2019 BENEFIT PLAN REPORTS

OUC
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ORLANDO UTILITIES COMMISSION

DEFINED BENEFIT PENSION REPORT
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DEFINED BENEFIT PENSION REPORT

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ORLANDO UTILITIES COMMISSION

2019 DEFINED BENEFIT PENSION REPORT

TRUSTEES AS OF SEPTEMBER 30, 2019:

MINDY BRENAY – CHAIR
JAN ASPURU
LUZ AVILES
CLINT BULLOCK
FREDERICK HADDAD
JOHN HEARN
GREGORY RODEGHIER

Building a better working world

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Report of Independent Auditors

Plan Trustees and Participants
Orlando Utilities Commission Defined Benefit Pension Plan

Report on the Financial Statements

We have audited the accompanying financial statements of the Orlando Utilities Commission Defined Benefit Plan (the Plan), as of and for the years ended September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan as of September 30, 2019 and 2018, and the changes in the Plan fiduciary net position for the years then ended in conformity with U.S. generally accepted accounting principles.

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Basis of Presentation

As discussed in Note A to the financial statements, the financial statements present only the Plan and do not purport to, and do not, present fairly the financial position of the Orlando Utilities Commission at September 30, 2019 and 2018, the changes in its financial position or its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 6 to 9, schedule of changes in net pension liability and related ratios, the schedule of employer contributions to the pension plan, and the schedule of investment returns on pages 23 to 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which 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, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated August 14, 2020 on our consideration of the Plan'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 Plan'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 Plan's internal control over financial reporting and compliance.

Ernst + Young LLP

August 14, 2020

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Management's Report

The management of Orlando Utilities Commission (OUC) has prepared – and is responsible for – the integrity of the OUC Defined Benefit Pension Plan's (the Plan) financial statements and related information included in this report. The financial statements have been prepared in accordance with generally accepted accounting principles and follow the standards outlined by the Governmental Accounting Standards Board.

To ensure the integrity of the Plan's financial statements, controls have been put in place to ensure assets are properly safeguarded and the books and records reflect only those transactions that have been duly authorized.

Based on the statements above, it is management's assertion that the financial statements for the Trust do not omit disclosures necessary for a fair representation of the information; nor do they improperly include untrue statements of a material fact or statements of a misleading nature.

Clint Bullock
General Manager &
Chief Executive Officer

Mindy Brenay
Chief Financial Officer

Matthew Lopez
Director, Accounting Services

Latisha Thompson
Chief Employee Experience Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

The following discussion and analysis of the Plan's financial performance provides an overview of the financial activities and changes in plan fiduciary net position for the years ended September 30, 2019, 2018 and 2017. This discussion and analysis should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Basic Financial Statements and Required Supplementary Information

The Statement of Plan Fiduciary Net Position presents information on the Trust's assets and liabilities with the difference between these two amounts being reported as Plan fiduciary net position. Assets and liabilities are segregated based on their nature and liquidity.

The Statement of Changes in Plan Fiduciary Net Position presents the current year additions and deductions from the Plan fiduciary net position during the year.

The Required Supplementary Information presents the changes in net pension liability and related ratios, OUC's annual employer contributions, as well as a schedule on the money-weighted rate of return on the Trust's assets.

Condensed Statements of Plan Fiduciary Net Position

	As of September 30,		
(Dollars in thousands)	2019	2018	2017
Assets			
Investments	$ 426,079	$ 418,993	$ 384,657
Receivables	348	467	6,445
Total assets	426,427	419,460	391,102
Liabilities	661	443	247
Plan fiduciary net position	$ 425,766	$ 419,017	$ 390,855

Condensed Statements of Changes in Plan Fiduciary Net Position

	Years ended September 30,		
(Dollars in thousands)	2019	2018	2017
Additions			
Net increase in fair value of investments	$ 10,606	$ 30,061	$ 42,063
Interest, dividends and other income, net of investment expense	6,993	6,978	6,698
Contributions	22,966	23,169	22,536
Total additions	40,565	60,208	71,297
Deductions			
Benefit payments, including refunds of plan member contributions	33,576	31,726	28,663
Administrative expenses, net of foreign tax withheld	240	320	115
Total deductions	33,816	32,046	28,778
Net increase in plan fiduciary net position	6,749	28,162	42,519
Plan fiduciary net position - beginning of year	419,017	390,855	348,336
Plan fiduciary net position - end of year	$ 425,766	$ 419,017	$ 390,855

2019 Compared to 2018

Investments: In 2019, investments increased $7.1 million, or 1.7 percent, which was lower than the $34.3 million increase of the prior year due to market conditions. Consistent with the investment policy and guidance from the Trustees, the portfolio is designed to grow through long-term capital appreciation with a lesser focus on interest and dividend growth.

Net increase in fair value of investments: Investment gains were $10.6 million in 2019 compared to $30.1 million in 2018. The overall slowing of investment gains was primarily influenced by domestic equity fund performance, with a combined return of 3.4 percent compared with a prior year return of 18.9 percent. Overall, domestic equity fund performance remained above benchmark performance indices.

Interest, dividends and other income, net of investment expense: Interest, dividends and other income was consistent year-over-year with an income yield of approximately 1.6 percent of the average investment valuation in 2019 as compared to 1.7 percent in 2018.

Contributions: Actuarially determined contribution amounts were calculated as of October 1 of the year preceding the contribution year. In 2017, net investment returns of 8.9 percent, on the smoothed actuarial value of assets, exceeded the target investment rate of 7.25 percent, allowing employer contributions in 2019 to decrease by $0.2 million, or 0.9 percent.

Benefit payments, including refunds of plan member contributions: In 2019, the amount of benefit payments increased $1.9 million, or 5.8 percent, due to a 2.0 percent increase in the number of inactive members receiving benefits and a 17.0 percent increase in the total amount of lump sum payouts to hybrid plan retirees.

Net increase in plan fiduciary net position: A $6.7 million increase in plan fiduciary net position was reported in 2019 due to overall market valuation gains and contributions exceeding the amount of benefit payments and expenses. Based on the Plan's current funding policy, the unfunded actuarial accrued liability is expected to be eliminated by 2030. The Plan's net position remains on target to finance all projected future benefit payments of current plan members.

2018 Compared to 2017

Investments: In 2018, investments increased $34.3 million, with the total net fund return rate of 9.8 percent exceeding the performance index rate of 8.8 percent.

Receivables: Receivables decreased by $6.0 million in 2018 due to the timing of a prior year contribution received in October of 2017.

Net increase in fair value of investments: Investment gains were $30.1 million in 2018 compared to $42.1 million in 2017. Both years experienced returns above the actuarial target of 7.25 percent.

Interest, dividends and other income, net of investment expense: Interest, dividends and other income was consistent year-over-year with an income yield of approximately 1.7 percent of the average investment valuation in 2018 as compared to 1.8 percent in 2017.

Contributions: Actuarially determined contribution amounts were calculated as of October 1 of the year preceding the contribution year. In 2016, a higher than expected investment return of 7.5 percent on the smoothed actuarial value of assets, compared with the target investment rate of 7.25 percent, allowed employer contributions in 2018 to be limited to an increase of $0.6 million, or 2.8 percent.

Benefit payments, including refunds of plan member contributions: In 2018, the amount of benefit payments increased $3.0 million, or 10.7 percent, primarily due to an increase in participants receiving benefits, including lumpsum payouts to hybrid retirees, the planned cost-of-living adjustment (COLA), and a one-time benefit multiplier rate change in 2017 to facilitate compliance with IRS Section 401(a)(17).

Net increase in plan fiduciary net position: A $28.2 million increase in plan fiduciary net position was reported in 2018 due to overall market valuation gains and contributions exceeding the amount of benefit payments and expenses.

Currently Known Facts or Conditions That May Have a Significant Effect on the Plan's Financial Condition or Results of Operations

There were no new state regulations, plan or actuarial assumption changes that would materially affect the Plan's financial condition as of the date of this report.

In respect to the unprecedented market volatility due to the COVID-19 (Coronavirus) pandemic, the plan portfolio as of July 31, 2020 posted a return of 8.9 percent since September 30, 2019. While the end of the economic impact of the pandemic is uncertain, portfolio performance is evaluated against target indices using a long-term approach over three to five years so that changes are not influenced by short-term volatility. Plan Trustees and consultants continue to actively monitor investments through quarterly meetings and annual policy reviews to ensure the best overall long-term performance.

