	1% Increase 6.99%
System's proportionate share of net OPEB liability	$ 332,293	$ (245,758)	$ (731,784)

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

Sensitivity of the System's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates – The following presents the System's proportionate share of the net OPEB liability, as well as what the System's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

2025	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
CERS			
System's proportionate share of net OPEB liability	$ (310,367)	$ 134,300	$ 654,846

2024	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
CERS			
System's proportionate share of net OPEB liability	$ 591,264	$ (245,758)	$ 156,732

Pension plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued County Employee Retirement System (CERS) Annual Financial Report on the KPPA website at www.kyret.ky.gov.

Payable to the OPEB plan – At June 30, 2026 and 2025, the Board had no payable to CERS for required OPEB contributions.

NOTE 13 – OTHER CURRENT AND ACCRUED LIABILITIES

Following is a summary of the amounts recorded as other current and accrued liabilities as of June 30, 2026 and 2025:

	2026	2025
Accrued pole rentals	$ 64,048	$ 63,542
Accrued payroll	157,905	128,219
Miscellaneous	122,745	106,683
	$ 344,698	$ 298,444

NOTE 14 – RISK MANAGEMENT AND LITIGATION

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The System carries commercial insurance for the risks of loss, including workers' compensation, and property and casualty loss insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Limits of insurance coverage remain unchanged in the past three years.

From time to time, the System is party to various pending 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 System's financial statements.

NOTE 15 – SELF INSURANCE

The System is self-insured for employee health benefits. Claims are processed by a third-party administrator, and the System purchases stop-loss insurance to limit its exposure. Specific stop-loss coverage applies to claims exceeding $40,000 per covered individual, subject to an aggregating specific deductible of $100,000, under which the System pays the first $100,000 of claims in excess of the $40,000 individual limit before specific stop-loss coverage applies. Aggregate stop-loss coverage limits the System's total claims for the plan year to $654,468, based on 44 participating employees. Settled claims have not exceeded stop-loss coverage in any of the past three years, and there has been no significant reduction in coverage from the prior year.

Liabilities for unpaid claims are recognized when it is probable that a claim has been incurred and the amount can be reasonably estimated, and include an estimate of claims incurred but not reported. Estimates are based on historical claims experience provided by [Higgins Insurance] and are not discounted. Changes in the claims liability were as follows:

	2026	2025
Claims liability, beginning of year	$ 250,049	$ 105,541
Claims incurred	775,631	819,376
Claims paid	(704,336)	(674,868)
Claims liability, end of year	$ 321,344	$ 250,049

NOTE 16 – RATES

Wholesale Base Rates: The ratio of Tennessee Valley Authority (TVA) purchased power to total energy sales in fiscal year 2026 was 73.02% and 72.77% in fiscal year 2025. TVA implemented a "Grid Access Charge" in October 2019. The GAC is a way for TVA to recover its fixed cost and lower the wholesale energy rate by $0.00512/kWh. The GAC is based on the previous 5 years' standard service kWh purchases. TVA did allow HES to add a risk premium charge onto the retail energy rate to mitigate the GAC increase and keep HES from suffering a net loss. HES signed a long-term contract with a twenty-year term with TVA in September 2019 which included a 3.1% partnership credit on wholesale standard service energy and demand charges.

Fuel Cost Adjustment: In October 2009, TVA changed from a quarterly FCA to monthly FCA. In April 2011, TVA separated its fuel cost, which had been included in its Base Rates prior to the implementation of the quarterly FCA in October 2007, and started to include it in its monthly FCA.

NOTE 16 – RATES, continued

Environmental Charge: In October 2003, TVA added a charge to its wholesale rates to recover its cost to add equipment to its generation facilities to meet government environmental standards. The charge is a fixed amount and is $0.00186 per kWh under the Mid-tier Time of Use (MTOU) rate structure. The charge was to expire September 2013 but was extended indefinitely.

Retail Adder: HES' margin is provided by a Retail Adder. HES implemented a customer service charge increase with corresponding decreases in energy charges effective October 2013 - October 2020. The municipal utility did implement a 1.5% local rate increase in energy charges in October 2017. In June 2022, the HES board approved a 1.7% retail rate increase which was equally distributed to all customer classes and took effect on October 1, 2022. In June 2023, the HES board approved a 3.4% retail rate increase, which was equally distributed to all customer classes and took effect on October 1, 2023. In June 2024, the HES board approved a 1.9% retail rate increase which was equally distributed to all customer classes and took effect on October 1, 2024. No retail rate adjustments took effect during fiscal year 2026, and none have been approved since June 30, 2026.

