2020
AUDITED FINANCIAL STATEMENTS

OUC The *Reliable* One®

LETTER FROM THE GENERAL MANAGER AND COMMISSION PRESIDENT

As we reflect on the past year and the impacts of the pandemic on our customers, employees and the community, we are reminded of the essential services Orlando Utilities Commission (OUC – The *Reliable* One) delivers to the Central Florida community. Beyond keeping the lights on and the water flowing, OUC also provides a portfolio of utility services – including chilled water, lighting, back-up generation, electric vehicle charging and solar solutions – to more than 400,000 metered accounts in Orlando, St. Cloud and parts of Orange and Osceola counties.

While the pandemic reshaped 2020, OUC continues to move forward with the implementation of our *Connected 2025 Strategic Plan*, presented to the Board in February 2020. This Plan sets a path forward to achieve the vision of being an *Innovative Solutions Provider* and *The Partner of Choice*. Supporting this vision are strategies and action plans designed to provide *Customers* with an outstanding experience, strengthen *Employee* engagement and serve the *Community* as a committed partner and sustainability leader.

Leading the way on sustainability in 2020 included delivering on our *Connected 2025 Strategic Plan* commitment to develop a *Net-Zero CO2 Emissions Roadmap*. The development of this roadmap includes the completion of the dynamic and comprehensive 30-year Electric Integrated Resource Plan (EIRP). The EIRP includes eliminating the use of coal by converting to natural gas generation resources no later than 2025 and 2027, respectively, and achieving Net Zero CO2 Emissions by 2050, as well as interim targets of 50 percent CO2 emissions reduction by 2030 and 75 percent by 2040. In alignment with our strategic goals, OUC has made a $90.0 million commitment to the development and integration of energy storage by 2030, including participating in a federal grant program to promote the advancement of hydrogen energy storage.

Serving the community as a sustainability leader and *Innovative Solutions Provider* also means championing the expansion of electrification through a public-private partnerships in association with the State of Florida utilization of Volkswagen grant settlement funds to develop the largest of its kind EV charging hub in downtown Orlando, *The Robinson Mobility Charging Hub,* and partnering with the City of Orlando and Lynx Bus System to launch of an electric bus fleet in the downtown corridor. These initiatives, along with several others, are components of OUC's $45.0 million commitment to promote and expand the electrification of transportation and achieve our strategic commitments by the 2030 target dates.

Water conservation is a high priority initiative for OUC as alternative water resources are pursued in conjunction with securing the renewal of the 20-year consumptive use permit. To promote the sustainable use of this limited resource, the implementation of new pricing designs will increase customer awareness and help them use less along with the expansion of customer-facing conservation programs.

Being the *Partner of Choice* means being open to new opportunities that advance the community. During the current year, beyond executing on the expanded partnerships with the Greater Orlando Aviation Authority and Universal Orlando Resort, OUC initiated partnerships to revitalize Orlando's Packing District and expand its smart city technology with the build-out of a fiber network.

Being *Customer-Focused* is at the core of OUC's role as a municipal utility. In response to the pandemic, OUC provided customers with a multi-faceted relief program that began with the suspension of disconnections and late fee charges for non-payment of services, and quickly expanded to include Board-approved funding of $12.1 million for bill payment assistance and the expansion of the *Power Pass* prepaid energy program. Bill payment assistance was provided to customers through a one-time fuel price reduction, extended payment arrangements, OUC's Project CARE program - administered by the Heart of Florida United Way, and the OUC-administered small business economic relief program. In tandem with this multi-faceted relief program, OUC virtually connected with customers to promote participation in its rebate programs and further advance energy efficiency and cost saving opportunities. Moving forward into 2021, as one-size-fits-all customer pricing evolves, OUC anticipates launching its time-of-use pricing pilot in the spring, offering customers alternative cost-saving and conservation opportunities.

Business Continuity initiatives also were advanced during the year as a result of the pandemic, including the adoption of work-from-home practices for many of our employees and supporting enhanced system security protections. While initial emergency response procedures have transitioned to normal operations, the enhanced safety, sanitation and social distancing protocols to *Keep Safety First* continue to be performed to support on-site and essential workers. In addition, mutual aid emergency responsiveness protocols and practices were modified in advance of the hurricane season, allowing OUC to safely dispatch resources to Louisiana, Alabama and Mississippi, assisting areas impacted by four successive hurricanes.

Financial operations also were impacted by the pandemic as customer usage patterns changed and commercial businesses were shut down to prevent the spread of the virus and customers transitioned to working from home. These changes resulted in a $20.4 million revenue shortfall compared to the approved Operating Budget including the impacts of rising unemployment and the recognition of an elevated allowance for doubtful customer receivables. To offset these budgetary revenue shortfalls and increased allowance for doubtful customer receivables, a Budget Recovery Taskforce was assembled and a variety of *Business Optimization* initiatives were launched in tandem with the execution of short-term cost saving measures such as deferral of operating plan initiatives and reduced labor and benefit costs. The net result of these efforts delivered income before contributions consistent with the adopted budget and the continuation of strong "AA" rated financial metrics. In addition to the efforts of the Taskforce, OUC leveraged financial opportunities including bond refunding activities and the execution of long-term discounted natural gas agreements to provide current and future customer value.

Being the *Employer of Choice* and creating an environment to support the *Workforce of the Future* are initiatives that also were prioritized during the current year to strengthen the fabric of diversity, equity and inclusion at OUC. Prior to the onset of the pandemic, town hall conversations were conducted to support these initiatives with the goal of developing an engaged dialogue to advance our workforce culture. Beyond these focused conversations, virtual leadership sessions, comprehensive and pulse surveys and ad hoc town hall meetings were conducted throughout the year to continue to build upon a culture of lasting change and transformation.

