

# 2021

## BENEFIT PLAN REPORTS

DEFINED BENEFIT PENSION REPORT  
OTHER POST-EMPLOYMENT  
BENEFITS REPORT



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## TRUSTEES as of September 30, 2021:

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 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, 2021 and 2020, 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, 2021 and 2020, and the changes in the Plan fiduciary net position for the years then ended in conformity with U.S. generally accepted accounting principles.

### ***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, 2021 and 2020, 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 7 to 10, 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 26 and 27 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 June 28, 2022 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*

June 28, 2022

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Management's Report

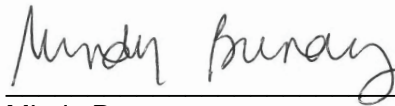
The management of Orlando Utilities Commission (OUC) has prepared – and is responsible for – the integrity of the OUC Defined Benefit Pension Plan's (the Plan) financial statements and related information included in this report. The financial statements have been prepared in accordance with generally 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



Wade Durham  
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 net position for the years ended September 30, 2021, 2020 and 2019. 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/(asset) 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

(Dollars in thousands)	As of September 30,		
	2021	2020	2019
<b>Assets</b>			
Investments	\$ 541,053	\$ 460,101	\$ 426,079
Receivables	1,016	165	348
Total assets	<u>542,069</u>	<u>460,266</u>	<u>426,427</u>
<b>Liabilities</b>	2,511	357	661
<b>Plan fiduciary net position</b>	<u>\$ 539,558</u>	<u>\$ 459,909</u>	<u>\$ 425,766</u>

### Condensed Statements of Changes in Plan Fiduciary Net Position

(Dollars in thousands)	Years ended September 30,		
	2021	2020	2019
<b>Additions</b>			
Net increase in fair value of investments	\$ 87,225	\$ 40,470	\$ 10,606
Interest, dividends and other income, net of investment expense	8,015	5,758	6,993
Contributions	19,542	22,828	22,966
Total additions	<u>114,782</u>	<u>69,056</u>	<u>40,565</u>
<b>Deductions</b>			
Benefit payments, including refunds of plan member contributions	34,810	34,671	33,576
Administrative expenses, net of foreign tax withheld	323	242	240
Total deductions	<u>35,133</u>	<u>34,913</u>	<u>33,816</u>
<b>Net increase in plan fiduciary net position</b>	79,649	34,143	6,749
<b>Plan fiduciary net position - beginning of year</b>	459,909	425,766	419,017
<b>Plan fiduciary net position - end of year</b>	<u>\$ 539,558</u>	<u>\$ 459,909</u>	<u>\$ 425,766</u>



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## 2021 Compared to 2020

**Investments:** In 2021, investments increased \$81.0 million, or 17.6 percent, which was higher than the \$34.0 million increase of the prior year due to overall market performance that has remained strong.

**Net increase in fair value of investments:** Investment gains were \$87.2 million in 2021 compared to \$40.5 million in 2020. The overall recovery was driven by domestic and international equity fund performance, with investment returns above benchmark performance indices of 32.9 percent and 26.3 percent, respectively, compared with prior year investment returns of 18.4 percent and 17.8 percent, respectively.

**Interest, dividends and other income, net of investment expense:** Interest, dividends and other income was higher in 2021, with an income yield of approximately 1.6 percent of the average investment valuation as compared to 1.3 percent in 2020.

**Contributions:** Actuarially determined contribution amounts were calculated as of October 1 of the year preceding the contribution year. Employer contributions in 2021 decreased \$3.3 million from prior year, as the amortization of a significant charge in 2014 to the unfunded liability expired.

**Benefit payments, including refunds of plan member contributions:** In 2021, the amount of benefit payments, inclusive of a 1.5 percent cost of living increase, was slightly higher than prior year.

**Net increase in plan fiduciary net position:** A \$79.6 million increase in plan fiduciary net position was recognized in 2021 due to overall market valuation gains and contributions exceeding the amount of benefit payments and expenses. OUC continues to remit to the Trust the required actuarial annual contribution and the Plan's net position remains on target to finance all projected future benefit payments of current plan members.

## 2020 Compared to 2019

**Investments:** In 2020, investments increased \$34.0 million, or 8.0 percent, which was higher than the \$7.1 million increase of the prior year due to improved market conditions.

**Net increase in fair value of investments:** Investment gains were \$40.5 million in 2020 compared to \$10.6 million in 2019. The overall recovery was driven by domestic and international equity fund performance, with investment returns above benchmark performance indices of 18.4 percent and 17.8 percent, respectively, compared with prior year combined investment returns of 3.4 percent.

**Interest, dividends and other income, net of investment expense:** Interest, dividends and other income was lower in 2020, with an income yield of approximately 1.3 percent of the average investment valuation as compared to 1.6 percent in 2019. Consistent with the investment policy and oversight of the OUC Pension Plan Board of Trustees (the Trustees), the portfolio is designed to grow through long-term capital appreciation with a lesser focus on interest and dividend growth.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Contributions:** Actuarially determined contribution amounts were calculated as of October 1 of the year preceding the contribution year. Employer contributions in 2020 were consistent with prior year.

**Benefit payments, including refunds of plan member contributions:** In 2020, the amount of benefit payments increased \$1.1 million, or 3.3 percent, due to a 1.0 percent cost of living adjustment and a 1.0 percent increase in the number of inactive members receiving benefits. Lump sum payouts to hybrid retirees were consistent with prior year.

**Net increase in plan fiduciary net position:** A \$34.1 million increase in plan fiduciary net position was recognized in 2020 due to overall market valuation gains and contributions exceeding the amount of benefit payments and expenses. OUC continues to remit to the Trust the required actuarial annual contribution and the Plan's net position remains on target to finance all projected future benefit payments of current plan members.

### **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, inclusive of market valuation changes subsequent to the reporting period, that would materially affect the Plan's financial condition as of the date of this report.