Data Center Rates: In August 2026, the TVA Board approved a wholesale rate schedule for data center loads (the DCB rate schedule), effective October 1, 2026. According to TVA, the rate schedule is intended to align rates with the costs of serving data center loads, which differ from traditional industrial loads, and to prevent cross-subsidization among rate classes. Wholesale costs incurred by the System to serve data center load under the DCB rate schedule will be passed through to the data center customers served. See Note 19 for the System's power contract with a data center customer.

NOTE 17 – COMMITMENTS

TVA

Under its wholesale power agreement, dated April 20, 1982, the System is committed to purchase its electric power and energy requirements from the Tennessee Valley Authority (TVA). As provided by amendment dated October 1, 1997, the contract may be terminated by either party at any time upon not less than five years prior written notice. Neither party shall exercise its right to give notice of termination before the date occurring five years after the date of the agreement. The rates paid for such purchases are subject to change periodically by the supplier. As provided by amendment effective October 1, 1999, the System has a decreasing term contract beginning on that date. The term decreases one year each year until the term levels off at five years. The System signed a long-term agreement with TVA in October 2019 with a 20-year termination notice. The agreement includes a wholesale credit and enhanced power supply flexibility.

NOTE 17 – COMMITMENTS, continued

MuniNet

MuniNet Fiber Agency (MuniNet) was formed to undertake the financing, acquisition, construction, management, operation, utilization and ownership of fiber network projects and any and all facilities, including all equipment, structures, machinery and tangible and intangible property, real or personal, useful for such projects, either within or without the Commonwealth of Kentucky. Projects are approved by the MuniNet Board on a project-specific basis. After a project is approved, MuniNet and the individual MuniNet members who desire to participate in the project enter into a Project Participation Agreement which sets forth the terms and conditions of the project's development and operation and establishes each participant's rights and obligations with respect to the project.

MuniNet Project 2 (Project 2) consists of the development of a fiber optic cable system and a contractual arrangement for a connection to an Internet Access Provider (IAP) located in Nashville, Tennessee that will provide each project participant with high-speed access to the internet. The estimated cost of Project 2 is $3,173,049.

On April 30, 2013, the Board signed a Resolution approving the Project 2 Participation Agreement among the Board, MuniNet and the other Project 2 participants. The System is one of seven (7) Kentucky municipal electric plant boards who are participants in Project 2. Each participant in Project 2 (Participant) has a one-seventh (1/7) interest in the project (Project Share).

MuniNet obtained a loan from the Kentucky Infrastructure Authority in the amount of $3,200,000 to finance the development, construction and equipping of Project 2.

The Superintendent/General Manager of each Participant is on the Project Committee. The Superintendent/General Manager of the Participant also appoints one other member to the Committee.

Costs and expenses associated with financing, development, equipping, maintenance and operation of Project 2, including debt service, will be paid from the revenue generated from the project. In the event the revenue generated from Project 2 is insufficient to pay the full amount of the costs and expenses associated with the project as they come due, each participant will be responsible for its Project Share of the deficit.

The System has provided MuniNet with an indefeasible right of use (IRU) for fibers on the System's existing fiber system. MuniNet has agreed to pay the System for its provision of an IRU in such fibers in the amount of $270,809 to be amortized over 20 years with no interest. During fiscal year ending June 30, 2016, $135,404 was received. During fiscal year 2019, $96,257 of the additional $135,404 was received. Amortization expense was $13,409 and $13,408 during the fiscal years ended June 30, 2026 and 2025 on the $245,069, which has been received.

NOTE 17 – COMMITMENTS, continued

MuniNet bills each participant monthly indicating the amount payable for its project share of payment obligations due under the Project Participation Agreement. In addition, MuniNet bills each participant administrative and operating costs, which will be expensed. The System paid $133,953 and $71,973, respectively, for administrative and operating costs during fiscal years ended June 30, 2026 and 2025.