That said, we recognize that change and transformation cannot be accomplished without the commitment and dedication of OUC's most valuable resources, its employees, who help to make OUC the Reliable One – delivering on key utility attributes of Reliability, Affordability, Sustainability and Resiliency – and our customers who helped OUC earn the top spot as "Most Trusted Brand" among electric service utilities in a nationwide customer survey.

OUC Commission 2020

front row; left to right: Mayor Buddy Dyer | Cesar Calvet, Commission President | Britta Gross, First Vice President
back row; left to right: Gregory D. Lee, Immediate Past President | Clint Bullock, General Manager & CEO | Larry Mills, Th.D., Second Vice President

Clint Bullock
General manager & CEO

Cesar Calvet
Commission President

AUDITED FINANCIAL STATEMENTS

Selected Statistical and Financial Information (Unaudited)

		2020		2019	% Increase/ (Decrease)
Total Customers		259,722		259,002	0.3 %
Electric Business Operations					
Active services		254,532		248,595	2.4 %
Average retail revenue per MWh	$	102.25	$	103.28	(1.0)%
Retail customer sales in MWh		6,736,765		6,875,159	(2.0)%
Average annual residential usage (kWh)		11,727		11,696	0.3 %
Retail operating revenues (in thousands)	$	688,828	$	710,095	(3.0)%
Water Business Operations					
Active Services		162,692		161,523	0.7 %
Average revenue per 10 KGAL	$	26.24	$	25.52	2.8 %
Total sales in MGAL		30,618		31,675	(3.3)%
Average annual residential usage (KGAL)		80		78	2.6 %
Operating revenues (in thousands)	$	80,342	$	80,838	(0.6)%
Chilled Water Business Operations					
Active Services		2,688		2,688	— %
Average revenue per 100 ton hours	$	22.46	$	22.18	1.3 %
Production in ton-hours		128,492		142,236	(9.7)%
Operating revenues (in thousands)	$	28,856	$	31,544	(8.5)%
Consolidated Financial Highlights					
Income before contributions (in thousands)	$	101,240	$	95,840	5.6 %
City of Orlando revenue based payments and dividend (in thousands)	$	95,490	$	92,708	3.0 %
Debt service coverage		2.56		2.67	(4.1)%
Debt/net position		49%/51%		51%/49%	
Days cash on hand		327		337	(3.0)%
Senior bond ratings 1		AA,Aa2,AA		AA,Aa2,AA	

ORLANDO UTILITIES COMMISSION

September 30, 2020

TABLE of CONTENTS

COMMISSION MEMBERS and OFFICERS

Cesar Calvet
President

Gregory D. Lee
Immediate Past President

Britta Gross
First Vice President

Larry Mills, Th.D.
Second Vice President

Buddy H. Dyer
Mayor – Commissioner

Clint Bullock
Secretary

Mindy Brenay
W. Christopher Browder
Elizabeth M. Mason
Assistant Secretaries

Ernst & Young LLP
Suite 2800
200 South Orange Avenue
Orlando, Florida 32801

Tel: +1 407 872 6600
ey.com

Report of Independent Auditors

To Management and the Commissioners of
Orlando Utilities Commission

Report on the Financial Statements

We have audited the accompanying financial statements of Orlando Utilities Commission (OUC), as of and for the years ended September 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise OUC'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 financial position of OUC as of September 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 5–11, the schedules of changes in net Pension and OPEB liability and related ratios, the schedules of funding progress for Pension and OPEB, the schedules of employer contributions to the Pension and OPEB plans, and the schedules of investment returns for Pension and OPEB on pages 46–48 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 November 20, 2020 on our consideration of OUC'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 OUC'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 OUC's internal control over financial reporting and compliance.

Ernst + Young LLP

November 20, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion should be read in conjunction with the Financial Statements and Notes to the Financial Statements.

Management's Report

The management of Orlando Utilities Commission (OUC) has prepared — and is responsible for — the integrity of the 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 our financial statements, OUC maintains a system of internal accounting controls that is supported by written policies and procedures and an organizational structure that appropriately assigns responsibilities to mitigate risks. These controls have been put in place to ensure OUC's assets are properly safeguarded and the books and records reflect only those transactions that have been duly authorized. OUC's controls are evaluated on an ongoing basis by both management and OUC's internal auditors.

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

Clint Bullock
General Manager &
Chief Executive Officer

Mindy Brenay
Chief Financial Officer

Matthew Lopez
Director of Accounting

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to OUC's financial statements. It defines the basic financial statements and summarizes OUC's general financial condition and results of operations, and should be read in conjunction with OUC's financial statements and accompanying notes, which follow this section.

Background

OUC was created in 1923 by a Special Act of the Florida Legislature as a statutory commission of the State of Florida and is governed by a Board (the Board) consisting of five members including the Mayor of the City of Orlando. The Act confers upon OUC the rights and powers to set prices for services and solutions. OUC is responsible for a portfolio of energy services and solutions including the acquisition, generation, transmission and distribution of electric and water services to its customers within Orange and Osceola counties as well as chilled water, lighting, back-up generation, electric vehicle charging and solar services and solutions.

Financial Reporting

OUC's financial statements are presented in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The accounting records are maintained in accordance with the accounting principles and methods prescribed by the Federal Energy Regulatory Commission (FERC) with the exception of contributions in aid of construction, which are recorded in accordance with the standards prescribed by GASB.

OUC is a regulated enterprise and applies the Regulated Operations provision of GASB Statement No. 62 *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."* In accordance with the design of these principles and financial reporting guidance, the Board has approved regulatory actions that have resulted in the deferral or recognition of certain revenues or expenses.