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STATEMENTS OF PLAN FIDUCIARY NET POSITION

(Dollars in thousands)	As of September 30, 2019	2018
Assets		
Investments		
Cash and cash equivalents	$ 14,379	$ 9,365
U.S. equity funds	176,974	188,072
Fixed income funds	89,419	82,639
International equity funds	61,391	59,567
Real estate funds	43,884	42,581
Alternative investments	27,512	21,674
Balanced mutual fund investments	12,520	15,095
Total investments	426,079	418,993
Receivables		
Pending investment sales	120	236
Net interest and dividends receivable	228	231
Total receivables	348	467
Total assets	**426,427**	**419,460**
Liabilities		
Pending investment purchases	636	417
Investment advisory fees payable	25	26
Total liabilities	**661**	**443**
Plan fiduciary net position	**$ 425,766**	**$ 419,017**

See Notes to Financial Statements for additional information

STATEMENTS OF CHANGES IN PLAN FIDUCIARY NET POSITION

(Dollars in thousands)	Years ended September 30, 2019	2018
Additions		
Contributions		
Employer	$ 22,491	$ 22,614
Plan member	475	555
Total contributions	22,966	23,169
Investment Income, net of investment expense		
Net increase in fair value of investments	10,606	30,061
Interest, dividends and other income	9,008	9,164
Investment expense	(2,015)	(2,186)
Total investment income, net of investment expense	17,599	37,039
Total additions	**40,565**	**60,208**
Deductions		
Benefit payments, including refunds of plan member contributions	33,576	31,726
Administrative expenses, net of foreign tax withheld	240	320
Total deductions	**33,816**	**32,046**
Net increase in plan fiduciary net position	**6,749**	**28,162**
Plan fiduciary net position - beginning of year	**419,017**	**390,855**
Plan fiduciary net position - end of year	**$ 425,766**	**$ 419,017**

See Notes to Financial Statements for additional information

NOTES TO FINANCIAL STATEMENTS

Note A – Plan Description

The OUC Defined Benefit Pension Plan (the Plan) was established to provide a means for eligible employees to supplement their retirement income. The single-employer plan, sponsored by OUC, is comprised of a traditional defined benefit plan for employees hired prior to 1998 who elected to remain in the plan, and a cash balance defined benefit plan for all other employees.

The assets of the Plan are held in an irrevocable general investment trust. Plan assets are not available to support OUC's financial obligations. Assets are held for the exclusive benefit of eligible plan members and for defraying the reasonable administrative expenses of the Plan.

Administration: The Plan is administered by OUC in accordance with the terms of the Plan and OUC has the authority to make changes subject to OUC Board (the Board) approval. Plan assets are segregated from OUC's assets and are separately managed by the OUC Defined Benefit Pension Administrative Committee or Trustees (the Trustees). The Trustees, comprised of five active members and two inactive members, are appointed by the Board.

Funding policy: Contributions to the Trust are based upon actuarial computations, irrevocable, and designed to provide for benefits payable in accordance with the Plan provisions. Employees participating in the traditional defined benefit offering contribute 4.0 percent of their base pay through the later of age 62 or 30 years of service. No participant contributions are required for the cash balance defined benefit offering.

Plan members: The following table presents information about plan members covered by the benefit terms as of the valuation date for the years ended September 30:

	2019	2018
Active cash balance plan members	1,054	1,038
Active traditional plan members	122	143
Inactive plan members (or their beneficiaries) currently receiving benefits	928	918
Inactive plan members entitled to deferred benefits	144	141
Total	**2,248**	**2,240**

General plan description: Benefits are available to all employees who regularly work 20 or more hours per week and are detailed as follows:

- **Traditional defined benefit offering:** This benefit offering was closed on December 31, 1997. All employees hired prior to January 1, 1998 were eligible to participate in the traditional defined benefit offering unless they elected to participate in the defined contribution pension plan.

- **Cash balance defined benefit offering:** This is a non-contributory defined benefit offering adopted by OUC effective May 1, 2011. All employees hired subsequent to January 1, 1998 are eligible to participate, as well as employees hired prior to January 1, 1998 who elected to participate in the defined contribution pension plan.

Note A – Plan Description (continued)

Traditional defined benefit pension benefits: Participants in the traditional defined benefit offering are entitled to benefits under the following circumstances:

- **Normal retirement:** This is the date at which a participant has attained age 62 and five years of participation in the Plan. Each participant shall be entitled to receive a monthly life-time pension commencing at their normal retirement date as defined by the Plan. The normal retirement pension for each participant covered by the Plan shall be 2.5 percent of the participant's highest three consecutive years' average base earnings multiplied by years of service not to exceed 75.0 percent of the participant's average base earnings. In no case will the accrued benefit be less than the actuarial equivalent of the participant's required employee contributions with interest.

  Annual cost of living adjustment (COLA) increases are based on the net return on plan investments for the previous fiscal year as follows:

Net investment return	COLA rate
Up to 4.0%	-
Greater than 4.0% up to 8.0%	1.0%
Greater than 8.0% up to 12.0%	1.5%
Greater than 12.0%	2.0%

- **Early retirement:** A participant may retire with a reduced benefit at age 55 and a minimum of 10 years of service or at 25 years of service, regardless of age. The benefit reduction is equal to 1.0 percent per year for each year preceding the normal retirement date.

- **Termination of employment:** If the employment of any participant terminates after 10 years of service, but prior to early or normal retirement date for any reason other than the participant's death, such participant may elect to receive their vested benefit, based on years of service, beginning at age 55, reduced by 6.0 percent annually and prorated for each early month payable.

- **Post-retirement death benefit:** Upon the death of a participant after retirement and benefit payments have commenced, a death benefit will be payable based on the form of benefit elected by the participant.

- **Pre-retirement surviving beneficiary's benefit:** Upon the death of an active participant who did not reach early retirement date, with at least 10 years of vesting service, one-half of the early retirement benefit, reduced by 6.0 percent annually and prorated for each early month payable, is due to the beneficiary starting at the participant's earliest retirement age.

  If the deceased participant reached the early retirement date, one-half of the accrued benefit, reduced by 1.0 percent annually and prorated for each early month payable, is due to the beneficiary.

Note A – Plan Description (continued)

Cash balance defined benefit pension benefits: Participants are entitled to benefits under the following circumstances:

- **Normal retirement:** This is the date in which a participant has attained age 62 and five years of credited service in the Plan or 30 years of continuous credited service, as defined by the Plan. Each participant shall be entitled to receive the benefit in the form of a lump-sum payout or a single life annuity commencing at their normal retirement date.

  Contributions to the participant's account balance are fully funded by OUC and include a sliding pay credit scale, ranging from 5.0 percent to 12.0 percent of the employee's eligible wages. The pay credit rate is determined based on the age of the employee at September 30 plus credited service equal to one credit for each year the employee worked a minimum of 1,000 hours during the Plan year. Annually, pay credits earn interest based on the net return on plan investments for the previous fiscal year as follows:

Net investment return	Interest credit
Up to 4.0%	4.0%
Greater than 4.0% up to 8.0%	5.0%
Greater than 8.0% up to 12.0%	5.5%
Greater than 12.0%	6.0%

- **Vested termination of employment:** If the employment of a participant with five or more years of credited service terminates prior to normal retirement date for any reason or cause other than the death of the participant, the participant's account balance as of the termination date, along with annual interest credits of 4.0 percent until normal retirement date, will be available for payment upon their normal retirement date. A participant with less than five years of credited service is not vested and their account balance is forfeited upon termination.

- **Disability:** A participant with five or more years of credited service who becomes permanently and totally disabled prior to eligibility for normal retirement shall be entitled to receive an amount as defined in the Plan.

- **Death benefits:** Upon the death of a participant before retirement, the designated beneficiary shall be entitled to receive an amount as defined in the Plan.

Plan amendments or termination: Under the Plan, OUC may amend or terminate the Plan at any time by action of the Board. In the event of termination, Plan assets are to be allocated along the following priorities:

- The rights of all participants and beneficiaries, to the extent then funded, shall be non-forfeitable and distributed in accordance with the Plan.

- Any residual assets may be distributed to OUC.

Note B – Summary of Significant Accounting Policies

Basis of presentation: The financial statements were prepared on the accrual basis of accounting in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. For plan years ended September 30, 2019 and 2018, management used estimates of the actuarial calculation of the required employer contribution and fair valuation of real estate and alternative assets in the preparation of plan financial statements.

Investment valuation and income recognition: Investments having maturities of greater than one year at the time of purchase were reported at fair value and those with maturities of less than one year at the time of purchase were reported at amortized book value. Purchases and sales of securities were reflected on a trade-date basis. Changes in the current value of investments, including gains or losses on disposal of investments, were reported in the Statements of Changes in Plan Fiduciary Net Position as net increase in fair value of investments. Interest income was recorded on the accrual basis. Dividends were recorded on the ex-dividend date.

Cash and cash equivalents: Cash and cash equivalents included all authorized instruments purchased with an original maturity date of three months or less, including all investments in money market funds.

Investment risks and uncertainties: The Plan utilizes various investment securities, including U.S. government securities, corporate debt instruments, corporate stocks, real estate, alternative investments, and mutual funds. Real estate and alternative investments allow for more diversity within the portfolio, but are often more complex and less transparent. Investment securities, in general, are exposed to various risks, such as interest rate risk, custodial risk, credit and concentration risk, foreign currency risk, liquidity risk, and overall market volatility, which are described further in Note D.

Due to the level of risk associated with certain investment securities and the volatility of the financial markets, it is possible that changes in the values of investment securities could materially affect the amounts reported in the financial statements.

Expenses: Administrative expenses of the Plan were paid by the Trust.