The following are costs incurred for the initial investment in MuniNet and Project 2 costs:

	2026	2025
Initial investment	$ 5,000	$ 5,000
Project 2 Investment in MuniNet		
Beginning balance July 1	889,806	817,833
Costs incurred	133,953	71,973
	1,023,759	889,806
Ending balance June 30	$ 1,028,759	$ 894,806

Dark Fiber Lease – Pennyrile Rural Electric Cooperative Corporation ("PRECC")

On October 2, 2018, the System signed a lease agreement with PRECC. Under the terms of the lease, the System will exclusively lease PRECC's dark fiber optic network from PRECC to provide internet service to such areas in the PRECC territory that the System and PRECC jointly determine to be financially viable for each.

Line of credit

The System maintains a revolving line of credit with First Financial Bank in the amount of $2,000,000, which is available for general operating purposes. The line of credit bears interest at 8.25%. As of June 30, 2026, there was no outstanding balance. The System is in compliance with all covenants associated with the agreement.

NOTE 18 – RECENT ACCOUNTING PRONOUNCEMENTS

Implemented

During the year ended June 30, 2026, the System implemented GASB Statement No. 103, *Financial Reporting Model Improvements*. The Statement establishes new requirements for management's discussion and analysis and improves the consistency of the classification and presentation of revenues and expenses in proprietary fund financial statements. The implementation of this Statement resulted in changes to the presentation of the financial statements and related disclosures but did not have a material effect on the System's net position.

During the year ended June 30, 2026, the System also implemented GASB Statement No. 104, *Disclosure of Certain Capital Assets*. The Statement establishes requirements for separate disclosure of certain types of capital assets and additional disclosures for capital assets held for sale. The implementation of this Statement did not have a material effect on the System's financial position or results of operations.

Recent pronouncements

In December 2025, GASB issued Statement No. 105, *Subsequent Events*. The Statement establishes and clarifies accounting and financial reporting requirements for subsequent events, including the period during which subsequent events are evaluated and disclosure requirements for certain nonrecognized subsequent events. The Statement is effective for fiscal years beginning after June 15, 2026. Management is currently evaluating the effect of implementation on the System's financial statements.

NOTE 19 – SUBSEQUENT EVENT

On October 6, 2026, the System entered into a power contract with Pennyrile Holdings, LLC, a subsidiary of DarkHorse Technologies Inc., to provide up to 50 MW of electric service to a planned facility in Hopkinsville. Under the agreement, the customer is required to fund in advance the full cost of a new 65 MW substation connected to TVA’s 161 kV transmission system, which the System will design, construct, own, and operate, and to convey the substation site to the System. The contract has an initial term of ten years from commencement of service with automatic five-year renewals, and service is contingent upon the customer obtaining required local permits within an eighteen-month period. Management estimates the cost of the substation at approximately $10 million.

REQUIRED SUPPLEMENTARY INFORMATION

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF NET LIABILITY – PENSION
COUNTY EMPLOYEES RETIREMENT SYSTEM

As of June 30	2026	2025	2024	2023	2022
System's proportion of net pension liability (asset)	0.139747%	0.141934%	0.149138%	0.148448%	0.154440%
System's proportionate share of net pension liability (asset)	$ 7,776,346	$ 8,488,255	$ 9,569,452	$ 10,731,326	$ 9,846,760
System's covered-employee payroll	$ 4,654,958	$ 4,455,910	$ 4,329,113	$ 4,104,904	$ 3,944,797
System's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	167.06%	190.49%	221.05%	261.43%	249.61%
Plan fiduciary net position as a percentage of total pension liability	65.34%	61.61%	57.48%	52.42%	57.33%

As of June 30	2021	2020	2019	2018	2017
System's proportion of net pension liability (asset)	0.143404%	0.143554%	0.134622%	0.139034%	0.129410%
System's proportionate share of net pension liability (asset)	$ 10,998,968	$ 10,096,217	$ 8,198,890	$ 8,138,087	$ 6,371,513
System's covered-employee payroll	$ 3,673,288	$ 3,621,038	$ 3,336,593	$ 3,385,128	$ 3,087,016
System's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	299.43%	278.82%	245.73%	240.41%	206.40%
Plan fiduciary net position as a percentage of total pension liability	47.81%	50.45%	54.54%	53.32%	55.50%

See accompanying notes to the required supplementary information

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION
COUNTY EMPLOYEES RETIREMENT SYSTEM