Beyond the monthly use of fuel reserves to stabilize customer pricing, the Board approved the following regulatory actions:

- Year-ended September 30, 2020: Deferral of anticipated eligible Federal Emergency Management Agency (FEMA) Coronavirus pandemic emergency response expenses and the extension of the recognition period of the previously approved postemployment regulatory assets from 2024 through 2032.
- Year-ended September 30, 2019: Deferral of a wholesale power supply termination settlement gain and actuarially determined postemployment past service credits. Recognition of water reserves to offset the impact from the four-year phased-in water price plan and the recognition of electric reserves to offset the now dismissed Stanton Energy Center (SEC) legal claim and expanded costs associated with the Electric Integrated Resource Plan.

Coronavirus Pandemic

OUC continues to closely monitor the Coronavirus pandemic (COVID-19 or pandemic) and has implemented practices to mitigate the overall risk and financial impact of this pandemic to its customers, employees and community.

Employee

In response to the pandemic and in alignment with our strategic driver to *"Keep Safety First"*, expanded on-site safety protocols and remote connectivity were strengthened. Expanded on-site protocols included increased cleaning, sanitization and disinfectant services, medical screenings and 24-hour on-call human resources to support OUC's commitment to reliable and essential energy services. Additional employee safety and system security costs of $5.5 million were incurred of which approximately 20.0 percent are anticipated to be eligible for cost reimbursement through the FEMA process.

Customer

At the onset of the pandemic in March 2020, OUC waived disconnect and late fees for non-payment to provide customers with immediate financial relief. In April 2020, the Board approved a $12.1 million customer relief package which included a planned $7.5 million one-time fuel price reduction and customer bill payment assistance of $4.6 million through the Project Care program administered by the Heart of Florida United Way, an internally administered small business economic development program and initial funding for newly enrolled *Power Pass* prepaid meter program customers. Beyond these programs, customers were provided with information to access the expanded federal grant assistance programs of the Low Income Housing and Energy Assistance Program (LIHEAP) and the Coronavirus Relief Fund (CRF) along with the opportunity to initiate extended bill payment terms for up to 12 months. To mitigate the risk associated with extended payment terms and the continued pandemic impacts on the Central Florida economy, incremental allowance for doubtful accounts were accrued at an amount of 1.25% of retail revenues.

OUC

As a result of the pandemic, revenues were $22.5 million lower than budgeted. To offset the impact of revenue shortfalls, cost reduction initiatives, including modifications to the operating plan initiatives and reduced labor and benefit costs, were implemented through the establishment of a Commission-wide Budget Recovery Task Force (Task Force). As a result of the Task Force's efforts, operating costs were reduced by $18.3 million and income before contributions remained consistent with the approved 2020 Operating Budget.

Setting of Prices

Board approved pricing: The pricing of regulated electric and water services is the responsibility of the Board. To ensure these changes are implemented in a measured and responsible manner, electric and water price changes are implemented after comprehensive cost recovery evaluations are completed, public workshops are held, and customers are notified.

- Electric pricing: Effective October 1, 2019, a 3.3 percent electric price change was implemented that increased the bill for the average residential electric customer using 1,000 kWh per month from $106.00 to $109.50. Effective October 2018, electric price neutral changes were implemented lowering fuel prices 7.7 percent and increasing customer and energy prices. These price changes kept the average residential electric customer using 1,000 kWh per month at $106.00.
- Water pricing: In 2017, a four-year water price plan was approved and effective October 1, 2019, the third scheduled price change was implemented that increased the average residential and commercial customer water bill 6.2 percent. The prior two price changes were effective April 2018 and January 2019 and increased the average residential and commercial customer water bill 4.0 and 3.4 percent, respectively.
- Ancillary service pricing: The pricing of chilled water, lighting, back-up generation, electric vehicle charging and solar services and solutions are designed utilizing an equivalent cost recovery model to the Board approved electric and water pricing with terms defined within the customer contract.

Basic Financial Statements

Three basic financial statements were prepared to provide a comprehensive overview of OUC's financial position, results of operations and cash flows.

- **Statement of Net Position:** The Statement of Net Position was prepared using the accrual method of accounting distinguishing current and long-term assets and liabilities, deferred inflows and outflows of resources, as well as the nature and amount of resources and obligations at a point in time.
- **Statement of Revenues, Expenses and Changes in Net Position:** This statement presents current period revenues and expenses. In addition, included in this statement is the presentation of operating income, which was reported separately from net non-operating expenses, contributions in aid of construction and annual dividend.
- **Statement of Cash Flows:** This statement was presented using the direct method and outlines the sources and uses of cash resulting from operations, non-capital related financing, capital related financing, and investing activities.

Condensed Statements of Net Position
As of September 30

(Dollars in thousands)	2020	2019	2018
Assets			
Utility plant, net	$ 2,591,359	$ 2,516,249	$ 2,489,456
Restricted and internally designated assets	543,603	611,948	657,489
Current assets	246,909	263,113	261,150
Other assets	152,147	190,640	209,141
Total assets	**3,534,018**	**3,581,950**	**3,617,236**
Deferred outflows of resources	**120,200**	**99,372**	**101,266**
Total assets and deferred outflows of resources	**$ 3,654,218**	**$ 3,681,322**	**$ 3,718,502**
Liabilities			
Long-term debt, net	$ 1,439,320	$ 1,504,679	$ 1,564,637
Current liabilities	261,738	252,544	258,339
Other liabilities and credits	187,431	179,613	207,717
Total liabilities	**1,888,489**	**1,936,836**	**2,030,693**
Deferred inflows of resources	**267,311**	**298,344**	**292,963**
Net position			
Net investment in capital assets	1,236,368	1,102,332	1,071,359
Unrestricted	262,050	343,810	323,487
Total net position	**1,498,418**	**1,446,142**	**1,394,846**
Total liabilities, deferred inflows of resources and net position	**$ 3,654,218**	**$ 3,681,322**	**$ 3,718,502**