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# STATEMENTS OF PLAN FIDUCIARY NET POSITION

(Dollars in thousands)	As of September 30,	
	2021	2020
<b>Assets</b>		
Investments		
Cash and cash equivalents	\$ 19,812	\$ 17,952
U.S. equity funds	245,593	198,078
Fixed income funds	87,650	90,677
International equity funds	88,221	69,847
Real estate funds	48,231	43,836
Alternative investments	51,197	39,400
Balanced mutual fund investments	349	311
Total investments	<u>541,053</u>	<u>460,101</u>
Receivables		
Pending investment sales	868	0
Net interest and dividends receivable	148	165
Total receivables	<u>1,016</u>	<u>165</u>
<b>Total assets</b>	<b><u>542,069</u></b>	<b><u>460,266</u></b>
<b>Liabilities</b>		
Pending investment purchases	2,491	335
Investment advisory fees payable	20	22
<b>Total liabilities</b>	<b><u>2,511</u></b>	<b><u>357</u></b>
<b>Plan fiduciary net position</b>	<b><u>\$ 539,558</u></b>	<b><u>\$ 459,909</u></b>

See Notes to Financial Statements for additional information

# STATEMENTS OF CHANGES IN PLAN FIDUCIARY NET POSITION

(Dollars in thousands)	Years ended September 30,	
	2021	2020
<b>Additions</b>		
Contributions		
Employer	\$ 19,173	\$ 22,405
Plan member	369	423
Total contributions	<u>19,542</u>	<u>22,828</u>
Investment Income, net of investment expense		
Net increase in fair value of investments	87,225	40,470
Interest, dividends and other income	10,707	8,044
Investment expense	(2,692)	(2,286)
Total investment income, net of investment expense	<u>95,240</u>	<u>46,228</u>
<b>Total additions</b>	<b><u>114,782</u></b>	<b><u>69,056</u></b>
<b>Deductions</b>		
Benefit payments, including refunds of plan member contributions	34,810	34,671
Administrative expenses, net of foreign tax withheld	323	242
<b>Total deductions</b>	<b><u>35,133</u></b>	<b><u>34,913</u></b>
<b>Net increase in plan fiduciary net position</b>	<b>79,649</b>	<b>34,143</b>
<b>Plan fiduciary net position - beginning of year</b>	<b>459,909</b>	<b>425,766</b>
<b>Plan fiduciary net position - end of year</b>	<b><u>\$ 539,558</u></b>	<b><u>\$ 459,909</u></b>

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 four active employees and three inactive employees, 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:

	2021	2020
Active cash balance plan members	1,061	1,057
Active traditional plan members	89	106
Inactive plan members (or their beneficiaries) currently receiving benefits	929	930
Inactive plan members entitled to deferred benefits	178	153
<b>Total</b>	<b>2,257</b>	<b>2,246</b>

**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:

<u>Net investment return</u>	<u>COLA rate</u>
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.

# NOTES TO FINANCIAL STATEMENTS

## 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:

<u>Net investment return</u>	<u>Interest credit</u>
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 based on the net return on plan investments for the previous fiscal year less 3.25 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, 2021 and 2020, 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:** Changes in the current value of investments, including gains or losses on disposal of investments, were reported as the net increase in fair value of investments. 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.

**Benefit payments and administrative expenses:** Benefit payments and administrative expenses of the Plan were paid by the Trust and recorded on the accrual basis of accounting.

**Contributions:** Employer contributions to the Trust were recognized based on the actuarially determined required amount.

# NOTES TO FINANCIAL STATEMENTS

## Note C – Net Pension Liability/(Asset) and Discount Rate

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

<b>(Dollars in thousands)</b>	<b>2021</b>		<b>2020</b>	
<b>Total pension liability</b>				
Service cost	\$	6,820	\$	5,814
Interest on the total pension liability		35,816		36,079
Benefit changes		—		—
Difference between expected and actual experience		(640)		(2,073)
Assumption changes		10,398		(9,708)
Benefit payments, including refunds of plan member contributions		(34,810)		(34,671)
<b>Net change in total pension liability</b>		<b>17,584</b>		<b>(4,559)</b>
<b>Total pension liability - beginning of year</b>		<b>504,602</b>		<b>509,161</b>
<b>Total pension liability - end of year</b>	<b>\$</b>	<b>522,186</b>	<b>\$</b>	<b>504,602</b>
<b>Plan fiduciary net position</b>				
Contributions - employer	\$	19,173	\$	22,405
Contributions - plan members		369		423
Total investment income, net of investment expense		95,240		46,228
Benefit payments, including refunds of plan member contributions		(34,810)		(34,671)
Administrative expense		(323)		(242)
<b>Net change in plan fiduciary net position</b>		<b>79,649</b>		<b>34,143</b>
<b>Plan fiduciary net position - beginning of year</b>		<b>459,909</b>		<b>425,766</b>
<b>Plan fiduciary net position - end of year</b>	<b>\$</b>	<b>539,558</b>	<b>\$</b>	<b>459,909</b>
<b>Net pension liability - beginning of year</b>	<b>\$</b>	<b>44,693</b>	<b>\$</b>	<b>83,395</b>
<b>Net pension liability/(asset) - end of year</b>	<b>\$</b>	<b>(17,372)</b>	<b>\$</b>	<b>44,693</b>
<b>Plan fiduciary net position as a percentage of total pension liability</b>		<b>103.3 %</b>		<b>91.1 %</b>
<b>Covered payroll</b>	<b>\$</b>	<b>100,621</b>	<b>\$</b>	<b>97,896</b>
<b>Net pension liability/(asset) as a percentage of covered payroll</b>		<b>(17.3)%</b>		<b>45.7 %</b>

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, 2021 and 2020.