For the year ended June 30	2026	2025	2024	2023	2022
Contractually required contribution	$ 919,491	$ 917,492	$ 1,040,009	$ 1,013,012	$ 869,008
Contributions in relation to the contractually required contribution	919,491	917,492	1,040,009	1,013,012	869,008
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
System's covered employee payroll	$ 4,938,193	$ 4,654,958	$ 4,455,910	$ 4,329,112	$ 4,104,904
Contributions as a percentage of covered employee payroll	18.62%	19.71%	23.34%	23.40%	21.17%

For the year ended June 30	2021	2020	2019	2018	2017
Contractually required contribution	$ 761,346	$ 708,945	$ 587,332	$ 483,139	$ 632,342
Contributions in relation to the contractually required contribution	761,346	708,945	587,332	483,139	632,342
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
System's covered employee payroll	$ 3,944,797	$ 3,673,288	$ 3,621,038	$ 3,336,593	$ 3,385,128
Contributions as a percentage of covered employee payroll	19.30%	19.30%	16.22%	14.48%	13.95%

See accompanying notes to the required supplementary information

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION
COUNTY EMPLOYEES RETIREMENT SYSTEM

Notes to Schedule

The schedules are intended to show information for 10 years. Additional years will be displayed as they become available. Amounts presented for each fiscal year were determined as of the Board's measurement date, which is the prior fiscal year end. The years listed below are measurement dates.

Changes in benefit terms

The following changes in benefit terms were reflected in the actuarial valuations as of June 30:

2025: No changes in benefit terms.
2024: No changes in benefit terms.
2023: No changes in benefit terms.
2022: No changes in benefit terms.
2021: No changes in benefit terms.
2020: No changes in benefit terms.
2019: No changes in benefit terms.
2018: No changes in benefit terms.
2017: No changes in benefit terms.
2016: No changes in benefit terms.

Changes in assumptions

The following changes in assumptions were reflected in the actuarial valuations as of June 30:

2025: No changes.

2024: No changes.

2023: The CERS board of Trustees adopted new actuarial assumptions on May 9, 2023 and include a change in the investment return assumption from 6.25% to 6.50%. The KRS Board of Trustees adopted new actuarial assumptions on June 5, 2023. These assumptions are documented in the report titled "2022 Actuarial Experience Study for the Period Ending June 30, 2022". The total pension liability as of June 30, 2023, is determined using these updated assumptions.

2022: No changes.

2021: Senate Bill 169, enacted during the 2021 legislative session, increased disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability. The total pension liability as of June 30, 2021 reflects these benefit provisions.

Changes of assumptions, continued

2020: Senate Bill 249, enacted during the 2020 legislative session, changed the funding period for amortization of the unfunded liability to a 30-year closed period as of June 30, 2019, with gains and losses in future years amortized over separate 20-year bases. This change affects only the calculation of contribution rates beginning July 1, 2020 and did not affect the total pension liability. House Bill 271, enacted during the 2020 legislative session, removed provisions that reduced the monthly payment to the surviving spouse of a member whose death was due to a duty-related injury upon the spouse's remarriage, and increased benefits for a small number of beneficiaries. The change did not have a material impact on the total pension liability, and no adjustment was made.

2019: The Board of Trustees adopted new actuarial assumptions documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018." The total pension liability as of June 30, 2019 was determined using these updated assumptions.

2018: House Bill 185, enacted during the 2018 legislative session, increased benefits for the surviving spouses and dependent children of active members who die in the line of duty. Benefits paid to surviving spouses increased from 25% of the member's final rate of pay to 75% of the member's average pay. If there is no surviving spouse, benefits paid to dependent children increased from 10% of the member's final rate of pay to 50% of average pay for one child, 65% for two children, or 75% for three children. The total pension liability as of June 30, 2018 reflects these benefit provisions.

2017: Subsequent to the actuarial valuation date (June 30, 2016) but prior to the measurement date (June 30, 2017), the KRS Board of Trustees adopted updated actuarial assumptions, including a 2.30% price inflation assumption and a 6.25% assumed rate of return for the non-hazardous system. The total pension liability as of June 30, 2017 was determined using these assumptions.