2020 Compared to 2019

Total Assets and Deferred Outflows of Resources

Total assets decreased $47.9 million due to several key changes including a reduction in customer receivables in the amount of $14.6 million as a result of the impacts of COVID-19 and increased amounts for allowance for doubtful accounts, the planned recognition of $19.0 million of postemployment regulatory assets, a $17.7 million decrease in fair value of the of Series 2017A interest rate swap as a result of the refunding of the underlying Series 2017A Bonds and a decrease in margin deposits of $15.2 million as a result of fuel hedge valuation changes. Offsetting these decreases was an increase in restricted and internally designated assets, net of funds used for utility plant additions, in the amount of $17.4 million

Deferred outflows of resources increased $20.8 million as a result of the valuation of the 2021 forward interest rate swap in the amount of $12.6 million and the recognition of the loss on refunded debt associated with the Series 2017A Bonds in the amount of $23.2 million. These amounts were offset by a $8.8 million decrease in unrealized postemployment benefit plan deferred outflows due to actuarial assumption changes and the timing of actuarial required contributions.

Total Liabilities, Deferred Inflows of Resources and Net Position

Total liabilities decreased $65.4 million consistent with the scheduled maturity of long-term debt.

Deferred inflows of resources decreased $31.0 million as a result of valuation changes and Board approved actions.

- Valuation changes associated with the postemployment benefit plans decreased these resources $25.4 million while fuel derivative valuation gains increased these resources $4.7 million.
- Board approved regulatory credits decreased these resources $10.2 million to offset generation facility expenses including clean power plan costs.

Total net position increased $52.3 million, or 3.6 percent, as a result of current year revenues and expenses.

Condensed Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30

(Dollars in thousands)	2020	2019	2018
Operating revenues	$ 866,463	$ 897,280	$ 902,671
Operating expenses	742,867	775,589	775,199
Operating income	**123,596**	**121,691**	**127,472**
Net non-operating expenses	22,356	25,851	29,697
Income before contributions	**101,240**	**95,840**	**97,775**
Contributions in aid of construction	16,764	18,818	16,564
Annual dividend	(65,728)	(63,362)	(60,616)
Increase in net position	**52,276**	**51,296**	**53,723**
Net position - beginning of year	**1,446,142**	**1,394,846**	**1,341,123**
Net position - end of year	**$ 1,498,418**	**$ 1,446,142**	**$ 1,394,846**

2020 Compared to 2019

Changes in Net Position

Total operating revenues: Operating revenues decreased $30.8 million, or 3.4 percent.

The decrease in fuel revenues of $31.4 million was the largest driver in the change in total operating revenues with the change primarily driven by the Board approved price changes effective October 1, 2019 which reduced fuel prices and increased the energy and customer charge bill components. In addition to the fuel price changes, consumption was impacted by COVID-19 and the state and local stay-at-home orders implemented in March 2020.

Retail energy revenues decreased $4.4 million as a result of the impacts from COVID-19 and lower consumption from the shut-down of commercial operations coupled with increased bad debt expense. These decreases were partially offset by the price changes implemented on October 1, 2019 and customer growth in the amounts of $11.5 million and $3.9 million, respectively.

Resale energy revenues increased $5.9 million due to a $13.4 million increase in St. Cloud inter-local revenues, net of a $1.0 million increase in bad debt expense, offset by a $6.3 million decrease in wholesale revenues due to planned contract expirations and changing generation market dynamics.

Other revenues include utility service revenues from chilled water, lighting and other ancillary energy services along with service and user fee charges. In 2020, these revenues decreased $2.8 million primarily due to the decrease in service fee revenues as a result of COVID-19 and the suspension of disconnects and late fees for non-payment from mid-March through mid-July.

Total operating expenses: Operating expenses were $32.7 million, or 4.2 percent.

Fuel and purchased power decreased $31.4 million due to low natural gas commodity pricing coupled with the value provided from the long-term discounted gas supply agreements and savings from renegotiated power supply agreements.

Operating expenses, excluding fuel and purchased power, decreased $7.8 million primarily due to focused cost saving initiatives identified at the onset of the pandemic. The identification of these cost saving initiatives delivered lower energy delivery and production costs, reduced employee benefit costs and provided other short-term cost savings. A portion of these savings were offset by increased emergency response expenses related to COVID-19 and the recognition of Hurricane Dorian storm preparation costs.

Depreciation and amortization expenses increased $5.7 million as a result of completed construction projects.

Net non-operating expenses: Total net non-operating expenses decreased $3.5 million primarily due to interest expense savings on variable rate bonds.

Contributions in aid of construction: Contributions in aid of construction increased $2.1 million as a result of stronger than anticipated customer growth in the first half of 2020.

Condensed Statement of Cash Flows
Years Ended September 30

(Dollars in thousands)	2020	2019
Net cash provided by operating activities	$ 297,363	$ 275,049
Net cash used in non-capital related financing activities	(63,863)	(65,462)
Net cash used in capital related financing activities	(328,848)	(306,108)
Net cash provided by/(used in) investing activities	110,592	121,194
Net increase in cash and cash equivalents	**$ 15,244**	**$ 24,673**

Total cash and cash equivalents: Total cash and cash equivalents increased $15.2 million in 2020 primarily due to $22.3 million increase in cash provided by operating activities as a result of decreased fuel and purchased power expenses and cost saving initiatives offset by extended customer collection activities in response to COVID-19. These changes were offset by increased capital spending in the early portion of the fiscal year, a decrease in the net scheduled bond principal payments and a decrease in cash provided by investing activities due to the final spend down of the construction funds and the historic low interest rate markets.