Contributions: Contributions to the Trust were recognized based on the actuarially determined required contribution.

Note C – Net Pension Liability and Discount Rate

The following schedule presents the change in net pension liability for the measurement years ended September 30:

(Dollars in thousands)	2019	2018
Total pension liability		
Service cost	$ 5,867	$ 5,754
Interest on the total pension liability	35,407	34,492
Benefit changes	68	-
Difference between expected and actual experience	2,106	4,904
Assumption changes	-	-
Benefit payments, including refunds of plan member contributions	(33,576)	(31,726)
Net change in total pension liability	**9,872**	**13,424**
Total pension liability - beginning of year	**499,289**	**485,865**
Total pension liability - end of year	**$ 509,161**	**$ 499,289**
Plan fiduciary net position		
Contributions - employer	$ 22,491	$ 22,614
Contributions - plan members	475	555
Total investment income, net of investment expense	17,599	37,039
Benefit payments, including refunds of plan member contributions	(33,576)	(31,726)
Administrative expense	(240)	(320)
Net change in plan fiduciary net position	**6,749**	**28,162**
Plan fiduciary net position - beginning of year	**419,017**	**390,855**
Plan fiduciary net position - end of year	**$ 425,766**	**$ 419,017**
Net pension liability - beginning of year	**$ 80,272**	**$ 95,010**
Net pension liability - end of year	**$ 83,395**	**$ 80,272**
Plan fiduciary net position as a percentage of total pension liability	**83.6%**	**83.9%**
Covered payroll	**$ 90,907**	**$ 86,573**
Net pension liability as a percentage of covered payroll	**91.7%**	**92.7%**

The measurement of the Total Pension Liability (TPL) was determined by Gabriel, Roeder, Smith & Company, an independent actuary, in accordance with the American Academy of Actuaries Interpretations, and there were no deviations from the guidance in the Actuarial Standards of Practice in the selection of assumptions used to determine the TPL and related measures. Annual actuarial amounts for reporting were calculated using the entry age normal cost method, as reported in the actuarial valuations, dated September 30, 2019 and 2018.

Note C – Net Pension Liability and Discount Rate (continued)

The following assumptions were used to measure the TPL as of September 30:

	2019	2018
Plan Benefit Assumptions		
Annual COLA	1.0%, based on actual COLA granted for the current year, and 1.0% per year, compounded annually, thereafter	1.5%, based on actual COLA granted for the current year, and 1.0% per year, compounded annually, thereafter
Hybrid Plan interest credit rate	5.0% for current year and 5.0% per year thereafter for active members and 4.0% per year for terminated vested members	5.5% for current year and 5.0% per year thereafter for active members and 4.0% per year for terminated vested members
Actuarial Assumptions		
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent of pay	Level percent of pay
Asset valuation method	20.0% of the difference between expected actuarial value, based on assumed return, and market value is recognized each year with 10.0% corridor around market value	20.0% of the difference between expected actuarial value, based on assumed return, and market value is recognized each year with 10.0% corridor around market value
Inflation	2.25% per year	2.25% per year
Investment rate of return	7.25%	7.25%
Salary increases	3.75% to 7.5% per year, depending on years of service	3.75% to 7.5% per year, depending on years of service
Mortality	RP-2000 Combined Healthy Participant Mortality Table for active members and RP-2000 Mortality Table for Annuitants for non-disabled inactive members, with mortality improvements projected to all future years using Scale BB	RP-2000 Combined Healthy Participant Mortality Table for active members and RP-2000 Mortality Table for Annuitants for non-disabled inactive members, with mortality improvements projected to all future years using Scale BB

Experience is reviewed by the actuaries for consistency with the assumptions and changes are made as needed. The most recent experience study was completed in August 2015. This experience study examined actual demographic experience during the six-year period from October 1, 2008 through October 1, 2014. Based on the results of this experience study, assumption changes were implemented effective September 30, 2015. The next experience study is scheduled for 2020, with results to be applied to October 1, 2020 valuation assumptions.

The discount rate used to measure the TPL was 7.25 percent for Plan years ended September 30, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that employee contributions would be made at the current contribution rate and that future employer contributions would be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on these assumptions, the Plan fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

Note C – Net Pension Liability and Discount Rate (continued)

The following schedule presents the sensitivity of the net pension liability calculation to a 1.0 percent increase and a 1.0 percent decrease in the discount rate used to measure the TPL at September 30:

(Dollars in thousands)	2019	2018
1.0 percent decrease - 6.25%	$ 131,176	$ 128,108
Current discount rate - 7.25%	$ 83,395	$ 80,272
1.0 percent increase - 8.25%	$ 42,245	$ 39,168

The projected long-term real rates of return on Plan investments, valued as of September 30, 2019 and 2018, were determined using a building block method, which considers historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions. These best-estimate ranges, net of assumed long-term inflation and investment expenses, are combined to produce the long-term expected rate of return.

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of September 30, 2019 and 2018 are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
U.S. equity	43.0%	7.5%
International equity	15.0%	8.5%
Domestic bonds	17.0%	2.5%
International bonds	5.0%	3.5%
Real estate	10.0%	4.5%
Alternative assets	10.0%	6.2%
Total	**100.0%**	

Note D – Investments

The Trust maintains a portion of its cash, cash equivalents and investments in interest-bearing qualified public depository accounts with institutions insured by the Federal Deposit Insurance Corporation. Cash, cash equivalents and investments were managed by the Trustees with advisory services provided by the Trust's investment advisor (Andco Consulting). Investing activity to achieve target asset allocations was executed in accordance with the policy approved by the Trustees and provided the Trust's investment advisor with guidelines to ensure risks associated with these assets were mitigated. During 2019 and 2018, no changes were made to the investment policy.

The following are key controls which the Trustees utilize to mitigate investment risk:

- **Interest rate risk:** The investment policy limits holdings of the Trust based on investment type and credit strength and entrusts the Trustees and the Trust's investment advisor to execute transactions in accordance with the "prudent person" rule requiring the evaluation of current market conditions to ensure overall interest rate risks that might adversely affect the portfolio value are mitigated.

- **Custodial credit risk:** This is the risk that in the event of the failure of a depository financial institution or counterparty to a transaction, the Trust's deposits may not be returned or the Trust will not be able to recover the value of its deposits, investments or collateral securities that are in

Note D – Investments (continued)

the possession of another party. This risk is mitigated as all investment assets are maintained in the name of the Trust and not in the possession or title of a third party.

- **Credit and concentration risk:** These risks are mitigated by providing specific guidance as to the weighting and integrity of the deposit and investment instruments other than those investments in mutual funds, collective trusts, limited partnerships or other alternative investment vehicle, U.S. Treasury obligations, U.S. Agency obligations, and accounts insured by the Federal Deposit Insurance Corporation, as well as the execution of these transactions by the Trustees in accordance with the "prudent person" rule. At September 30, 2019 and 2018 there were no individually-held investments that made up more than 5.0 percent of the Trust's portfolio.

- **Foreign currency risk:** This is the risk of loss associated with changes in foreign exchange-rates which could adversely affect investment valuations. The Trust does not hold any investments denominated in a foreign currency, although it is exposed to foreign currency risk through its U.S. dollar-denominated international equity mutual funds and collective trusts, including those in private limited partnerships.

- **Liquidity risk:** This is the risk that securities within the Plan cannot be sold quickly enough to meet future obligations. This risk is mitigated by limiting the amount of real estate and alternative assets held in commingled funds, private limited partnerships, or private equity structures, to 15.0 percent each. All other securities within the Plan must be traded on a national exchange or be in an open ended mutual fund or commingled fund structure. These funds typically have daily liquidity and always have no lock up provisions that would prevent the Plan from selling them as needed.

Rate of return: The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense resulted in a gain of 4.21 percent and 9.61 percent for the years ended September 30, 2019 and 2018, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. A 10-year historic schedule is provided in the Required Supplementary Information.

The following schedule discloses the average credit rating and the weighted average maturity in years for each of the fixed income investments at September 30:

	2019		2018	
Investment	**Average credit rating (1)**	**Weighted average maturity**	**Average credit rating (1)**	**Weighted average maturity**
Taplin				
Corporate bonds	BBB+	15.5	BBB+	12.3
Mortgage-backed securities	AA+	6.2	AA+	7.9
Commercial mortgage-backed securities	AA+	4.9	-	-
U.S. government bonds and treasury bills	AA+	6.6	AA+	3.7
Asset-backed securities	AAA	0.9	-	-
Cash	AAA	0.1	AAA	0.1
Dodge & Cox Income Fund	A	8.1	A	8.2
Met West Total Return Bond Fund	BBB	7.7	BBB	7.6
PIMCO Div Inc Bond Fund	BBB	9.0	BBB	9.0
Templeton Global Total Return	N/A	0.9	BB	2.8
Pacific Funds Floating Rate Income	B+	4.6	-	-

(1) Average credit rating as assigned by Standard & Poor's.