2016: Subsequent to the actuarial valuation date (June 30, 2016) but prior to the measurement date (June 30, 2017), the KRS Board of Trustees adopted updated actuarial assumptions, including a 2.30% price inflation assumption and a 6.25% assumed rate of return for the non-hazardous system. The total pension liability as of June 30, 2017 was determined using these assumptions.

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF NET LIABILITY - OPEB
COUNTY EMPLOYEES RETIREMENT SYSTEM

As of June 30	2026	2025	2024	2023	2022
System's proportion of net OPEB liability (asset)	0.139834%	0.142073%	0.149132%	0.148422%	0.154404%
System's proportionate share of OPEB liability (asset)	$ 134,300	$ (245,758)	$ (205,902)	$2,929,127	$2,955,986
System's covered - employee payroll	$4,654,958	$4,455,910	$4,329,113	$4,104,904	$3,944,797
System's proportionate share of net OPEB liability (asset) as a percentage of its covered-employee payroll	2.89%	-5.52%	-4.76%	71.36%	74.93%
Plan fiduciary net position as a percentage of total OPEB liability	97.66%	104.89%	104.23%	60.95%	62.91%

As of June 30	2021	2020	2019	2018
System's proportion of net OPEB liability (asset)	0.143363%	0.143517%	0.134617%	0.139034%
System's proportionate share of OPEB liability (asset)	$3,461,779	$2,413,891	$2,390,098	$2,795,059
System's covered - employee payroll	$3,673,288	$3,621,038	$3,336,593	$3,385,128
System's proportionate share of net OPEB liability (asset) as a percentage of its covered-employee payroll	94.24%	66.66%	71.63%	82.57%
Plan fiduciary net position as a percentage of total OPEB liability	51.67%	60.44%	57.62%	52.40%

See accompanying notes to the required supplementary information

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF EMPLOYER CONTRIBUTIONS – OPEB
COUNTY EMPLOYEES RETIREMENT SYSTEM

For the year ended June 30	2026	2025	2024	2023	2022
Contractually required OPEB contribution	$ -	$ -	$ -	$ 146,757	$ 237,263
Contributions in relation to the contractually required contribution	$ -	$ -	$ -	$ 146,757	$ 237,263
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
System's covered-employee payroll	$4,938,193	$4,654,958	$4,455,910	$4,329,112	$4,104,904
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	3.39%	5.78%

For the year ended June 30	2021	2020	2019	2018
Contractually required OPEB contribution	$ 187,772	$ 174,848	$ 190,467	$ 156,819
Contributions in relation to the contractually required contribution	$ 187,772	$ 174,848	190,467	156,819
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
System's covered-employee payroll	$3,944,797	$3,673,288	$3,621,038	$3,336,593
Contributions as a percentage of covered-employee payroll	4.76%	4.76%	5.26%	4.70%

See accompanying notes to the required supplementary information

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB
COUNTY EMPLOYEES RETIREMENT SYSTEM

Notes to Schedule

Information prior to 2018 was unavailable. The schedules are intended to show information for 10 years. Additional years will be displayed as they become available. Amounts presented for each fiscal year were determined as of the Board's measurement date, which is the prior fiscal year end. The years listed below are measurement dates. "Plan" refers to the CERS Non-Hazardous Insurance Fund as a whole, not to individual participating employers.

Changes of Benefit Terms

The following changes in benefit terms were reflected in the actuarial valuations as of June 30:

2025: Senate Bill 10, enacted during the 2025 Kentucky legislative session, amended certain CERS retiree health insurance benefit provisions. The legislation increased the monthly insurance benefit for eligible members who began participation on or after July 1, 2003 to $40 per month for nonhazardous CERS service, effective January 1, 2026. These increases apply only when the member is not eligible for Medicare benefits and has met certain service thresholds at retirement. No other plan provision changes materially impacted the total OPEB liability since June 30, 2024.

2024: No changes of benefit terms.
2023: No changes of benefit terms.
2022: No changes of benefit terms.
2021: No changes of benefit terms.
2020: No changes of benefit terms.
2019: No changes of benefit terms.
2018: No changes of benefit terms

Changes in assumptions

The following changes in assumptions were reflected in the actuarial valuations as of June 30:

2025: The discount rate used to calculate the total OPEB liability increased from 5.99% to 6.26% for non-hazardous. The healthcare cost trend assumption was also updated to assume higher future increases in pre-Medicare and Medicare healthcare costs.