# NOTES TO FINANCIAL STATEMENTS

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

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

	2021	2020
<b>Plan Benefit Assumptions</b>		
Traditional Plan annual COLA	2.0%, 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% per year for active members and 3.75% per year for terminated vested members	5.0% per year for active members and 4.0% per year for terminated vested members
<b>Actuarial Assumptions</b>		
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	7.00%	7.25%
Salary increases	4.5% to 10.0% per year, depending on age and plan offering	4.5% to 10.0% per year, depending on age and plan offering
Mortality	PUB-2010 Headcount Weighted General Below Median Employee Mortality Table (for pre-retirement mortality) and PUB-2010 Headcount Weighted General Below Median Healthy Retiree Mortality Table (for post-retirement mortality), with separate rates for males and females and ages set back one year for males, with mortality improvements projected to all future years after 2010 using Scale MP-2018	PUB-2010 Headcount Weighted General Below Median Employee Mortality Table (for pre-retirement mortality) and PUB-2010 Headcount Weighted General Below Median Healthy Retiree Mortality Table (for post-retirement mortality), with separate rates for males and females and ages set back one year for males, with mortality improvements projected to all future years after 2010 using Scale MP-2018

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 October 2020. This experience study examined actual demographic experience during the seven-year period from October 1, 2012 through September 30, 2019. Based on the results of this experience study, assumption changes were reflected in the October 1, 2020 valuation report.

The discount rate used to measure the TPL was 7.0 percent and 7.25 percent for Plan years ended September 30, 2021 and 2020, respectively. 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.

# NOTES TO FINANCIAL STATEMENTS

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

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.

The following schedule presents the sensitivity of the net pension liability/(asset) 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)	2021		2020	
1.0 percent decrease	6.00 %	\$ 28,905	6.25 %	\$ 89,856
Current discount rate	7.00 %	\$ (17,372)	7.25 %	\$ 44,693
1.0 percent increase	8.00 %	\$ (57,563)	8.25 %	\$ 5,510

The projected long-term real rates of return on Plan investments, valued as of September 30, 2021 and 2020, 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, 2021 and 2020 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%
<b>Total</b>	<b>100.0%</b>	

## 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. Investing activity is modeled to achieve the actuarial target return and in alignment with the Trustee approved Investment Policy. In September 2021, investment policy changes were approved by the Trustees to modify investment weighting target ranges in conjunction with the recently completed asset-liability study and the actuarial investment rate of return. No changes were made to the investment policy in 2020.

The investment policy, inclusive of the maximum weighting by asset class, provide management with guidelines to ensure risks associated with these assets are mitigated. The following are key controls which the Trustees utilize to mitigate investment risk:

## Note D – Investments (continued)

- **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 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, 2021 and 2020 there were no individually-held investments that made up more than 5.0 percent of the Trust’s portfolio.
- **Foreign and digital currency risk:** This is the risk of loss associated with changes in foreign exchange or digital rates which could adversely affect investment valuations. The Trust does not hold any investments denominated in a foreign or digital 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.

# NOTES TO FINANCIAL STATEMENTS

## Note D – Investments (continued)

The following table summarizes the investment policy guidelines for the Trust segregated by asset class including benchmark indices to measure performance.

Asset class	Benchmark	2021 - 2020	
Domestic Equity Securities	Russell 3000	38%-48%	
Foreign Equity Securities	MSCI-ACWxUS	10%-20%	
Bank Loans	S&P / LSTA Leveraged Loan	0%-5%	
Cash & Cash Equivalents		0%-10%	
Global Fixed Income	Barclays Global Aggregate ex US	0%-5%	
Real Estate	NCREIF ODCE Eq-Wt	5%-15%	
Domestic Fixed Income	Barclays US Aggregate Bond	2%-22%	12%-22%
Alternative Assets	Strategy Index	0%-25%	0%-15%

**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 21.17 percent and 11.02 percent for the years ended September 30, 2021 and 2020, 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:

Domestic and Global Fixed Income Investments	Average credit rating (1)	2021	2020
Garcia Hamilton			
Corporate bonds	BBB+	8.0	8.4
U.S. government bonds and treasury bills	AA+	7.6	9.1
Mortgage-backed securities	AA+	3.6	2.9
Agency/Asset-backed securities		0.0	0.2
PIMCO Div Inc Bond Fund	BBB+	9.3	9.4
Met West Total Return Bond Fund	BBB	8.5	8.0
Pacific Funds Floating Rate Income	B	4.7	4.5
Templeton Global Total Return		0.0	2.3

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

# NOTES TO FINANCIAL STATEMENTS

## 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, 2021 and 2020 were \$2.1 million and \$7.2 million, respectively.

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

<b>(Dollars in thousands)</b>	<b>2021</b>	<b>2020</b>
<b>Cash equivalents and investments by fair value level:</b>		
Level 1		
Debt securities		
U.S. treasury securities	\$ 15,645	\$ 2,769
Mutual funds		
Fixed income	57,565	56,341
U.S. equity	91,389	69,539
International equity	88,221	69,848
Balanced	349	311
U.S. equity	144,335	115,184
<b>Total Level 1</b>	<b>397,504</b>	<b>313,992</b>
Level 2		
U.S. agencies	9,910	11,880
Corporate notes and private placements	7,311	19,686
U.S. equity	9,868	13,355
<b>Total Level 2</b>	<b>27,089</b>	<b>44,922</b>
<b>Total investments by fair value level</b>	<b>424,593</b>	<b>358,914</b>
<b>Other investments and cash equivalents measured at the net asset value:</b>		
Alternative investments	51,197	39,400
Mutual funds - real estate	48,231	43,836
Money market	17,032	17,952
<b>Total other investments and cash equivalents measured at the net asset value</b>	<b>116,460</b>	<b>101,187</b>
<b>Total cash equivalents and investments</b>	<b>\$ 541,053</b>	<b>\$ 460,101</b>

# NOTES TO FINANCIAL STATEMENTS

## **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 \$17.0 million and \$18.0 million as of September 30, 2021 and 2020, 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.