Future Capital Funding Needs

Consistent with the nature of the essential services provided by OUC, significant investment in infrastructure is needed to maintain the core customer values of reliability, sustainability and resiliency.

While internal cash resources are projected to be used to meet a portion of the anticipated costs of the Five-Year Capital Plan (Capital Plan), OUC may elect to fund a portion of the Capital Plan with the issuance of long-term debt. The undertaking of the Capital Plan and the underlying financing of this plan are reviewed annually by the Finance Committee.

Capital Plan

The 2021 Capital Plan incorporates funding of $1,233.0 million, which is $95.4 million, or 8.4 percent, higher than the 2020 Capital Plan. The 2021 Capital Plan spending is shown net of $39.4 million in customer contributions in aid of construction for infrastructure projects beyond the requirement to serve. The 2021 Capital Plan does not include funds required to support the management recommended Electric Integrated Resource Plan which is scheduled to be approved by the Board in December 2020 and will be included in the 2022 Capital Plan.

The issuance of $275.0 million of long-term debt in April 2021 is estimated to fund approximately half of two years of the 2021 Capital Plan.

(Dollars in millions)	2021	2022	2023	2024	2025	Total
Transmission and distribution	$ 125.1	$ 89.4	$ 112.1	$ 184.5	$ 206.4	$ 717.5
Production	66.6	113.8	61.5	46.4	56.1	344.4
Support services	55.2	52.4	33.3	15.1	15.1	171.1
Total five-year capital plan	**$ 246.9**	**$ 255.6**	**$ 206.9**	**$ 246.0**	**$ 277.6**	**$ 1,233.0**

Currently Known Facts or Conditions That May Have a Significant Effect on OUC’s Financial Condition or Results of Operations

Electric Operations

Electric Generation: OUC remains focused on achieving its goal to transition to a clean energy portfolio by 2050. To achieve this goal and develop a roadmap for the future, a comprehensive Electric Integrated Resource Plan (EIRP) was developed to balance the customer driven attributes of reliability, affordability, sustainability and resiliency.

In October 2020, management announced a recommended plan to achieve this goal, including the elimination of coal-fired generation by 2027, through the conversion of the two OUC-owned and maintained coal-fired generation facilities to natural gas along with the acceleration of solar and energy storage clean technologies to meet energy demand. Management's recommendation includes a 50.0 percent and 75.0 percent reduction in CO_2 emissions reduction by 2030, and 2040, respectively, from 2005 levels. On November 17, 2020, management presented this recommendation and the plan's alignment with OUC's *Connected 2025 Strategic Plan* at a Board Workshop which included an on-site and virtual platform for public comment. Board approval of the EIRP is scheduled for December 2020.

Legislative and Regulatory: As OUC’s electric operations are subject to legislative and regulatory mandates and rulings regarding environmental matters can have a significant impact on operational and financial results. OUC’s intentions and strategies are to ensure compliance with any rule requirements and as outlined in the EIRP roadmap, implement a plan that balances reliability, affordability, sustainability and resiliency while adhering to legislative and regulatory mandates. See Note J for further information.

Prices: Pricing plans, including time-of-use pricing, are underway to expand residential customer pricing options from the current one-size fits all model to more flexible models that complement advancing home energy technologies, electrification of transportation, and conservation and community sustainability efforts. In addition, net metering policies are being evaluated to promote supply-side conservation initiatives and customer equity.

Water Operations

Legislative and Regulatory: OUC provides potable water to its customers through its groundwater consumptive use permit (CUP). The most recent CUP was issued in May 2004 for a 20-year period and authorizes an annual average withdrawal rate of 109.2 million gallons per day (mgd) through October 1, 2023. In conjunction with the issuance of the CUP, alternative water supply options are required in advance of triggering the automatic CUP reduction provision to 100.1 mgd.

In October 2020, in advance of the CUP reduction trigger date of October 1, 2022, OUC submitted a request to renew the CUP at a withdrawal rate of 109.2 mgd for a second 20-year period. While alternative water supply options continue to be pursued including the evaluation of the water supply resources from the lower-lower aquifer, the completion of these options is still in process. OUC's renewal application includes a variety of additional conservation measures to demonstrate OUC's commitment to water conservation including planned water price increases focused on increasing tier pricing for high usage customers in April 2021.

Financing

In 2019, regulatory and advisory bodies have identified flaws with LIBOR (London Inter Bank Offer Rate) and have determined it may not be supported beyond 2021. These regulatory and advisory bodies have established working groups to define alternative reference rates as well as a transition protocol from LIBOR to the presumed new US Secured Overnight Financing Rate (SOFR). Management has yet to determine the impact, if any, to the financial statements. OUC has started the process of executing the necessary steps for adherence to the fallback protocol.

Pricing

As a result of the impacts of COVID-19, electric price neutral changes originally planned for an effective date of October 1, 2020, were deferred and are being evaluated for Board consideration in January 2021 for a projected implementation date of April 2021.

Requests for information should be emailed to recordscustodian@ouc.com or (407) 434-2727.