Note E – Fair Value Measurements

The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based upon the observability of the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Investments are recorded at fair value as described above. Real estate investments were stated at the net asset value, with annual valuations performed by independent third-party appraisers for each property in the portfolio, considering monthly events that impact property value. Alternative investments were stated at the net asset value or quoted market price based on the composition of the fund as calculated by the fund advisor. The unfunded commitments related to alternative investments as of September 30, 2019 and 2018 were $5.3 million and $12.6 million, respectively.

The Plan had the following fair value measurements by fair value level at September 30:

(Dollars in thousands)	2019	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents and investments				
Investments by fair value level:				
Debt securities				
U.S. treasury notes	$ 7,472	$ 7,472	$ -	$ -
U.S. agencies	9,078	-	9,078	-
Corporate notes and private placements	7,062	-	7,062	-
Mutual funds				
Fixed income	65,807	65,807	-	-
U.S. Equity	36,326	36,326	-	-
International equity	61,391	61,391	-	-
Balanced	12,520	12,520	-	-
U.S. equity	140,648	126,369	14,279	-
Total investments by fair value level	**340,304**	**$ 309,885**	**$ 30,419**	**$ -**
Other investments and cash equivalents measured at the NAV:				
Money market	14,379			
Alternative investments	27,512			
Mutual funds				
Real estate	43,884			
Total other investments and cash equivalents measured at the NAV	**85,775**			
Total cash equivalents and investments	**$ 426,079**			

Note E – Fair Value Measurements (continued)

(Dollars in thousands)	2018	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents and investments				
Investments by fair value level:				
Debt securities				
U.S. Treasury notes	$ 5,848	$ 5,849	$ -	-
U.S. Agencies	7,715	-	7,715	-
Corporate notes and private placements	8,489	-	8,489	-
Mutual funds				
Fixed income	60,587	60,587	-	-
U.S. equity	39,243	39,243	-	-
International equity	59,567	59,567	-	-
Balanced	15,095	15,095	-	-
U.S. equity	148,829	130,767	18,062	-
Total investments by fair value level	**345,373**	**$ 311,108**	**$ 34,266**	**$ -**
Other investments and cash equivalents measured at the NAV:				
Money market	9,365			
Alternative investments	21,674			
Mutual funds				
Real estate	42,581			
Total other investments and cash equivalents measured at the NAV	**73,620**			
Total cash equivalents and investments	**$ 418,993**			

Note F – Federal Income Tax Status

The Internal Revenue Service informed the Plan by a letter dated August 2, 2017, that the Plan and related trust were designed in accordance with applicable regulations of the Internal Revenue Code. OUC and the Plan administrator believe the Plan is currently designed and operated in compliance with applicable requirements of the Internal Revenue Code, and the Plan and related trust continue to be tax-exempt.

Note G – Exempt Party-In-Interest Transactions

Plan investments totaling $14.4 million and $9.4 million as of September 30, 2019 and 2018, respectively, were held in money market accounts managed by Wells Fargo Bank, N.A. Wells Fargo Bank, N.A. is the Trustee as defined by the Plan, and therefore, these transactions qualify as exempt party-in-interest transactions.

Note H – Subsequent Events

In respect to the overall market response to the COVID-19 (Coronavirus) pandemic, the plan portfolio as of July 31, 2020 posted a return of 8.9 percent since September 30, 2019. While the end of the economic impact of the pandemic is uncertain, Plan Trustees and consultants utilize a long-term strategy and actively monitor investments to ensure the best overall performance.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of changes in net pension liability and related ratios

The following schedules present multi-year trend information that demonstrates the components of change in the net pension liability from year to year, as well as trends in related statistical information. Information is presented related to all periods for which the required data is available. Amounts presented are determined as of the measurement date of the net pension liability for September 30:

(Dollars in thousands)	2019	2018	2017	2016	2015	2014
Total pension liability						
Service cost	$ 5,867	$ 5,754	$ 5,748	$ 5,539	$ 5,570	$ 5,935
Interest on the total pension liability	35,407	34,492	33,535	32,767	32,104	29,891
Benefit changes	68	-	408	-	-	15,187
Difference between expected and actual experience	2,106	4,904	3,706	(106)	(2,501)	(2,546)
Assumption changes	-	-	-	171	29,125	(14,449)
Benefit payments, including refunds of plan member contributions	(33,576)	(31,726)	(28,663)	(27,324)	(25,773)	(23,095)
Net change in total pension liability	**9,872**	**13,424**	**14,734**	**11,047**	**38,525**	**10,923**
Total pension liability - beginning of year	**499,289**	**485,865**	**471,131**	**460,084**	**421,559**	**410,636**
Total pension liability - end of year	**$ 509,161**	**$ 499,289**	**$ 485,865**	**$ 471,131**	**$ 460,084**	**$ 421,559**
Plan fiduciary net position						
Contributions - employer	$ 22,491	$ 22,614	$ 21,876	$ 17,803	$ 18,573	$ 21,198
Contributions - plan members	475	555	660	748	821	882
Total investment income, net of investment expense	17,599	37,039	48,761	29,872	4,783	28,906
Benefit payments, including refunds of plan member contributions	(33,576)	(31,726)	(28,663)	(27,324)	(25,773)	(23,095)
Administrative expense	(240)	(320)	(115)	(36)	(122)	(85)
Net change in plan fiduciary net position	**6,749**	**28,162**	**42,519**	**21,063**	**(1,718)**	**27,806**
Plan fiduciary net position - beginning of year	**419,017**	**390,855**	**348,336**	**327,273**	**328,991**	**301,185**
Plan fiduciary net position - end of year	**$ 425,766**	**$ 419,017**	**$ 390,855**	**$ 348,336**	**$ 327,273**	**$ 328,991**
Net pension liability - beginning of year	**$ 80,272**	**$ 95,010**	**$ 122,795**	**$ 132,811**	**$ 92,568**	**$ 109,451**
Net pension liability - end of year	**$ 83,395**	**$ 80,272**	**$ 95,010**	**$ 122,795**	**$ 132,811**	**$ 92,568**
Plan fiduciary net position as a percentage of total pension liability	**83.6%**	**83.9%**	**80.5%**	**73.9%**	**71.1%**	**78.0%**
Covered payroll	**$ 90,907**	**$ 86,573**	**$ 78,314**	**$ 75,405**	**$ 72,479**	**$ 70,147**
Net pension liability as a percentage of covered payroll	**91.7%**	**92.7%**	**121.3%**	**162.8%**	**183.2%**	**132.0%**

Assumption and benefit changes: In August 2015, an assumption study and experience review for the six-year period ended September 30, 2014 was completed, and changes were implemented effective September 30, 2015 to salary, retirement, termination, and mortality rates assumptions. In 2016, the mortality assumption was changed to continue alignment with the mortality assumption used by the Florida Retirement System, as required under Florida Statutes. There were no further revisions to the actuarial assumptions as of September 30, 2018 and 2017.

The investment return rate and single discount rate have remained at 7.25 percent since September 30, 2015, when they were changed from 7.50 percent as of September 30, 2014 based on the August 2015 assumption study.

In 2019, various plan changes were implemented related to the calculation of cash balance notional accounts, cash balance benefit payments, and the inclusion of a multiplier rate change, which was initially approved by the Board in 2017 to facilitate compliance with IRS Section 401(a)(17). In 2014, the Plan was amended to vest current and future COLA benefits.

Schedule of employer contributions to the pension plan

The following schedule presents 10-year trend information regarding employer contributions to the plan for the years ended September 30:

(Dollars in thousands)	Actuarially determined contribution	Actual contribution	Contribution deficiency / (excess) (1)	Covered payroll (CP) (2)	Contributions as a percentage of CP
2019 (3)	$ 22,491	$ 22,491	$ -	$ 90,907	24.7%
2018	$ 22,614	$ 22,614	$ -	$ 86,573	26.1%
2017	$ 21,876	$ 21,876	$ -	$ 78,314	27.9%
2016	$ 18,322	$ 17,803	$ 519	$ 75,405	23.6%
2015	$ 20,500	$ 18,573	$ 1,927	$ 72,479	25.6%
2014	$ 21,184	$ 21,198	$ (14)	$ 70,147	30.2%
2013	$ 18,893	$ 17,729	$ 1,164	$ 73,230	24.2%
2012	$ 17,120	$ 16,151	$ 969	$ 69,967	23.1%
2011	$ 17,162	$ 15,726	$ 1,436	$ 28,964	54.3%
2010	$ 15,012	$ 15,020	$ (8)	$ 30,479	49.3%

(1) Funding requirements were adjusted to include approved ad-hoc COLA benefits provided for the periods of 2001 to 2013 and paid outside the plan on a pay-as-you-go basis through December 31, 2014. Effective January 1, 2015, the Plan was amended to begin paying these benefits through the Plan.

(2) In 2011, covered payroll increased due to the establishment of the cash balance pension offering in addition to the traditional defined benefit offering.

(3) The actuarially determined contribution amounts were calculated as of October 1 of the year preceding the contribution year, using the following assumptions:

Actuarial cost method: Entry Age Normal, Level Percent of Pay

Amortization method and remaining amortization period: Level Dollar, Closed and 15 years

Asset valuation method: 20.0 percent of the difference between expected actuarial value (based on assumed return) and market value is recognized each year with 10.0 percent corridor around market value.