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# REQUIRED SUPPLEMENTARY INFORMATION

## Schedule of changes in net pension liability/(asset) and related ratios

The following schedules present multi-year trend information that demonstrates the components of change in the net pension liability/(asset) 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)	2021	2020	2019	2018	2017	2016	2015	2014
<b>Total pension liability</b>								
Service cost	\$ 6,820	\$ 5,814	\$ 5,867	\$ 5,754	\$ 5,748	\$ 5,539	\$ 5,570	\$ 5,935
Interest on the total pension liability	35,816	36,079	35,407	34,492	33,535	32,767	32,104	29,891
Benefit changes	—	—	68	—	408	—	—	15,187
Difference between expected and actual experience	(640)	(2,073)	2,106	4,904	3,706	(106)	(2,501)	(2,546)
Assumption changes	10,398	(9,708)	—	—	—	171	29,125	(14,449)
Benefit payments, including refunds of plan member contributions	(34,810)	(34,671)	(33,576)	(31,726)	(28,663)	(27,324)	(25,773)	(23,095)
<b>Net change in total pension liability</b>	<b>17,584</b>	<b>(4,559)</b>	<b>9,872</b>	<b>13,424</b>	<b>14,734</b>	<b>11,047</b>	<b>38,525</b>	<b>10,923</b>
<b>Total pension liability - beginning of year</b>	<b>504,602</b>	<b>509,161</b>	<b>499,289</b>	<b>485,865</b>	<b>471,131</b>	<b>460,084</b>	<b>421,559</b>	<b>410,636</b>
<b>Total pension liability - end of year</b>	<b>\$522,186</b>	<b>\$504,602</b>	<b>\$509,161</b>	<b>\$499,289</b>	<b>\$485,865</b>	<b>\$471,131</b>	<b>\$460,084</b>	<b>\$421,559</b>
<b>Plan fiduciary net position</b>								
Contributions - employer	\$ 19,173	\$ 22,405	\$ 22,491	\$ 22,614	\$ 21,876	\$ 17,803	\$ 18,573	\$ 21,198
Contributions - plan members	369	423	475	555	660	748	821	882
Total investment income, net of investment expense	95,240	46,228	17,599	37,039	48,761	29,872	4,783	28,906
Benefit payments, including refunds of plan member contributions	(34,810)	(34,671)	(33,576)	(31,726)	(28,663)	(27,324)	(25,773)	(23,095)
Administrative expense	(323)	(242)	(240)	(320)	(115)	(36)	(122)	(85)
<b>Net change in plan fiduciary net position</b>	<b>79,649</b>	<b>34,143</b>	<b>6,749</b>	<b>28,162</b>	<b>42,519</b>	<b>21,063</b>	<b>(1,718)</b>	<b>27,806</b>
<b>Plan fiduciary net position - beginning of year</b>	<b>459,909</b>	<b>425,766</b>	<b>419,017</b>	<b>390,855</b>	<b>348,336</b>	<b>327,273</b>	<b>328,991</b>	<b>301,185</b>
<b>Plan fiduciary net position - end of year</b>	<b>\$539,558</b>	<b>\$459,909</b>	<b>\$425,766</b>	<b>\$419,017</b>	<b>\$390,855</b>	<b>\$348,336</b>	<b>\$327,273</b>	<b>\$328,991</b>
<b>Net pension liability - beginning of year</b>	<b>\$ 44,693</b>	<b>\$ 83,395</b>	<b>\$ 80,272</b>	<b>\$ 95,010</b>	<b>\$122,795</b>	<b>\$132,811</b>	<b>\$ 92,568</b>	<b>\$109,451</b>
<b>Net pension liability/(asset) - end of year</b>	<b>\$ (17,372)</b>	<b>\$ 44,693</b>	<b>\$ 83,395</b>	<b>\$ 80,272</b>	<b>\$ 95,010</b>	<b>\$122,795</b>	<b>\$132,811</b>	<b>\$ 92,568</b>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	<b>103.3 %</b>	<b>91.1 %</b>	<b>83.6 %</b>	<b>83.9 %</b>	<b>80.5 %</b>	<b>73.9 %</b>	<b>71.1 %</b>	<b>78.0 %</b>
<b>Covered payroll</b>	<b>\$100,621</b>	<b>\$ 97,896</b>	<b>\$90,906.955</b>	<b>\$86,572.98</b>	<b>\$78,313.766</b>	<b>\$75,405.142</b>	<b>\$72,478.712</b>	<b>\$70,147.352</b>
<b>Net pension liability/(asset) as a percentage of covered payroll</b>	<b>(17.3)%</b>	<b>45.7 %</b>	<b>91.7 %</b>	<b>92.7 %</b>	<b>121.3 %</b>	<b>162.8 %</b>	<b>183.2 %</b>	<b>132.0 %</b>

**Assumption and benefit changes:** In October 2020, an assumption study and experience review for the seven-year period ended September 30, 2019 was completed, and changes were reflected in the October 1, 2020 actuarial valuation 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, 2019 and 2018.

The assumed investment return rate and single discount rate was changed to 7.0 percent as of the September 30, 2021 valuation. Assumed rates were previously set at 7.25 percent in September 30, 2015 and 7.50 percent in September 30, 2014.

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.

## REQUIRED SUPPLEMENTARY INFORMATION

### Schedule of employer contributions to the pension plan and investment returns

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

Contribution year 2 (Dollars in thousands)	Actuarially determined contribution	Actual contribution	Contribution deficiency / (excess) (1)	Covered payroll (CP) (2)	Contributions as a percentage of CP	Annual money-weighted return on investments
2021	\$ 19,173	\$ 19,173	\$ —	\$ 100,621	19.1 %	21.2 %
2020	\$ 22,405	\$ 22,405	\$ —	\$ 97,896	22.9 %	11.0 %
2019	\$ 22,491	\$ 22,491	\$ —	\$ 90,907	24.7 %	4.2 %
2018	\$ 22,614	\$ 22,614	\$ —	\$ 86,573	26.1 %	9.6 %
2017	\$ 21,876	\$ 21,876	\$ —	\$ 78,314	27.9 %	14.2 %
2016	\$ 18,322	\$ 17,803	\$ 519	\$ 75,405	23.6 %	9.2 %
2015	\$ 20,500	\$ 18,573	\$ 1,927	\$ 72,479	25.6 %	1.4 %
2014	\$ 21,184	\$ 21,198	\$ (14)	\$ 70,147	30.2 %	9.6 %
2013	\$ 18,893	\$ 17,729	\$ 1,164	\$ 73,230	24.2 %	12.8 %
2012	\$ 17,120	\$ 16,151	\$ 969	\$ 69,967	23.1 %	20.9 %

- (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) The actuarially determined contribution amounts for the current year 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:** 1.0 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.



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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, 2021, 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 June 28, 2022.