2024: The discount rate used to calculate the total OPEB liability increased from 5.93% to 5.99% for non-hazardous.

2023: The CERS Board of Trustees adopted new actuarial assumptions on May 9, 2023. These assumptions are documented in the report titled "2022 Actuarial Experience Study for the Period Ending June 30, 2022." The single discount rate used to calculate the total OPEB liability also changed from the prior year. The total OPEB liability as of June 30, 2023 was determined using these updated assumptions.

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB
COUNTY EMPLOYEES RETIREMENT SYSTEM

Changes in assumptions**,** continued

2022: The initial healthcare cost trend rate for pre-65 retirees changed from 6.30% to 6.20%, and the initial rate for post-65 retirees changed from 6.30% to 9.00%.

2021: The single discount rate used to calculate the total OPEB liability changed from the prior year. Senate Bill 169, enacted during the 2021 legislative session, increased disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability. The total OPEB liability as of June 30, 2021 reflects these benefit provisions.

2020: Senate Bill 249, enacted during the 2020 legislative session, changed the funding period for amortization of the unfunded liability to a 30-year closed period as of June 30, 2019, with gains and losses in future years amortized over separate 20-year bases. This change affects only the calculation of contribution rates beginning July 1, 2020 and did not affect the total OPEB liability.

2019: The Board of Trustees adopted new actuarial assumptions documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018." The total OPEB liability as of June 30, 2019 was determined using these updated assumptions.

2018: House Bill 185, enacted during the 2018 legislative session, requires the system to pay 100% of the insurance premium for spouses and children of active members who die in the line of duty. The total OPEB liability as of June 30, 2018 reflects these benefit provisions.

SUPPLEMENTARY INFORMATION

HOKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMBINED SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2026

	ELECTRIC	TELECOM	TOTAL
OPERATING REVENUES	$ 43,948,749	$ 15,049,107	$ 58,997,856
OPERATING EXPENSES			
Cost of power	31,380,518	-	31,380,518
Cost of sales - telecom	-	5,490,516	5,490,516
Distribution			
Operation	1,563,144	2,524,573	4,087,717
Maintenance	1,794,996	226,044	2,021,040
Customer accounts	1,281,997	1,069,965	2,351,962
Sales	106,218	191,231	297,449
Administrative and general	1,284,042	1,214,021	2,498,063
Depreciation and amortization	2,310,706	1,247,925	3,558,631
Taxes	1,606,068	150,313	1,756,381
Total operating expenses	41,327,689	12,114,588	53,442,277
Operating income	2,621,060	2,934,519	5,555,579
NONOPERATING REVENUES (EXPENSES)			
Interest on long-term debt	(132,863)	(335,036)	(467,899)
Other interest	(267,160)	-	(267,160)
Amortization of debt expense	(7,564)	(7,287)	(14,851)
Interest income	433,035	84,879	517,914
Gain (loss) on sale of fixed assets	2,820	-	2,820
Net nonoperating revenues (expenses)	28,268	(257,444)	(229,176)
Change in net position	2,649,328	2,677,075	5,326,403
Net position, beginning of year	19,219,341	4,427,584	23,646,925
Net position, end of year	$ 21,868,669	$ 7,104,659	$ 28,973,328

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE SCHEDULES OF REVENUES AND EXPENSES – ELECTRIC
FOR THE YEARS ENDED JUNE 30, 2026 AND 2025

	ELECTRIC 2026	ELECTRIC 2025	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES	$ 43,948,749	$ 43,146,949	$ 801,800
OPERATING EXPENSES			
Cost of power	31,380,518	30,684,222	(696,296)
Distribution			
Operation	1,563,144	1,585,534	22,390
Maintenance	1,794,996	1,168,939	(626,057)
Customer accounts	1,281,997	1,288,405	6,408
Sales	106,218	127,582	21,364
Administrative and general	1,284,042	1,115,541	(168,501)
Depreciation and amortization	2,310,706	2,274,229	(36,477)
Taxes	1,606,068	1,552,271	(53,797)
Total operating expenses	41,327,689	39,796,723	(1,530,966)
Operating income	2,621,060	3,350,226	(729,166)
NONOPERATING REVENUES (EXPENSES)			
Interest on long-term debt	(132,863)	(141,230)	8,367
Other interest	(267,160)	(108,313)	(158,847)
Amortization of debt expense	(7,564)	(3,383)	(4,181)
Interest income	433,035	342,400	90,635
Gain (loss) on sale of fixed assets	2,820	24,667	(21,847)
Net nonoperating revenues (expenses)	28,268	114,141	(85,873)
Change in net position	$ 2,649,328	$ 3,464,367	$ (815,039)