Inflation: 2.25 percent

Salary increases: 3.75 percent to 7.50 percent depending on service, including inflation

Investment rate of return: 7.25 percent

Retirement age: Experience-based rates tables

Mortality: RP-2000 Combined Healthy Participant Mortality Table for active members and RP-2000 Healthy Annuitant Mortality Table for non-disabled inactive members with mortality improvements projected to all future years using Scale BB.

COLA: 2.0 percent per year, based on actual COLA granted for the year, and 1.0 percent per year, compounded annually for each year thereafter, for the traditional defined benefit offering only.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of investment returns

The following schedule presents 10 years of information on the annual money-weighted rate of return, calculated as the internal rate of return on pension plan investments, net of pension plan investment expense.

2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
4.21%	9.61%	14.23%	9.23%	1.39%	9.62%	12.83%	20.89%	-0.35%	9.99%

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Report of Independent Auditors 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*

Plan Trustees and Participants
Orlando Utilities Commission Defined Benefit Pension Plan and Trust

We have audited, in accordance with auditing standards generally accepted in the United States 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 Orlando Utilities Commission Defined Benefit Pension Plan and Trust (the Plan), which comprise the statement of plan fiduciary net position as of September 30, 2019, and the related statement of changes in plan fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 14, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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.

Ernst & Young LLP

August 14, 2020

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ORLANDO UTILITIES COMMISSION

2019 OTHER POST-EMPLOYMENT BENEFITS REPORT

TRUSTEES AS OF SEPTEMBER 30, 2019:

MINDY BRENAY – CHAIR
JAN ASPURU
LUZ AVILES
CLINT BULLOCK
FREDERICK HADDAD
JOHN HEARN
GREGORY RODEGHIER

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Report of Independent Auditors

Plan Trustees and Participants
Orlando Utilities Commission Other Post-Employment Benefits Plan

Report on the Financial Statements

We have audited the accompanying financial statements of the Orlando Utilities Commission Other Post-Employment Benefits Plan (the Plan), as of and for the years ended September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan as of September 30, 2019 and 2018, and the changes in the Plan fiduciary net position for the years then ended in conformity with U.S. generally accepted accounting principles.

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Basis of Presentation

As discussed in Note A to the financial statements, the financial statements present only the Plan and do not purport to, and do not, present fairly the financial position of the Orlando Utilities Commission at September 30, 2019 and 2018, the changes in its financial position or its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 35 to 37, schedule of changes in net OPEB liability and related ratios, schedule of employer contributions to the OPEB plan, and schedule of investment returns on pages 51 to 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which 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, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated August 14, 2020 on our consideration of the Plan'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 Plan'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 Plan's internal control over financial reporting and compliance.

Ernst + Young LLP

August 14, 2020

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Management's Report

The management of Orlando Utilities Commission (OUC) has prepared – and is responsible for – the integrity of the OUC Other Post-Employment Benefits Plan's (the Plan) financial statements and related information included in this report. The financial statements have been prepared in accordance with generally accepted accounting principles and follow the standards outlined by the Governmental Accounting Standards Board.

To ensure the integrity of the Plan's financial statements, controls have been put in place to ensure assets are properly safeguarded and the books and records reflect only those transactions that have been duly authorized.

Based on the statements above, it is management's assertion that the financial statements for the Trust do not omit disclosures necessary for a fair representation of the information; nor do they improperly include untrue statements of a material fact or statements of a misleading nature.

Clint Bullock
General Manager &
Chief Executive Officer

Mindy Brenay
Chief Financial Officer

Matthew Lopez
Director, Accounting Services

Latisha Thompson
Chief Employee Experience Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of Financial Statements

The following discussion and analysis of the Plan's financial performance provides an overview of the financial activities and changes in plan fiduciary net position for the years ended September 30, 2019, 2018 and 2017. This discussion and analysis should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Basic Financial Statements and Required Supplementary Information

The Statement of Plan Fiduciary Net Position presents information on all of the Trust's assets and liabilities with the difference between these two amounts being reported as Plan fiduciary net position. Assets and liabilities are segregated based on their nature and liquidity.

The Statement of Changes in Plan Fiduciary Net Position presents the current year additions and deductions from the Plan fiduciary net position during the year.

The Required Supplementary Information presents changes in the net Other Post-Employment Benefits (OPEB) liability and related ratios, OUC's annual employer contributions, as well as a schedule on the money-weighted rate of return on the Trust's assets.

Condensed Statements of Plan Fiduciary Net Position

	As of September 30,		
(Dollars in thousands)	2019	2018	2017
Assets			
Investments	$ 138,907	$ 133,398	$ 117,271
Receivables	99	117	3,384
Total assets	139,006	133,515	120,655
Liabilities	1,027	569	13
Plan fiduciary net position	$ 137,979	$ 132,946	$ 120,642

Condensed Statements of Changes in Plan Fiduciary Net Position

	Years ended September 30,		
(Dollars in thousands)	2019	2018	2017
Additions			
Net increase in fair value of investments	$ 2,868	$ 8,610	$ 10,974
Interest, dividends and other income, net of investment expense	2,531	2,346	2,446
Contributions	7,022	9,068	13,384
Total additions	12,421	20,024	26,804
Deductions			
Benefit payments, including refunds	7,371	7,702	6,374
Administrative expenses	17	18	18
Total deductions	7,388	7,720	6,392
Net increase in plan fiduciary net position	5,033	12,304	20,412
Plan fiduciary net position - beginning of year	132,946	120,642	100,230
Plan fiduciary net position - end of year	$ 137,979	$ 132,946	$ 120,642

2019 Compared to 2018

Investments: In 2019, investments increased $5.5 million, or 4.1 percent, which was lower than the $16.1 million increase of the prior year due to market conditions. Consistent with the investment policy and guidance from the Trustees, the portfolio is designed to focus on long-term capital appreciation with a lesser focus on interest and dividend growth.

Net increase in fair value of investments: Investment gains were $2.9 million in 2019 compared to $8.6 million in 2018. The overall slowing of investment gains was primarily influenced by domestic equity fund performance, with a combined return of 3.0 percent compared with a prior year return of 17.0 percent. Overall, domestic equity fund performance was in alignment with benchmark performance indices.

Interest, dividends and other income, net of investment expense: Interest, dividends and other income yield remained unchanged at approximately 1.9 percent of the average investment valuation in 2019 and 2018.

Contributions: Actuarially determined contribution amounts were calculated as of October 1 of the year preceding the contribution year. In 2017, employer contributions decreased $2.0 million primarily due to continued migration of participants to a fully-insured Medicare Advantage Plan and a change in the dental subsidy assumption.

Benefit payments, including refunds: In 2019, benefit payments decreased $0.3 million from 2018 due to a 25.0 percent decrease in pre-medicare retiree costs, net of retiree contributions.

Net increase in plan fiduciary net position: A $5.0 million increase in plan fiduciary net position was reported in 2019 due to overall market valuation gains and contributions exceeding the amount of benefit payments and expenses. Based on the Plan's current funding policy, the Plan's net position remains on target to finance all projected future benefit payments of current plan members.

2018 Compared to 2017

Investments: In 2018, investments increased $16.1 million, with a total net fund return rate of 9.2 percent.

Net increase in fair value of investments: Investment gains were $8.6 million in 2018 compared to $11.0 million in 2017 due to less favorable market returns. Both years experienced returns above the actuarial target of 7.25 percent.

Interest, dividends and other income, net of investment expense: Interest, dividends and other income yield was approximately 1.9 percent of the average investment valuation in 2018 compared to 2.3 percent in 2017.

Contributions: Actuarially determined contribution amounts were calculated as of October 1 of the year preceding the contribution year. In 2016, employer contributions decreased $4.3 million primarily due to a change in the utility trend assumption.

Benefit payments, including refunds: In 2018, benefit payments of $7.7 million increased $1.3 million, or 20.8 percent, from 2017 due to an increase in the number of retirees.

Net increase in plan fiduciary net position: A $12.3 million increase in plan fiduciary net position was reported in 2018 due to overall market valuation gains and contributions exceeding the amount of benefit payments and expenses.

Currently Known Facts or Conditions That May Have a Significant Effect on the Plan's Financial Condition or Results of Operations

There were no new state regulations, plan or actuarial assumption changes that would materially affect the Plan's financial condition as of the date of this report.

In respect to the unprecedented market volatility due to the COVID-19 (Coronavirus) pandemic, the plan portfolio as of July 31, 2020 posted a return of 8.6 percent since September 30, 2019. While the end of the economic impact of the pandemic is uncertain, portfolio performance is evaluated against target indices using a long-term approach over three to five years so that changes are not influenced by short-term volatility. Plan Trustees and consultants continue to actively monitor investments through quarterly meetings and annual policy reviews to ensure the best overall long-term performance.