### 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.



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

*Ernst + Young LLP*

June 28, 2022



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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, 2021 and 2020, 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, 2021 and 2020, and the changes in the Plan fiduciary net position for the years then ended in conformity with U.S. generally accepted accounting principles.

### ***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, 2021 and 2020 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 38, 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 52 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 June 28, 2022 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*

June 28, 2022

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Management's Report

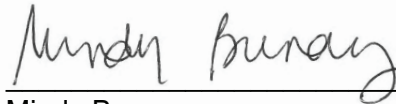
The management of Orlando Utilities Commission (OUC) has prepared – and is responsible for – the integrity of the OUC Other Post-Employment Benefits Plan's (the Plan) financial statements and related information included in this report. The financial statements have been prepared in accordance with generally 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



Wade Durham  
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, 2021, 2020 and 2019. 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

(Dollars in thousands)	As of September 30,		
	2021	2020	2019
<b>Assets</b>			
Investments	\$ 175,345	\$ 149,426	\$ 138,907
Receivables	622	60	99
Total assets	<u>175,967</u>	<u>149,486</u>	<u>139,006</u>
<b>Liabilities</b>			
	691	400	1,027
<b>Plan fiduciary net position</b>	<u>\$ 175,276</u>	<u>\$ 149,086</u>	<u>\$ 137,979</u>

### Condensed Statements of Changes in Plan Fiduciary Net Position

(Dollars in thousands)	Years ended September 30,		
	2021	2020	2019
<b>Additions</b>			
Net increase in fair value of investments	\$ 28,164	\$ 12,478	\$ 2,868
Interest, dividends and other income, net of investment expense	3,149	2,475	2,531
Contributions	1,185	3,682	7,022
Total additions	<u>32,498</u>	<u>18,635</u>	<u>12,421</u>
<b>Deductions</b>			
Benefit payments, including refunds	6,291	7,511	7,371
Administrative expenses	17	17	17
Total deductions	<u>6,308</u>	<u>7,528</u>	<u>7,388</u>
<b>Net increase in plan fiduciary net position</b>	26,190	11,107	5,033
<b>Plan fiduciary net position - beginning of year</b>	149,086	137,979	132,946
<b>Plan fiduciary net position - end of year</b>	<u>\$ 175,276</u>	<u>\$ 149,086</u>	<u>\$ 137,979</u>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## 2021 Compared to 2020

**Investments:** In 2021, investments increased \$25.9 million, or 17.3 percent, which was higher than the \$10.5 million increase of the prior year due to continued strong improvement in market conditions.

**Net increase in fair value of investments:** Investment gains were \$28.2 million in 2021 compared to \$12.5 million in 2020. The overall recovery was primarily driven by domestic and international equity fund performance, with investment returns of 32.9 percent and 26.3 percent, respectively, compared with a prior year returns of 16.5 percent and 17.5 percent.

**Interest, dividends and other income, net of investment expense:** Interest, dividends and other income yield was 1.9 percent of the average investment valuation in 2021, increasing slightly from 1.7 percent in 2020. Consistent with the investment policy and oversight of the OUC OPEB Board of Trustees (the Trustees), the portfolio is designed to focus on long-term capital appreciation with a lesser focus on interest and dividend growth.

**Contributions:** Actuarially determined contributions were calculated as of October 1 of the year preceding the contribution year. The employer contribution for fiscal year 2021 decreased \$2.5 million primarily due to favorable retiree medical claims experience and a combined decrease in active and inactive members.

**Benefit payments, including refunds:** In 2021, benefit payments decreased \$1.2 million compared to 2020, primarily due to lower retiree medical claims.

**Net increase in plan fiduciary net position:** A \$26.2 million increase in plan fiduciary net position was recognized in 2021 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.

## 2020 Compared to 2019

**Investments:** In 2020, investments increased \$10.5 million, or 7.6 percent, which was higher than the \$5.5 million increase of the prior year due to improved market conditions.

**Net increase in fair value of investments:** Investment gains were \$12.5 million in 2020 compared to \$2.9 million in 2019. The overall recovery was primarily driven by domestic and international equity fund performance, with investment returns above benchmark performance indices of 16.5 percent and 17.5 percent, respectively, compared with a prior year combined investment return of 3.0 percent.

**Interest, dividends and other income, net of investment expense:** Interest, dividends and other income yield was 1.7 percent of the average investment valuation in 2020, decreasing slightly from 1.9 percent in 2019. Consistent with the investment policy and oversight of the OUC OPEB Board of Trustees (the Trustees), the portfolio is designed to focus on long-term capital appreciation with a lesser focus on interest and dividend growth.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Contributions:** Actuarially determined contributions were calculated as of October 1 of the year preceding the contribution year. In 2018, employer contributions for fiscal year 2020 decreased \$3.3 million primarily due to favorable retiree medical claims experience, continued migration of participants to an alternative fully-insured comprehensive Medicare Advantage Plan and a greater than expected smoothed actuarial value of assets.

**Benefit payments, including refunds:** In 2020, benefit payments remained consistent with a slight increase of \$0.1 million compared to 2019.

**Net increase in plan fiduciary net position:** An \$11.1 million increase in plan fiduciary net position was recognized in 2020 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.

### **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, inclusive of market valuation changes subsequent to the reporting period, that would materially affect the Plan's financial condition as of the date of this report.



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# STATEMENTS OF PLAN FIDUCIARY NET POSITION

Dollars in thousands	As of September 30	
	2021	2020
<b>Assets</b>		
Investments		
Cash and cash equivalents	\$ 2,355	\$ 3,275
U.S. equity funds	89,573	71,000
Fixed income funds	31,069	31,831
International equity funds	28,613	23,205
Real estate funds	5,887	6,126
Alternative investments	12,742	9,436
Balanced mutual fund investments	5,106	4,553
Total investments	<u>175,345</u>	<u>149,426</u>
Receivables		
Benefits receivable	376	—
Pending investment sales	194	—
Net interest and dividends receivable	52	60
Total receivables	<u>622</u>	<u>60</u>
<b>Total assets</b>	<b><u>175,967</u></b>	<b><u>149,486</u></b>
<b>Liabilities</b>		
Benefits payable	—	49
Pending investment purchases	680	340
Investment advisory fees payable	11	11
<b>Total liabilities</b>	<u>691</u>	<u>400</u>
<b>Plan fiduciary net position</b>	<b><u>\$ 175,276</u></b>	<b><u>\$ 149,086</u></b>

See Notes to the Financial Statements for additional information.