(Dollars in thousands)	As of September 30 2020	2019
Assets		
Utility plant, net		
Utility plant in service	$ 4,536,813	$ 4,471,769
Allowances for depreciation and amortization	(2,295,445)	(2,194,918)
Utility plant in service, net	2,241,368	2,276,851
Land	84,313	83,171
Construction work in progress	265,678	156,227
Total utility plant, net	**2,591,359**	**2,516,249**
Restricted and internally designated assets		
Restricted assets	47,199	70,490
Internally designated assets	496,404	541,458
Total restricted and internally designated assets	**543,603**	**611,948**
Current assets		
Cash and investments	36,528	40,158
Customer receivables, net	66,121	80,679
Miscellaneous receivables, net	25,157	8,003
Accrued utility revenue	37,961	37,515
Fuel for generation	23,037	26,787
Materials and supplies inventory, net	43,711	40,736
Accrued interest receivable	1,307	3,094
Prepaid and other expenses	10,744	26,141
Hedging derivative instruments maturing within one year	2,343	—
Total current assets	**246,909**	**263,113**
Other assets		
Regulatory assets	119,884	162,337
Other long-term assets	29,857	28,303
Hedging derivative instruments	2,406	—
Total other assets	**152,147**	**190,640**
Total assets	**3,534,018**	**3,581,950**
Deferred outflows of resources		
Accumulated decrease in fair value of hedging derivatives	25,230	12,508
Fair value of asset retirement obligation	5,805	6,062
Unrealized pension and other postemployment benefits contributions and losses	37,970	46,752
Unamortized loss on refunded bonds	51,195	34,050
Total deferred outflows of resources	**120,200**	**99,372**
Total assets and deferred outflows of resources	**$ 3,654,218**	**$ 3,681,322**

See Notes to the Financial Statements for additional information.

STATEMENTS OF NET POSITION

(Dollars in thousands)	As of September 30 2020	2019
Liabilities		
Current liabilities		
Payable from restricted and designated assets		
Current portion of long-term debt	$ 73,930	$ 60,340
Accrued interest payable on notes and bonds	24,892	29,283
Customer meter deposits	57,925	57,164
Total payable from restricted and designated assets	**156,747**	**146,787**
Payable from current assets		
Accounts payable and accrued expenses	64,404	62,832
Billings on behalf of state and local governments	19,748	20,563
Compensated absences and accrued wages	17,758	15,362
Accrued governmental payments	2,985	2,937
Hedging derivative instruments maturing within one year	96	4,063
Total payable from current assets	**104,991**	**105,757**
Total current liabilities	**261,738**	**252,544**
Other liabilities and credits		
Pension and net other postemployment benefits liability	88,054	89,068
Asset retirement obligation and other liabilities	97,655	87,042
Hedging derivative instruments	1,722	3,503
Total other liabilities and credits	**187,431**	**179,613**
Long-term debt, net		
Bond and note principal	1,312,005	1,389,180
Unamortized premium	103,903	92,866
Fair value of derivative instruments	23,412	22,633
Total long-term debt, net	**1,439,320**	**1,504,679**
Total liabilities	**1,888,489**	**1,936,836**
Deferred inflows of resources		
Unrealized pension and other postemployment benefits gains	28,704	54,072
Accumulated increase in fair value of hedging derivatives	4,749	—
Regulatory credits	233,003	243,238
Unamortized gain on refunded bonds	855	1,034
Total deferred inflows of resources	**267,311**	**298,344**
Net position		
Net investment in capital assets	1,236,368	1,102,332
Unrestricted	262,050	343,810
Total net position	**1,498,418**	**1,446,142**
Total liabilities, deferred inflows of resources and net position	**$ 3,654,218**	**$ 3,681,322**

See Notes to the Financial Statements for additional information.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(Dollars in thousands)	Years ended September 30 2020	2019
Operating revenues		
Retail electric revenues	$ 576,710	$ 603,606
Resale electric revenues	140,193	140,915
Water revenues	79,820	80,241
Chilled water revenues	28,374	30,914
Lighting revenues	16,207	15,395
Other revenues	25,159	26,209
Total operating revenues	**866,463**	**897,280**
Operating expenses		
Fuel for generation and purchased power	257,111	288,552
Unit/department expenses	279,123	286,961
Depreciation and amortization	150,469	144,801
Payments to other governments and taxes	56,164	55,275
Total operating expenses	**742,867**	**775,589**
Operating income	**123,596**	**121,691**
Net non-operating expenses		
Interest income	12,251	12,628
Other income, net	10,872	10,698
Amortization of gain on sale of assets	5,749	5,040
Interest expense	(51,228)	(54,217)
Total net non-operating expenses	**(22,356)**	**(25,851)**
Income before contributions	**101,240**	**95,840**
Contributions in aid of construction	16,764	18,818
Annual dividend	(65,728)	(63,362)
Increase in net position	**52,276**	**51,296**
Net position - beginning of year	**1,446,142**	**1,394,846**
Net position - end of year	**$ 1,498,418**	**$ 1,446,142**