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STATEMENTS OF PLAN FIDUCIARY NET POSITION

(Dollars in thousands)	As of September 30, 2019	2018
Assets		
Investments		
Cash and cash equivalents	$ 1,975	$ 1,850
U.S. equity funds	65,547	65,501
Fixed income funds	30,449	28,203
International equity funds	20,312	18,748
Real estate funds	5,760	5,839
Alternative investments	3,864	1,618
Balanced mutual fund investments	11,000	11,639
Total investments	138,907	133,398
Receivables		
Pending investment sales	33	65
Net interest and dividends receivable	66	52
Total receivables	99	117
Total assets	**139,006**	**133,515**
Liabilities		
Benefits payable	457	442
Pending investment purchases	557	114
Investment advisory fees payable	13	13
Total liabilities	**1,027**	**569**
Plan fiduciary net position	**$ 137,979**	**$ 132,946**

See Notes to Financial Statements for additional information.

STATEMENTS OF CHANGES IN PLAN FIDUCIARY NET POSITION

(Dollars in thousands)	Years ended September 30, 2019	2018
Additions		
Contributions		
Employer	$ 7,022	$ 9,068
Total contributions	7,022	9,068
Investment income, net of investment expense		
Net increase in fair value of investments	2,868	8,610
Interest, dividends and other income	3,060	2,685
Investment expense	(529)	(339)
Total investment income, net of investment expense	5,399	10,956
Total additions	**12,421**	**20,024**
Deductions		
Benefit payments, including refunds	7,371	7,702
Administrative expenses	17	18
Total deductions	**7,388**	**7,720**
Net increase in plan fiduciary net position	**5,033**	**12,304**
Plan fiduciary net position - beginning of year	**132,946**	**120,642**
Plan fiduciary net position - end of year	**$ 137,979**	**$ 132,946**

See Notes to Financial Statements for additional information.

NOTES TO FINANCIAL STATEMENTS

Note A – Plan Description

The OUC Other Post-Employment Benefits Plan (the Plan) was established in 2008 to provide a mechanism to accumulate funds for the payment of supplemental retirement benefits to eligible employees. The single-employer plan, sponsored by OUC, offers benefits to eligible retirees, including health and medical coverage, life insurance and discounted utility services. The benefit offering for health and medical coverage is the same for all employees; however, the financial subsidy differs depending on the employees' pension plan participation and their Medicare eligibility date. In respect to the utility discount program, benefits are available to employees, retirees and their spouses based on their hire date and residency requirements. All retirees are eligible for the life insurance program.

The assets of the Plan are held in an irrevocable general investment trust. Plan assets are not available to support OUC's financial obligations. Assets are held for the exclusive benefit of eligible plan members and for defraying the reasonable administrative expenses of the Plan.

Administration: The Plan is administered by OUC in accordance with the terms of the Plan. As such, OUC has the authority to make changes subject to Board approval. Plan assets are segregated from OUC's assets and are separately managed by the OUC OPEB Board of Trustees (the Trustees). The Trustees, comprised of five active employees and two inactive employees, are appointed by the Board.

Funding policy: In 2019 and 2018, contributions to the Trust were based upon actuarial computations provided in the valuation reports, dated October 1, 2017 and 2016 respectively. In 2019 and 2018, the Trust reimbursed OUC for actual benefits paid through operations.

Plan members: The following table presents information about plan members covered by the benefit terms as of the valuation date for the years ended September 30:

	2019	2018
Active plan members	1,177	1,185
Inactive plan members (or their beneficiaries) currently receiving benefits	902	872
Total	**2,079**	**2,057**

Note A – Plan Description (continued)

Health and Medical Coverage
OUC provides continued coverage of medical and dental benefits to retiring employees and their dependents. The Defined Benefit Plan is comprised of a traditional defined benefit offering and a cash balance defined benefit offering. The subsidy provided for the health and medical coverage differs dependent on the retiree's pension plan participation as follows:

- **Employees participating in the traditional defined benefit pension plan:** Health and medical benefits provided in association with this pension plan are fully subsidized for the retiree and partially subsidized for dependent coverage. Effective in 2015, the Plan began transitioning the subsidized dependent coverage for Medicare eligible retirees to 50.0 percent and phasing out the premium subsidy for dependent coverage for pre-Medicare eligible members over a five-year period. Eligibility requirements for this benefit follow the requirements of the pension plan. This benefit offering was closed on December 31, 1997. All employees hired prior to January 1, 1998 were eligible to participate in the traditional defined benefit offering unless they elected to participate in the defined contribution pension plan. The number of participants as of October 1, 2019 included 832 inactive plan members (retired participants and beneficiaries) receiving benefits and 122 active plan members. The number of participants as of October 1, 2018 included 817 inactive plan members (retired participants and beneficiaries) receiving benefits and 143 active plan members.

- **Employees participating in the hybrid plan:** Effective May 2011, participants in the cash balance pension offering earn health and medical benefits through the funding of a notional health reimbursement account (HRA) retroactive to the last date of continuous employment. Annually, an employee earns an HRA contribution, plus interest credits, which is actuarially funded through a notional account. The HRA contribution was $600 in 2019 and $585 in 2018. The annual interest rate earned on these accounts is established in conjunction with the cash balance defined benefit pension offering and provides a minimum annual earnings rate of 4.0 percent. Upon retirement, the funds become available to the retiree and their dependents to cover eligible medical costs including medical premiums. Eligibility requirements for this benefit are the earlier of age 62 and five years of credited service or 30 years of credited service, regardless of age. As of October 1, 2019, the number of participants included 1,055 active plan members and 70 inactive plan members (retired participants). As of October 1, 2018, the number of participants included 1,042 active plan members and 55 inactive plan members (retired participants).

Life Insurance: This benefit is available to all retirees. As of October 1, 2019, 758 inactive plan members (retirees) and 1,177 active plan members were considered eligible for this benefit. As of October 1, 2018, 743 inactive plan members (retirees) and 1,185 active plan members were considered eligible.

Utilities Discount: Employees hired prior to October 1, 1985, are eligible for an electric and water bill discount. This benefit is available to the retiree and spouse for the term of their lives provided the residency requirements are satisfied and they remain current on their monthly billing obligations. As of October 1, 2019, 160 inactive plan members (retirees and their beneficiaries) and 10 active plan members received this benefit. As of October 1, 2018, 166 inactive plan members (retirees and their beneficiaries) and 11 active plan members received this benefit.

Termination or amendment of Benefits: Other post-employment benefits are extended to retirees and continued at the discretion of OUC. OUC reserves the right to change or terminate benefits and to change contribution requirements, as approved by the Board and in accordance with State Statute.

Note B – Summary of Significant Accounting Policies

Basis of presentation: The financial statements were prepared on the accrual basis of accounting in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. For plan years ended September 30, 2019 and 2018, management used estimates of the actuarial calculation of the required employer contribution and fair valuation of real estate and alternative assets in the preparation of plan financial statements.

Investment valuation and income recognition: Investments having maturities of greater than one year at the time of purchase were reported at fair value and those with maturities of less than one year at the time of purchase were reported at amortized book value. Purchases and sales of securities were reflected on a trade-date basis. Changes in the current value of investments, including gains or losses on disposal of investments, were reported in the Statements of Changes in Plan Fiduciary Net Position as net increase in fair value of investments. Interest income was recorded on the accrual basis. Dividends were recorded on the ex-dividend date.

Cash and cash equivalents: Cash and cash equivalents included all authorized instruments purchased with an original maturity date of three months or less and all investments in money market funds.

Investment risks and uncertainties: The investment policy approved by the Trust utilizes various investment securities, including U.S. government securities, corporate debt instruments, mutual funds, corporate stocks, real estate, and alternative investments. Real estate and alternative investments allow for more diversity within the portfolio, but are often more complex and less transparent. Investment securities, in general, are exposed to various risks, such as interest rate risk, custodial risk, credit and concentration risk, foreign currency risk, liquidity risk, and overall market volatility, which are described further in Note D.

Due to the level of risk associated with certain investment securities and the volatility of the financial markets, it is possible that changes in the values of investment securities could materially affect the amounts reported in the financial statements.

Expenses: Administrative expenses of the Plan were paid by the Trust. In 2019 and 2018, the Trust reimbursed OUC for actual benefits paid through operations.

Contributions: Contributions to the Trust were recorded based on the actuarially determined required contribution.