# STATEMENTS OF CHANGES IN PLAN FIDUCIARY NET POSITION

Dollars in thousands	Years ended September 30	
	2021	2020
<b>Additions</b>		
Employer contributions	\$ 1,185	\$ 3,682
Investment income, net of investment expense		
Net increase in fair value of investments	28,164	12,478
Interest, dividends and other income	3,786	3,003
Investment expense	(637)	(528)
Total investment income, net of investment expense	31,313	14,953
<b>Total additions</b>	<b>32,498</b>	<b>18,635</b>
<b>Deductions</b>		
Benefit payments, including refunds	6,291	7,511
Administrative expenses	17	17
<b>Total deductions</b>	<b>6,308</b>	<b>7,528</b>
<b>Net increase in plan fiduciary net position</b>	<b>26,190</b>	<b>11,107</b>
<b>Plan fiduciary net position - beginning of year</b>	<b>149,086</b>	<b>137,979</b>
<b>Plan fiduciary net position - end of year</b>	<b>\$ 175,276</b>	<b>\$ 149,086</b>

See Notes to the 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 four active employees and three inactive employees, are appointed by the Board.

**Funding policy:** In 2021 and 2020, contributions to the Trust were based upon actuarial computations provided in the valuation reports, dated October 1, 2019 and 2017 respectively. In 2021 and 2020, the Trust reimbursed OUC for actual benefits paid through operations, net of employee paid medical premiums.

**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:

	<u>2021</u>	<u>2020</u>
Active cash balance plan members	1,066	1,057
Active traditional plan members	89	106
Inactive plan members (or their beneficiaries) currently receiving benefits	894	888
<b>Total</b>	<u><u>2,049</u></u>	<u><u>2,051</u></u>

## 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 follow the requirements of the pension plan which was closed on December 31, 1997. Health and medical benefits associated with this benefit offering are fully subsidized for the retiree and 50.0 percent subsidized for Medicare eligible dependents. No subsidy is available for pre-Medicare eligible dependent coverage. 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, 2021 included 804 inactive plan members (retired participants and beneficiaries) receiving benefits and 89 active plan members. The number of participants as of October 1, 2020 included 807 inactive plan members (retired participants and beneficiaries) receiving benefits and 106 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 \$625 in 2021 and 2020. 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, 2021, the number of participants included 1,066 active plan members and 90 inactive plan members (retired participants). As of October 1, 2020, the number of participants included 1,057 active plan members and 81 inactive plan members (retired participants).

**Life Insurance:** This benefit is available to all retirees. As of October 1, 2021, 768 inactive plan members (retirees) and 1,155 active plan members were considered eligible for this benefit. As of October 1, 2020, 758 inactive plan members (retirees) and 1,163 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, 2021, 148 inactive plan members (retirees and their beneficiaries) and 9 active plan members received this benefit. As of October 1, 2020, 154 inactive plan members (retirees and their beneficiaries) and 9 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.

# NOTES TO FINANCIAL STATEMENTS

## 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, 2021 and 2020, 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 and dividends were recorded on the accrual basis and ex-dividend date, respectively.

**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 2021 and 2020, the Trust reimbursed OUC for actual benefits paid through operations.

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

# NOTES TO FINANCIAL STATEMENTS

## Note C – Net OPEB Liability/(Asset) and Discount Rate

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

(Dollars in thousands)	2021	2020
<b>Total OPEB liability</b>		
Service cost	\$ 1,039	\$ 1,174
Interest on the total OPEB liability	8,620	9,936
Change in Benefits Terms	—	(438)
Difference between expected and actual experience	(5,592)	2,899
Assumption changes	(8,028)	(24,688)
Benefit payments, including refunds	(6,291)	(7,511)
<b>Net change in total OPEB liability</b>	<b>(10,252)</b>	<b>(18,628)</b>
<b>Total OPEB liability - beginning of year</b>	<b>121,006</b>	<b>139,634</b>
<b>Total OPEB liability - end of year</b>	<b>\$ 110,754</b>	<b>\$ 121,006</b>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 1,185	\$ 3,682
Net investment income	31,313	14,953
Benefit payments, including refunds	(6,291)	(7,511)
Administrative expense	(17)	(17)
<b>Net increase in plan fiduciary net position</b>	<b>26,190</b>	<b>11,107</b>
<b>Plan fiduciary net position - beginning of year</b>	<b>149,086</b>	<b>137,979</b>
<b>Plan fiduciary net position - end of year</b>	<b>\$ 175,276</b>	<b>\$ 149,086</b>
<b>Net OPEB liability/(asset) - beginning of year</b>	<b>\$ (28,080)</b>	<b>\$ 1,655</b>
<b>Net OPEB liability/(asset) - end of year</b>	<b>\$ (64,522)</b>	<b>\$ (28,080)</b>
<b>Plan fiduciary net position as a percentage of total OPEB liability</b>	<b>158.3 %</b>	<b>123.2 %</b>
<b>Covered payroll</b>	<b>\$ 100,721</b>	<b>\$ 98,058</b>
<b>Net OPEB liability/(asset) as a percentage of covered payroll</b>	<b>(64.1)%</b>	<b>(28.6)%</b>

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, 2021 and 2020. Actuarial assumption changes and continued funding of the actuarially determined contribution resulted in a net OPEB asset for the plan years ended September 30, 2021 and 2020.