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE SCHEDULES OF REVENUES AND EXPENSES – TELECOMMUNICATIONS
FOR THE YEARS ENDED JUNE 30, 2026 AND 2025

	TELECOM 2026	TELECOM 2025	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES	$ 15,049,107	$ 12,993,708	$ 2,055,399
OPERATING EXPENSES			
Cost of sales - telecom	5,490,516	4,429,129	(1,061,387)
Distribution			
Operation	2,524,573	2,802,296	277,723
Maintenance	226,044	128,707	(97,337)
Customer accounts	1,069,965	959,799	(110,166)
Sales	191,231	138,136	(53,095)
Administrative and general	1,214,021	1,034,473	(179,548)
Depreciation and amortization	1,247,925	1,200,120	(47,805)
Taxes	150,313	137,693	(12,620)
Total operating expenses	12,114,588	10,830,353	(1,284,235)
Operating income	2,934,519	2,163,355	771,164
NONOPERATING REVENUES (EXPENSES)			
Interest on long-term debt	(335,036)	(355,950)	20,914
Amortization of debt expense	(7,287)	(7,287)	-
Interest income	84,879	102,342	(17,463)
Net nonoperating revenues (expenses)	(257,444)	(260,895)	3,451
Change in net position	$ 2,677,075	$ 1,902,460	$ 774,615

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE ANALYSIS OF OPERATING EXPENSES – ELECTRIC

	Year Ended June 30, 2026		Year Ended June 30, 2025		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Distribution Operation					
Supervision and engineering	$ 254,412	0.58 %	$ 235,040	0.54 %	$ 19,372
Station expense	92,433	0.21	104,043	0.24	(11,610)
Overhead lines expense	564,742	1.28	586,220	1.36	(21,478)
Underground line expense	-	0.00	-	0.00	-
Street light and signal system expense	811	0.00	298	0.00	513
Meter expense	199,361	0.45	217,754	0.50	(18,393)
Customer installation expense	75,974	0.17	68,885	0.16	7,089
Miscellaneous distribution expense	8,175	0.02	6,438	0.01	1,737
Rents	367,236	0.84	366,856	0.85	380
Total distribution operation	$ 1,563,144	3.56 %	$ 1,585,534	3.68 %	$ (22,390)
Distribution Maintenance					
Supervision and engineering	$ 66,797	0.15 %	$ 61,913	0.14 %	$ 4,884
Software distribution	146,912	0.33	-	0.00	146,912
Substations	9,856	0.02	1,468	0.00	8,388
Overhead lines	1,515,592	3.45	1,066,192	2.47	449,400
Transformers	26,741	0.06	25,661	0.06	1,080
Street light and signal system	28,213	0.06	13,693	0.03	14,520
Meters	885	0.00	12	-	873
Total distribution maintenance	$ 1,794,996	4.08 %	$ 1,168,939	2.71 %	$ 626,057
Customer Accounts					
Meter reading	$ 146,076	0.33	$ 140,997	0.33	$ 5,079
Customer records and collection expense	863,140	1.96	858,099	1.99	5,041
Uncollectible accounts	238,596	0.54	239,477	0.56	(881)
Miscellaneous customer accounting	3,750	0.01	3,509	0.01	241
Customer assistance expense	30,435	0.07	46,323	0.11	(15,888)
Total customer accounts	$ 1,281,997	2.92 %	$ 1,288,405	2.99 %	$ (6,408)

Continued

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE ANALYSIS OF OPERATING EXPENSES – ELECTRIC, continued