Note C – Net OPEB Liability and Discount Rate

The following schedule presents the change in net OPEB liability for the years ended September 30:

(Dollars in thousands)	2019	2018
Total OPEB liability		
Service cost	$ 1,186	$ 1,308
Interest on the total OPEB liability	9,906	10,385
Difference between expected and actual experience	(2,192)	(2,987)
Assumption changes	(1,029)	(7,658)
Benefit payments, including refunds	(7,371)	(7,702)
Net change in total OPEB liability	**500**	**(6,654)**
Total OPEB liability - beginning of year	**139,134**	**145,788**
Total OPEB liability - end of year	**$ 139,634**	**$ 139,134**
Plan fiduciary net position		
Contributions - employer	$ 7,022	$ 9,068
Net investment income	5,399	10,956
Benefit payments, including refunds	(7,371)	(7,702)
Administrative expense	(17)	(18)
Net increase in plan fiduciary net position	**5,033**	**12,304**
Plan fiduciary net position - beginning of year	**132,946**	**120,642**
Plan fiduciary net position - end of year	**$ 137,979**	**$ 132,946**
Net OPEB liability - beginning of year	**$ 6,188**	**$ 25,146**
Net OPEB liability - end of year	**$ 1,655**	**$ 6,188**
Plan fiduciary net position as a percentage of total OPEB liability	**98.8%**	**95.6%**
Covered payroll	**$ 91,035**	**$ 86,892**
Net OPEB liability as a percentage of covered payroll	**1.8%**	**7.1%**

The measurements of the Total OPEB Liability (TOL) were determined by Gabriel, Roeder, Smith & Company, an independent actuary, in accordance with the American Academy of Actuaries interpretations as of September 30, 2019 and 2018.

Note C – Net OPEB Liability and Discount Rate (continued)

The assumptions used to measure the TOL as of September 30 included the following:

	2019	2018
Plan benefit assumptions		
Hybrid Plan interest credit rate	5.0% for current year and 5.0% per year thereafter for active members and 3.0% per year for terminated vested members	5.5% for current year and 5.0% per year thereafter for active members and 4.0% per year for terminated vested members
Healthcare cost trend rate	Based on Getzen Model, with trend starting at 6.5% (4.72% for premiums in the first year) and gradually decreasing to an ultimate trend rate of 4.24% plus 0.56% increase for excise tax	Based on Getzen Model, with trend starting at 6.75% (5.52% for premiums in the first year) and gradually decreasing to an ultimate trend rate of 4.84% including 0.60% increase for excise tax
Actuarial assumptions		
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent of pay	Level percent of pay
Asset valuation method	20.0% of the difference between expected actuarial value, based on assumed return, and market value is recognized each year with 10.0% corridor around market value	20.0% of the difference between expected actuarial value, based on assumed return, and market value is recognized each year with 10.0% corridor around market value
Inflation	2.25% per year	2.25% per year
Investment rate of return	7.25%	7.25%
Salary increases	3.75% to 7.5% per year, depending on years of service	3.75% to 7.5% per year, depending on years of service
Mortality	RP-2000 Combined Healthy Participant Mortality Table for active members and RP-2000 Mortality Table for Annuitants for non-disabled inactive members, with mortality improvements projected to all future years using Scale BB	RP-2000 Combined Healthy Participant Mortality Table for active members and RP-2000 Mortality Table for Annuitants for non-disabled inactive members, with mortality improvements projected to all future years using Scale BB

Experience is reviewed by the actuaries for consistency with the assumptions, and changes are made as needed. The most recent experience study was completed in August 2015 and examined actual demographic experience during the six-year period from October 1, 2008 through October 1, 2014. Based on the results of this experience study, assumption changes were implemented effective September 30, 2015. The next experience study is scheduled for 2020 with results to be applied to October 1, 2020 valuation assumptions.

The discount rate used to measure the TOL was 7.25 percent for the Plan years ended September 30, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that future employer contributions will be made at rates equal to the actuarially determined contribution rates. Based on these assumptions, the Plan fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the TOL.

Note C – Net OPEB Liability and Discount Rate (continued)

The projected long-term real rates of return on Plan investments, valued as of September 30, 2019 and 2018, were determined using a long-term nominal building block method, which considers historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions. These best-estimate ranges, net of assumed long-term inflation and investment expenses, are combined to produce the long-term expected rate of return. A proxy representation was used for the Trust's alternative assets target allocation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of September 30, 2019 and 2018 are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
U.S. equity	48.0%	7.5%
International equity	15.0%	8.5%
Domestic bonds	17.0%	2.5%
International bonds	5.0%	3.5%
Alternative assets	10.0%	6.3%
Real estate	5.0%	4.5%
Total	**100.0%**	

The following schedule presents the sensitivity of the net OPEB liability calculation to a 1.0 percent increase and a 1.0 percent decrease in the discount rate used to measure the TOL at September 30:

(Dollars in thousands)	2019	2018
1.0 percent decrease - 6.25%	$ 17,964	$ 22,723
Current discount rate - 7.25%	$ 1,655	$ 6,188
1.0 percent increase - 8.25%	$ (12,003)	$ (7,634)

The following presents the sensitivity of the net OPEB liability calculation to a 1.0 percent increase and a 1.0 percent decrease in the medical cost increase assumptions used to measure the TOL at September 30:

(Dollars in thousands)	2019	2018
1.0 percent decrease	$ (12,863)	$ (8,576)
Current assumption	$ 1,655	$ 6,188
1.0 percent increase	$ 18,975	$ 23,849

Note D – Investments

The OPEB Trust maintains a portion of its cash, cash equivalents and investments in interest-bearing qualified public depository accounts with institutions insured by the Federal Deposit Insurance Corporation. Cash, cash equivalents and investments were managed by the Trustees with advisory services provided by Andco Consulting, the Trust's investment advisor. Investing activity to achieve target asset allocations was executed in accordance with the policy approved by the Trustees and provided the investment advisor with guidelines to ensure risks associated with these assets were mitigated. During 2019 and 2018, no changes were made to the investment policy.

The following are key controls which the Trustees utilizes to mitigate investment risk:

- **Interest rate risk:** The investment policy limits holdings based on investment type and credit strength and entrusts the Trustees and the investment advisor to execute transactions in accordance with the "prudent person" rule requiring the evaluation of current market conditions to ensure overall interest rate risks that might adversely affect the portfolio value are mitigated.

- **Custodial credit risk:** This is the risk that in the event of the failure of a depository financial institution or counterparty to a transaction, the deposits may not be returned or the Trust will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of another party. This risk is mitigated as all investment assets are maintained in the name of the Trust and not in the possession or title of a third party.

- **Credit and concentration risk:** These risks are mitigated by providing specific guidance as to the weighting and integrity of the deposit and investment instruments other than those investments in mutual funds, collective trusts, limited partnerships or other alternative investment vehicle, U.S. Treasury obligations, U.S. Agency obligations, and accounts insured by the Federal Deposit Insurance Corporation, as well as the execution of these transactions by the Trustees in accordance with the "prudent person" rule. As of September 30, 2019 and 2018 there were no individually-held investments that made up more than 5.0 percent of the Trust's portfolio.

- **Foreign currency risk:** This is the risk of loss associated with changes in foreign exchange rates which could adversely affect investment valuations. The Trust does not hold any investments denominated in a foreign currency, although it is exposed to foreign currency risk through its U.S. dollar-denominated international equity mutual funds and collective trusts, including those in private limited partnerships.

- **Liquidity risk:** This is the risk that securities within the Plan cannot be sold quickly enough to meet future obligations. This risk is mitigated by limiting the amount of real estate and alternative assets held in commingled funds, private limited partnerships, or private equity structures, to 15.0 percent each. All other securities within the Plan must be traded on a national exchange or be in an open ended mutual fund or commingled fund structure. These funds typically have daily liquidity and always have no lock up provisions that would prevent the Plan from selling them as needed.

Note D – Investments (continued)

Rate of return: The annual money-weighted rate of return on Plan investments, net of OPEB plan investment expense resulted in a gain of 4.04 percent and 9.02 percent for the years ended September 30, 2019 and 2018, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. A historic schedule is provided in the Required Supplementary Information.

The following schedule discloses the average credit rating and the weighted average maturity in years for each of the fixed income investments at September 30:

	2019		2018	
Investment	**Average credit rating (1)**	**Weighted average maturity**	**Average credit rating (1)**	**Weighted average maturity**
Taplin				
Corporate bonds	BBB	14.8	BBB	10.3
Mortgage-backed securities	AA+	6.0	AA+	7.7
Commercial mortgage-backed securities	AA+	5.9	-	-
U.S. government bonds and treasury bills	AA+	6.2	AA+	5.4
Cash	AAA	0.1	AAA	0.1
Dodge & Cox Income Fund	A	8.1	A	8.2
Met West Total Return Bond Fund	BBB	7.7	BBB	7.6
PIMCO Div Inc Bond Fund	BBB	9.0	BBB	9.0
Templeton Global Total Return	N/A	0.9	BB	2.8
Pacific Funds Floating Rate Income	B+	4.6	-	-

(1) Average credit rating as assigned by Standard & Poor's.

Note E – Fair Value Measurements

The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based upon the observability of the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Investments are recorded at fair value as described above. Real estate investments were stated at the net asset value, with annual valuations performed by independent third-party appraisers for each property in the portfolio, considering monthly events that impact property value. Alternative investments were stated at the net asset value or quoted market price based on the composition of the fund as calculated by the fund advisor. The unfunded commitments related to alternative investments as of September 30, 2019 and 2018 were $1.5 million and $3.5 million, respectively.