# NOTES TO FINANCIAL STATEMENTS

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

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

	2021	2020
<b>Plan benefit assumptions</b>		
Hybrid Plan interest credit rate	5.0% per year for active members and 3.0% per year for inactive vested members	5.0% per year for active members and 3.0% per year for inactive vested members
Healthcare cost trend rate	Based on Getzen Model, with trend starting at 6.00% and gradually decreasing to an ultimate trend rate of 3.75%	Based on Getzen Model, with trend starting at 6.25% and gradually decreasing to an ultimate trend rate of 3.99%
<b>Actuarial assumptions</b>		
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	7.00%	7.25%
Salary increases	4.50% to 10.00% per year, depending on age and group	4.50% to 10.00% per year, depending on age and group
Mortality	PUB-2010 Headcount Weighted General Below Median Employee Mortality Table (for pre-retirement mortality) and PUB-2010 Headcount Weighted General Below Median Healthy Retiree Mortality Table (for post-retirement mortality), with separate rates for males and females and ages set back one year for males, with mortality improvements projected to all future years after 2010 using Scale MP-2018	PUB-2010 Headcount Weighted General Below Median Employee Mortality Table (for pre-retirement mortality) and PUB-2010 Headcount Weighted General Below Median Healthy Retiree Mortality Table (for post-retirement mortality), with separate rates for males and females and ages set back one year for males, with mortality improvements projected to all future years after 2010 using Scale MP-2018

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 October 2020 and examined actual demographic experience during the seven-year period from October 1, 2012 through September 30, 2019. Based on the results of this experience study, assumption changes were implemented effective September 30, 2020.

# NOTES TO FINANCIAL STATEMENTS

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

The discount rate used to measure the TOL was 7.0 percent and 7.25 percent for the Plan years ended September 30, 2021 and 2020, respectively. 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.

The projected long-term real rates of return on Plan investments, valued as of September 30, 2021 and 2020, 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, 2020 and 2019 are summarized in the following table:

<b>Asset class</b>	<b>Target allocation</b>	<b>Long-term expected real rate of return</b>
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	<b>100.0 %</b>	

The following schedule presents the sensitivity of the net OPEB liability/(asset) 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:

<b>(Dollars in thousands)</b>	<b>2021</b>	<b>2020</b>
1.0 percent decrease	\$ (53,014)	\$ (15,246)
Current discount rate	\$ (64,522)	\$ (28,080)
1.0 percent increase	\$ (74,311)	\$ (38,968)

The following presents the sensitivity of the net OPEB liability/(asset) 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:

<b>(Dollars in thousands)</b>	<b>2021</b>	<b>2020</b>
1.0 percent decrease	\$ (74,954)	\$ (39,757)
Current assumption	\$ (64,522)	\$ (28,080)
1.0 percent increase	\$ (52,262)	\$ (14,313)

# NOTES TO FINANCIAL STATEMENTS

## 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. Investing activity is modeled to achieve the actuarial target return and in alignment with the Trustee approved Investment Policy. In September 2021, investment policy changes were approved by the Trustees to modify investment weighting target ranges in conjunction with the recently completed asset-liability study and the actuarial investment rate of return. No changes were made to the investment policy in 2020.

The investment policy, inclusive of the maximum weighting by asset class, provide management with guidelines to ensure risks associated with these assets are mitigated. 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 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, 2021 and 2020 there were no individually-held investments that made up more than 5.0 percent of the Trust's portfolio.
- **Foreign and digital currency risk:** This is the risk of loss associated with changes in foreign exchange or digital rates which could adversely affect investment valuations. The Trust does not hold any investments denominated in a foreign or digital 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.



# NOTES TO FINANCIAL STATEMENTS

## Note D – Investments (continued)

The following table summarizes the investment policy guidelines for the Trust segregated by asset class including benchmark indices to measure performance.

Asset class	Benchmark	2021 - 2020	
Domestic Equity Securities	Russell 3000	38%-58%	
Foreign Equity Securities	MSCI-ACWxUS	10%-20%	
Bank Loans	S&P / LSTA Leveraged Loan	0%-5%	
Cash & Cash Equivalents		0%-10%	
Global Fixed Income	Barclays Global Aggregate ex US	0%-5%	
Real Estate	NCREIF ODCE Eq-Wt	5%-10%	0%-10%
Domestic Fixed Income	Barclays US Aggregate Bond	2%-22%	7%-27%
Alternative Assets	Strategy Index	0%-25%	0%-15%

**Rate of return:** The annual money-weighted rate of return on Plan investments, net of OPEB plan investment expense resulted in a gain of 21.43 percent and 10.91 percent for the years ended September 30, 2021 and 2020, 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:

Investment	Average credit rating (1)	2021	2020
Garcia Hamilton			
Corporate bonds	BBB+	8.0	8.2
U.S. government bonds and treasury bills	AA+	7.8	9.4
Mortgage-backed securities	AA+	3.5	2.9
Agency/Asset-backed securities		—	0.2
PIMCO Div Inc Bond Fund	BBB+	9.3	9.4
Met West Total Return Bond Fund	BBB	8.5	8.0
Pacific Funds Floating Rate Income	B	4.7	4.5
Templeton Global Total Return		—	2.3

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

## Note E – Fair Value Measurements

Fair value measurements for the Plan are based upon the observability of the valuation inputs used to measure the fair value of the asset. Level 1 inputs are based on quoted prices in active markets for identical assets; Level 2 inputs are based on significant other observable inputs; and Level 3 inputs are based on significant unobservable inputs.

# NOTES TO FINANCIAL STATEMENTS

## Note E – Fair Value Measurements (continued)

Investments were recorded at fair value as described above. The following are additional considerations used to categorize investments:

- **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, 2021 and 2020 were \$0.6 million and \$2.3 million, respectively.

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

(Dollars in thousands)	2021	2020
<b>Cash equivalents and investments by fair value level:</b>		
Level 1		
Debt securities		
U.S. treasury securities	\$ 5,823	\$ 1,321
Mutual funds		
Fixed income	19,548	18,793
U.S. equity	53,187	43,761
International equity	28,613	23,205
Balanced	5,106	4,553
U.S. equity	33,969	24,516
<b>Total Level 1</b>	<b>146,246</b>	<b>116,149</b>
Level 2		
U.S. agencies	4,001	4,616
Corporate notes and private placements	2,686	7,101
U.S. equity	2,418	2,723
<b>Total Level 2</b>	<b>9,105</b>	<b>14,440</b>
<b>Total investments by fair value level</b>	<b>155,351</b>	<b>130,589</b>
<b>Other investments and cash equivalents measured at the net asset value:</b>		
Alternative investments	12,742	9,436
Mutual funds - real estate	5,887	6,126
Money market	1,365	3,275
<b>Total other investments and cash equivalents measured at the net asset value</b>	<b>19,994</b>	<b>18,837</b>
<b>Total cash equivalents and investments</b>	<b>\$ 175,345</b>	<b>\$ 149,426</b>

# NOTES TO FINANCIAL STATEMENTS

## **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 \$1.4 million and \$3.3 million as of September 30, 2021 and 2020, 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.