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	Year Ended June 30, 2026		Year Ended June 30, 2025		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Sales Expense					
Demonstrating and selling expense	$ 43,572	0.10 %	$ 38,382	0.09 %	$ 5,190
Advertising expense	61,707	0.14	88,323	0.20	(26,616)
Miscellaneous	939	0.00	877	0.00	62
Total sales expense	$ 106,218	0.24 %	$ 127,582	0.29 %	$ (21,364)
Administrative and General					
Administrative and office salaries	$ 538,824	1.23 %	$ 506,988	1.18 %	$ 31,836
Office supplies and expense	106,264	0.24	143,165	0.33	(36,901)
Outside services employed	214,178	0.49	120,245	0.28	93,933
Property insurance	203,007	0.46	204,841	0.47	(1,834)
Injuries and damages	34,143	0.08	24,238	0.06	9,905
Employees pension and other benefits	96,707	0.22	126,882	0.29	(30,175)
Duplicate charges (credit)	(187,301)	(0.43)	(173,494)	(0.40)	(13,807)
Miscellaneous general expense	96,412	0.22	71,466	0.17	24,946
Maintenance	181,808	0.41	91,210	0.21	90,598
Total administrative and general	$ 1,284,042	2.92 %	$ 1,115,541	2.59 %	$ 168,501

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE ANALYSIS OF OPERATING EXPENSES – TELECOMMUNICATIONS

	Year Ended June 30, 2026		Year Ended June 30, 2025		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Distribution Operation					
Supervision and engineering	$ 687,482	4.57 %	$ 793,210	6.10 %	$ (105,728)
Hub expenses	37,052	0.25	56,705	0.44	(19,653)
Overhead cable expense	668,161	4.44	675,152	5.20	(6,991)
Customer installation expense	824,645	5.48	970,884	7.47	(146,239)
Miscellaneous distribution expense	231	0.00	118	0.00	113
Rents	307,002	2.04	306,227	2.36	775
Total distribution operation	$2,524,573	16.78 %	$2,802,296	21.57 %	$ (277,723)
Distribution Maintenance					
Supervision and engineering	$ 84,427	0.56 %	$ 65,071	0.50 %	$ 19,356
Hub expenses	138,517	0.92	60,274	0.46	78,243
General maintenance	2,950	0.02	3,362	0.03	(412)
Maintenance underground services	150	0.00	-	0.00	150
Total distribution maintenance	$ 226,044	1.50 %	$ 128,707	0.99 %	$ 97,337
Customer Accounts					
Billing expense	$ 299,737	1.99 %	$ 263,626	2.03 %	$ 36,111
Customer records and collection expense	409,410	2.72	289,508	2.23	119,902
Uncollectible accounts	95,072	0.63	28,696	0.22	66,376
Customer assistance expense	265,746	1.77	377,969	2.91	(112,223)
Total customer accounts	$1,069,965	7.11 %	$ 959,799	7.39 %	$ 110,166

Continued

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE ANALYSIS OF OPERATING EXPENSES – TELECOMMUNICATIONS, continued

	Year Ended June 30, 2026		Year Ended June 30, 2025		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Sales Expense					
Demonstrating and selling expense	$ 142,118	0.94 %	$ 96,592	0.74 %	$ 45,526
Advertising expense	49,113	0.33	41,544	0.32	7,569
Total sales expense	$ 191,231	1.27 %	$ 138,136	1.06 %	$ 53,095
Administrative and General					
Administrative and office salaries	$ 149,922	1.00 %	$ 146,891	1.13 %	$ 3,031
Office supplies and expense	69,719	0.46	63,446	0.49	6,273
Meeting expenses	40,246	0.27	19,303	0.15	20,943
Outside services employed	89,029	0.59	288,017	2.22	(198,988)
Property insurance	35,824	0.24	36,139	0.28	(315)
Injuries and damages	20,522	0.14	19,071	0.15	1,451
Employees pension and other benefits	300,134	1.99	275,867	2.12	24,267
Miscellaneous general expense	38,334	0.25	9,686	0.07	28,648
Maintenance	468,291	3.11	174,053	1.35	294,238
Donations	2,000	0.00	2,000	0.01	-
Total administrative and general	$ 1,214,021	8.05 %	$ 1,034,473	7.97 %	$ 179,548

INTERNAL CONTROL AND COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of the
Hopkinsville Electric System of the
City of Hopkinsville, Kentucky
Hopkinsville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky, as of and for the years ended June 30, 2026 and 2025 and the related notes to the financial statements, which collectively comprise the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's basic financial statements and have issued our report thereon dated October 23, 2026.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

DGA, PSC

DGA, PSC

Certified Public Accountants
Hopkinsville, Kentucky

October 23, 2026