See Notes to the Financial Statements for additional information.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Years ended September 30 2020	2019
Cash flows from operating activities		
Cash received from customers	$ 870,020	$ 909,512
Cash paid for fuel and purchased power	(255,441)	(301,941)
Cash paid for unit/department expenses excluding salaries and benefits	(76,605)	(99,431)
Cash paid for salaries and benefits	(175,405)	(175,679)
Cash paid for emergency response expenses	(9,091)	(2,102)
Cash paid to other governments and taxes	(56,115)	(55,310)
Net cash provided by operating activities	**297,363**	**275,049**
Cash flows from non-capital related financing activities		
Dividend payment	(65,728)	(63,362)
Pension bond principal and interest payments	—	(5,143)
Build America Bond interest subsidy received	1,865	3,043
Net cash used in non-capital related financing activities	**(63,863)**	**(65,462)**
Cash flows from capital related financing activities		
Utility plant net of contributions in aid of construction	(198,159)	(168,711)
Debt interest payments	(62,501)	(64,317)
Collateral deposits	(7,000)	(8,146)
Principal payments and refunding costs on long-term debt	(182,562)	(129,769)
Debt issuances	122,222	65,944
Debt issuance expense	(848)	(1,109)
Net cash used in capital related financing activities	**(328,848)**	**(306,108)**
Cash flows from investing activities		
Proceeds from sales and maturities of investment securities	407,336	379,206
Gain on sale of investments	4,058	—
Purchases of investment securities	(317,757)	(293,287)
Investments and other income received	16,955	35,275
Net cash provided by investing activities	**110,592**	**121,194**
Net increase in cash and cash equivalents	**15,244**	**24,673**
Cash and cash equivalents - beginning of year	**234,113**	**209,440**
Cash and cash equivalents - end of year	**$ 249,357**	**$ 234,113**
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 123,596	$ 121,691
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization of plant charged to operations	150,469	144,801
Depreciation and amortization charged to fuel for generation and purchased power	3,490	2,953
Depreciation of vehicles and equipment charged to unit/department expenses	2,372	2,651
Changes in assets and liabilities		
Decrease in receivables and accrued revenue	7,609	20,082
Decrease/(Increase) in fuel and materials and supplies inventories	9,685	(3,594)
Decrease in accounts payable	(2,545)	(1,275)
Decrease in deposits payable and liabilities	(546)	(5,759)
Increase/(Decrease) in stabilization and deferred credits	3,233	(6,501)
Net cash provided by operating activities	**$ 297,363**	**$ 275,049**
Reconciliation of cash and cash equivalents		
Restricted and internally designated cash and cash equivalents	$ 248,842	$ 229,834
Cash and investments	515	4,279
Cash and cash equivalents - end of year	**$ 249,357**	**$ 234,113**
Non-cash investing, capital and financing activities		
Increase in donated utility plant assets	$ 4,215	$ 4,141
Increase in fair value of investments	$ 6,762	$ 4,451
Decrease in accounts payable related to utility plant purchases	$ 3,127	$ 89

See Notes to the Financial Statements for additional information.

Note A – The Organization

Orlando Utilities Commission (OUC) was created in 1923 by a Special Act of the Florida Legislature as a statutory commission of the State of Florida. The Act confers upon OUC the rights and powers to set rates and charges for electric and water. OUC provides a portfolio of energy services including the acquisition, generation, transmission and distribution of electric and water services to its customers within Orange and Osceola Counties as well as chilled water, lighting, back-up generation and electric vehicle charging and solar solution services.

OUC's governing Board (the Board) consists of five members including the Mayor of the City of Orlando. Members serve without compensation and with the exception of the Mayor, who is an ex-officio member of the Board, may serve no more than two full consecutive four-year terms.

Note B – Summary of Significant Accounting Policies

Basis of presentation: The financial statements are presented in conformity with generally accepted accounting principles for enterprise funds as prescribed by the Governmental Accounting Standards Board (GASB). The accounting records are also maintained in accordance with the accounting principles and methods prescribed by the Federal Energy Regulatory Commission (FERC) with the exception of contributions in aid of construction which are recorded in accordance with the standards prescribed by GASB.

OUC is a regulated enterprise and, as such, applies GASB Statement No. 62 “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements” (Statement No. 62 or Regulated Operations). Under this guidance, certain revenues and expenses are recognized and deferred in accordance with rate actions approved by the Board.

Reporting entity: OUC meets the criteria of an “other stand-alone government” as defined in GASB Statement No. 14, “The Financial Reporting Entity” and GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units.”

OUC has undivided interests in several power generation facilities which are operated through participation agreements and are described in Note D. Title to the property is held in accordance with the terms defined in each agreement and, as such, each party is obligated for its contractual share of operations. There are no separate entities or organizations associated with these agreements.

Measurement focus, basis of accounting, and financial statement presentation: OUC reports operating revenues and expenses separately from net non-operating expenses and contributions in aid of construction. Operating revenues and expenses generally result from producing and delivering utility services and solutions. The principal operating revenues are charges to retail and wholesale customers, net of the allowance for doubtful accounts. Operating expenses include fuel and purchased power, unit/department expenses, emergency response expenses, taxes, and depreciation on capital assets. Net non-operating expenses include costs related to financing and investment activities. Contributions in aid of construction are primarily comprised of water system impact fees and electric customer contributions to provide services beyond the required obligation to serve.

Pricing: The pricing of regulated electric and water services is the responsibility of the Board. Electric and water price changes are implemented after comprehensive cost recovery evaluations, public workshops are held, customers are notified and Board approval is secured to ensure these changes are implemented in a measured and responsible manner.

- Electric pricing: Effective October 1, 2019, a 3.3 percent electric price change was implemented that increased the bill for the average residential electric customer using 1,000 kWh per month from $106.00 to $109.50. Effective October 2018, electric price neutral changes were implemented lowering fuel prices 7.7 percent and increasing customer and energy prices. These price changes kept the average residential electric customer using 1,000 kWh per month at $106.00.
- Water pricing: In 2017, a four-year water price plan was approved; and effective October 1, 2019, the third scheduled price change was implemented that increased the average residential and commercial customer water bill 6.2 percent. The prior two price changes were effective April 2018 and January 2019 and increased the average residential and commercial customer water bill 4.0 and 3.4 percent, respectively.
- Ancillary service pricing: The pricing of chilled water, lighting, back-up generation, electric vehicle charging and solar services and solutions are designed utilizing an equivalent cost recovery model to the Board approved electric and water pricing with terms defined within the customer contract.

Note B – Summary of Significant Accounting Policies (continued)

Budgets: Revenue and expense budgets are prepared on an annual basis in accordance with OUC's budget policy and bond resolutions and submitted to the Board for approval. OUC's annual operating budget and capital plan are approved and adopted, respectively, in the month of August preceding the budgeted fiscal year. The legal adoption of OUC's operating budget and capital plan are not required.

In accordance with OUC's budget policy and bond resolutions, actual revenues and expenses are compared to the approved budget by operating unit line item and reported to the Board monthly.