Note E – Fair Value Measurements (continued)

The Plan had the following fair value measurements by fair value level at September 30:

	2019	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents and investments				
Investments by fair value level:				
Debt securities				
U.S. treasury notes	$ 2,446	$ 2,446	$ -	$ -
U.S. agencies	2,346	-	2,346	-
Corporate notes and private placements	2,496	-	2,496	-
Mutual funds				
Fixed income	23,161	23,161	-	-
U.S. equity	31,468	31,468	-	-
International equity	20,312	20,312	-	-
Balanced	11,000	11,000	-	-
U.S. equity	34,079	30,612	3,467	-
Total investments by fair value level	**127,308**	**$ 118,999**	**$ 8,309**	**$ -**
Cash equivalents measured at the NAV:				
Money market	1,975			
Alternative investments	3,864			
Mutual funds				
Real estate	5,760			
Total cash equivalents measured at the NAV	**11,599**			
Total cash equivalents and investments	**$ 138,907**			

(Dollars in thousands)	2018	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents and investments				
Investments by fair value level:				
Debt securities				
U.S. treasury notes	$ 1,572	$ 1,572	$ -	$ -
U.S. agencies	2,110	-	2,110	-
Corporate notes and private placements	3,052	-	3,052	-
Mutual funds				
Fixed income	21,468	21,468	-	-
U.S. equity	31,464	31,464	-	-
International equity	18,748	18,748	-	-
Balanced	11,639	11,639	-	-
U.S. equity	34,037	29,790	4,247	-
Total investments by fair value level	**124,091**	**$ 114,682**	**$ 9,409**	**$ -**
measured at the NAV:				
Money market	1,850			
Alternative investments	1,618			
Mutual funds				
Real estate	5,839			
Total other investments and cash equivalents measured at the NAV	**9,307**			
Total cash equivalents and investments	**$ 133,398**			

Note F – Federal Income Tax Status

The Trust was established as a Section 115 Trust and, based on OUC's tax exempt status, the earnings are tax-exempt.

Note G – Exempt Party-In-Interest Transactions

Plan investments totaling $2.0 million and $1.8 million as of September 30, 2019 and 2018, respectively, were held and managed by Wells Fargo Bank, N.A. in money market accounts. Wells Fargo Bank, N.A. is the Trustee as defined by the OPEB Trust Agreement, and therefore, these transactions qualify as exempt party-in-interest transactions.

Note H – Subsequent Events

In respect to the overall market response to the COVID-19 (Coronavirus) pandemic, the plan portfolio as of July 31, 2020 posted a return of 8.6 percent since September 30, 2019. While the end of the economic impact of the pandemic is uncertain, Plan Trustees and consultants utilize a long-term strategy and actively monitor investments to ensure the best overall performance.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of changes in net OPEB liability and related ratios

The following schedules present multi-year trend information that demonstrates the components of change in the net OPEB liability from year to year, as well as trends in related statistical information. Information is presented related to all periods for which the required data is available. Amounts presented are determined as of the measurement date of the net OPEB liability for September 30:

(Dollars in thousands)	2019	2018	2017	2016	2015
Total OPEB liability					
Service cost	$ 1,186	$ 1,308	$ 1,331	$ 1,346	$ 1,480
Interest on the total OPEB liability	9,906	10,385	10,434	11,882	12,134
Difference between expected and actual experience	(2,192)	(2,987)	(3,285)	(23,970)	3,536
Assumption changes	(1,029)	(7,658)	(2,093)	(2,670)	(452)
Benefit payments, including refunds	(7,371)	(7,702)	(6,374)	(8,063)	(9,067)
Net change in total OPEB liability	**500**	**(6,654)**	**13**	**(21,475)**	**7,631**
Total OPEB liability - beginning of year	**139,134**	**145,788**	**145,775**	**167,250**	**159,619**
Total OPEB liability - end of year	**$ 139,634**	**$ 139,134**	**$ 145,788**	**$ 145,775**	**$ 167,250**
Plan fiduciary net position					
Contributions - employer	$ 7,022	$ 9,068	$ 13,384	$ 12,628	$ 14,117
Net investment income	5,399	10,956	13,420	9,621	(1,195)
Benefit payments, including refunds	(7,371)	(7,702)	(6,374)	(8,062)	(9,067)
Administrative expense	(17)	(18)	(18)	(18)	(32)
Net increase in plan fiduciary net position	**5,033**	**12,304**	**20,412**	**14,169**	**3,823**
Plan fiduciary net position - beginning of year	**132,946**	**120,642**	**100,230**	**86,061**	**82,238**
Plan fiduciary net position - end of year	**$ 137,979**	**$ 132,946**	**$ 120,642**	**$ 100,230**	**$ 86,061**
Net OPEB liability - beginning of year	**$ 6,188**	**$ 25,146**	**$ 45,545**	**$ 81,189**	**$ 77,381**
Net OPEB liability - end of year	**$ 1,655**	**$ 6,188**	**$ 25,146**	**$ 45,545**	**$ 81,189**
Plan fiduciary net position as a percentage of total OPEB liability	**98.8%**	**95.6%**	**82.8%**	**68.8%**	**51.5%**
Covered payroll	**$ 91,035**	**$ 86,892**	**$ 78,447**	**$ 71,856**	**$ 72,990**
Net OPEB liability as a percentage of covered payroll	**1.8%**	**7.1%**	**32.1%**	**63.4%**	**111.2%**

Assumption and benefit changes: In August 2015, an assumption study and experience review for the six-year period ended September 30, 2014 was completed and changes were implemented effective September 30, 2015 to salary, retirement, termination, and mortality rates assumptions. In 2016, the mortality assumption was changed to continue alignment with the mortality assumption used by the Florida Retirement System, as required under Florida Statutes, and the utility trend assumption was also revised. In 2016 through 2019, the healthcare cost trend assumptions were adjusted based on a representative actuarial model.

The investment return rate and single discount rate have remained at 7.25 percent since September 30, 2015, when they were changed from 7.50 percent as of September 30, 2014 based on the August 2015 assumption study.

Since 2015, there has been only one benefit modification, in which the Plan began transitioning the subsidized dependent coverage for Medicare eligible retirees to 50.0 percent and phasing out the premium subsidy for dependent coverage for pre-Medicare eligible members over a five-year period. This also included a one-year subsidy in 2017 to cover dental premiums for retirees in the Medicare Advantage Plan.

Schedule of employer contributions to the OPEB plan

The following schedule presents 10-year trend information regarding employer contributions to the Plan for the years ended September 30:

(Dollars in thousands)	Actuarially determined contribution	Actual contribution	Contribution deficiency/ (excess)	Covered payroll (CP)	Actual contribution as a % of CP
2019 (1)	$ 7,022	$ 7,022	$ -	$ 91,035	7.7%
2018	$ 9,068	$ 9,068	$ -	$ 86,892	10.4%
2017	$ 13,384	$ 13,384	$ -	$ 78,447	17.1%
2016	$ 12,628	$ 12,628	$ -	$ 71,856	17.6%
2015	$ 14,117	$ 14,117	$ -	$ 72,990	19.3%
2014	$ 13,558	$ 13,558	$ -	$ 72,990	18.6%
2013	$ 14,358	$ 14,325	$ (33)	$ 70,692	20.3%
2012	$ 14,167	$ 14,177	$ 10	$ 71,121	19.9%
2011	$ 14,213	$ 14,953	$ 740	$ 68,806	21.7%
2010	$ 14,149	$ 14,142	$ (7)	$ 67,873	20.8%

(1) The actuarially determined contribution amounts were calculated as of October 1 of the year preceding the contribution year, using the following assumptions:

Actuarial cost method: Entry Age Normal

Amortization method: Level Percentage of Payroll, Closed

Asset valuation method: five-year smoothed market with a 10.0 percent corridor

Inflation: 2.25 percent per year for the first 10 years and 2.5 percent per year thereafter

Salary increases: 3.75 percent to 7.50 percent depending on service, including inflation

Investment rate of return: 7.25 percent

Retirement age: Experience-based rates tables

Mortality: RP-2000 Combined Healthy Participant Mortality Table for active members and RP-2000 Healthy Annuitant Mortality Table for non-disabled inactive members, with mortality improvements projected to all future years using Scale BB.

Assumption study: In August 2015, an assumption study and experience review for the six-year period ended September 30, 2014 was completed, and changes were implemented effective September 30, 2015 to salary, retirement, termination, and mortality rates assumptions.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of investment returns

The following schedule presents information on the annual money-weighted rate of return, calculated as the internal rate of return on OPEB plan investments, net of OPEB plan investment expense.

2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
4.04%	9.02%	13.17%	10.97%	-1.43%	10.23%	13.04%	21.76%	-1.80%	9.85%

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Report of Independent Auditors 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*

Plan Trustees and Participants
Orlando Utilities Commission Other Post-Employment Benefits Plan and Trust

We have audited, in accordance with auditing standards generally accepted in the United States 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 Orlando Utilities Commission Other Post-Employment Benefits Plan and Trust (the Plan), which comprise the statement of plan fiduciary net position as of September 30, 2019, and the related statement of changes in plan fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 14, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 may exist that have not been identified.

Building a better working world

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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.

Ernst + Young LLP

August 14, 2020

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