## REQUIRED SUPPLEMENTARY INFORMATION

### Schedule of changes in net OPEB liability/(asset) and related ratios

The following schedules present multi-year trend information that demonstrates the components of change in the net OPEB liability/(asset) 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/(asset) for September 30:

(Dollars in thousands)	2021	2020	2019	2018	2017	2016	2015
Total OPEB liability							
Service cost	\$ 1,039	\$ 1,174	\$ 1,186	\$ 1,308	\$ 1,331	\$ 1,346	\$ 1,480
Interest on the total OPEB liability	8,620	9,936	9,906	10,385	10,434	11,882	12,134
Change in Benefits Terms	—	(438)	—	—	—	—	—
Difference between expected and actual experience	(5,592)	2,899	(2,192)	(2,987)	(3,285)	(23,970)	3,536
Assumption changes	(8,028)	(24,688)	(1,029)	(7,658)	(2,093)	(2,670)	(452)
Benefit payments, including refunds	(6,291)	(7,511)	(7,371)	(7,702)	(6,374)	(8,063)	(9,067)
Net change in total OPEB liability	(10,252)	(18,628)	500	(6,654)	13	(21,475)	7,631
Total OPEB liability - beginning of year	121,006	139,634	139,134	145,788	145,775	167,250	159,619
Total OPEB liability - end of year	<b>\$ 110,754</b>	<b>\$ 121,006</b>	<b>\$ 139,634</b>	<b>\$ 139,134</b>	<b>\$ 145,788</b>	<b>\$ 145,775</b>	<b>\$ 167,250</b>
Plan fiduciary net position							
Contributions - employer	\$ 1,185	\$ 3,682	\$ 7,022	\$9,067.895	\$13,384.472	\$12,628.431	\$ 14,117
Net investment income	31,313	14,953	5,399	10,956	13,420	9,621	(1,195)
Benefit payments, including refunds	(6,291)	(7,511)	(7,371)	(7,702)	(6,374)	(8,062)	(9,067)
Administrative expense	(17)	(17)	(17)	(18)	(18)	(18)	(32)
Net increase in plan fiduciary net position	26,190	11,107	5,033	12,304	20,412	14,169	3,823
Plan fiduciary net position - beginning of year	149,086	137,979	132,946	120,642	100,230	86,061	82,238
Plan fiduciary net position - end of year	<b>\$ 175,276</b>	<b>\$ 149,086</b>	<b>\$ 137,979</b>	<b>\$ 132,946</b>	<b>\$ 120,642</b>	<b>\$ 100,230</b>	<b>\$ 86,061</b>
Net OPEB liability/(asset) - beginning of year	<b>\$ (28,080)</b>	<b>\$ 1,655</b>	<b>\$ 6,188</b>	<b>\$ 25,146</b>	<b>\$ 45,545</b>	<b>\$ 81,189</b>	<b>\$ 77,381</b>
Net OPEB liability/(asset) - end of year	<b>\$ (64,522)</b>	<b>\$ (28,080)</b>	<b>\$ 1,655</b>	<b>\$ 6,188</b>	<b>\$ 25,146</b>	<b>\$ 45,545</b>	<b>\$ 81,189</b>
Plan fiduciary net position as a percentage of total OPEB liability	158.3 %	123.2 %	98.8 %	95.6 %	82.8 %	68.8 %	51.5 %
Covered payroll	\$ 100,721	\$ 98,058	\$ 91,035	\$ 86,892	\$ 78,447	\$ 71,856	\$ 72,990
Net OPEB liability/(asset) as a percentage of covered payroll	(64.1)%	(28.6)%	1.8 %	7.1 %	32.1 %	63.4 %	111.2 %

**Assumption and benefit changes:** In October 2020, an assumption study and experience review for the seven-year period ended September 30, 2019 was completed and assumption changes were implemented effective September 30, 2020 to initial claim costs, premiums, inflation, salary, retirement, termination, and mortality rates. In 2016 through 2019, the healthcare cost trend assumptions were adjusted based on a representative actuarial model. 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.

The assumed investment return rate and single discount rate was changed to 7.0 percent as of the September 30, 2021 valuation. Assumed rates were previously set at 7.25 percent in September 30, 2015 and 7.50 percent in September 30, 2014.

Plan benefit changes in the October 2020 valuation included removal of the premium POS option and revisions in certain limits for the utility discount benefit.

## REQUIRED SUPPLEMENTARY INFORMATION

### Schedule of employer contributions to the OPEB plan and investment returns

The following schedule presents 10-year trend information regarding employer contributions to the Plan and 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, 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	Annual money-weighted rate of return on investments
2021	1,185	1,185	—	100,721	1.2 %	21.43 %
2020	3,682	3,682	—	98,058	3.8 %	10.91 %
2019	7,022	7,022	—	91,035	7.7 %	4.04 %
2018	9,068	9,068	—	86,892	10.4 %	9.02 %
2017	13,384	13,384	—	78,447	17.1 %	13.17 %
2016	12,628	12,628	—	71,856	17.6 %	10.97 %
2015	14,117	14,117	—	72,990	19.3 %	(1.43)%
2014	13,558	13,558	—	72,990	18.6 %	10.23 %
2013	14,358	14,325	(33)	70,692	20.3 %	13.04 %
2012	14,167	14,177	10	71,121	19.9 %	21.76 %

- (1) The actuarially determined contribution amounts for the current year 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

**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 nondisabled 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 from ended September 30, 2014 was completed, and changes were implemented effective September 30, 2015 to salary, retirement, termination, and mortality rates assumptions.



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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

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, 2021, 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 June 28, 2022.

### 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.



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

*Ernst & Young LLP*

June 28, 2022



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**ORLANDO UTILITIES COMMISSION**

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