Utility plant: Utility plant is stated at historical cost with the exception of impaired assets recorded in accordance with GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." See Note C for more information.

Historical utility plant costs include the costs of contract work, labor, materials, allocated indirect charges for equipment, supervision and engineering and assembled nuclear fuel costs. Interest expense is not a component of OUC's historical utility plant costs.

Assets are subject to capitalization if they have a useful life of at least two years, a unit cost of at least $1,000 with the exception of bulk asset purchases which must have a minimum per-unit cost of $500 and a total purchase amount of at least $75,000. Assets are depreciated systematically using the straight-line method over the estimated useful life, considering FERC guidelines or the license period of the asset. OUC periodically conducts a depreciation study with the last study completed in 2013.

The cost of retired utility plant assets, together with removal costs less salvage value, are charged to accumulated depreciation. In addition, when a utility plant asset constituting an operating unit or system is sold or disposed of and the net proceeds of the sale are at least $0.5 million, the gain on the sale or disposal is deferred and proceeds are placed in the renewal and replacement fund in accordance with the Board-approved Policy for Accounting Treatment of Disposal of Capital Assets.

The consolidated average annual depreciation rate, inclusive of impairment expense, was 3.3 percent for 2020 and 2019. Depreciation is calculated using the following range of estimated lives:

Electric	3 – 60 years
Water	3 – 75 years
Chilled Water	3 – 50 years
Lighting	20 years
Common	3 – 40 years

Cash, cash equivalents and investments: Cash and cash equivalents are reported under the headings of restricted and internally designated assets and current assets. OUC's cash and cash equivalents include all authorized instruments purchased with an original maturity date of three months or less including all investments in money market funds. Premiums and discounts on investments are amortized using the effective interest method.

Investments having maturities of greater than one year at the time of purchase are reported at fair value and those with maturities of less than one year at the time of purchase are reported at amortized book value. Effective in 2018, the Board approved the deferral of the recognition of unrealized investment valuations to ensure revenues and expenses were recovered consistent with the rate-making model. Realized investment valuations continue to be recognized and included as a component of interest income in the Statements of Revenues, Expenses and Changes in Net Position except for realized valuation changes associated with a bond refunding which are included as a component of the unamortized amount on refunding.

Restricted and internally designated assets: Restricted and internally designated assets represent cash, cash equivalents and investments. Restricted assets were designated in accordance with law, bond requirements or regulatory statutes. Internally designated assets were designated to align with customer obligations or Board actions.

Accounts receivable: OUC recognizes revenues and the associated customer receivables, net of the allowance for doubtful accounts in the period in which it was earned. The allowance for doubtful accounts was calculated based upon OUC's historical collections experience, local economic market conditions and the projected impacts from emergency response events. Bad debt expenses for estimated doubtful accounts were recorded as a reduction of operating revenues in the Statements of Revenues, Expenses and Changes in Net Position.

In April 2020, beyond approving a $7.5 million one-time fuel price reduction, the Board approved $4.6 million for customer bill payment assistance providing support through the Project Care Program, administered by the Heart of Florida United Way, and internally administered programs including the *Power Pass* prepaid meter program.

Note B – Summary of Significant Accounting Policies (continued)

The net customer receivable balance of $66.1 million and $80.7 million at September 30, 2020 and 2019 includes an allowance for doubtful accounts of $30.0 million and $17.6 million, respectively. Included in net customer receivables were billings on behalf of the State and other local governments of $6.8 million and $8.8 million at September 30, 2020 and 2019, inclusive of an allowance for doubtful accounts of $3.9 million and $2.9 million, respectively. Agency billings are not reflected in the Statements of Revenues, Expenses and Changes in Net Position.

Impacts from COVID-19 have contributed to the increase in the allowance for doubtful accounts with bad debt expenses of $11.5 million for the year ended September 30, 2020. Bad debt expenses were $1.7 million for the year ended September 30, 2019.

As of September 30, 2020 and 2019, miscellaneous receivables were $25.2 million and $8.0 million, net of allowance for doubtful accounts of $2.1 million and $2.5 million for the years ended September 30, 2020 and 2019, respectively. Miscellaneous receivables at September 30, 2020 included a collateral receivable of $13.2 million as a result of the termination of the Series 2017A interest rate swap (see Note H).

All receivables are anticipated to be collected within the annual operating cycle and are reported as current assets at September 30:

(Dollars in thousands)	**2020**	**2019**
Customer receivables, net		
Customer receivables	$ 53,786	$ 66,409
Agency receivables	6,797	8,775
Wholesale receivables	5,538	5,495
Total customer receivables, net	**66,121**	**80,679**
Miscellaneous receivables, net	**25,157**	**8,003**
Total accounts receivable, net	**$ 91,278**	**$ 88,682**

Accrued utility revenue: This amount represents utility services provided to retail customers but not billed at the end of the fiscal year due to the timing of the monthly bill cycle. Accrued utility revenues were $38.0 million and $37.5 million at September 30, 2020 and 2019, respectively, including unbilled electric fuel revenues in the amount of $9.7 million and $9.5 million, respectively.

Fuel for generation: Fuel for generation includes oil and coal inventories reported at their market indexed amounts or current costs. Fuel for generation at September 30, 2020 and 2019 was $23.0 million and $26.8 million, respectively, as a result of lower coal inventories.

Materials and supplies inventory: Materials and supplies are reported at current cost based on contractual material and supply agreements. Materials and supplies inventory at September 30, 2020 and 2019 was $43.7 million and $40.7 million, including an allowance for obsolescence of $11.4 million and $9.9 million, respectively.

Prepaid and other expenses: Prepaid expenses represent costs that are anticipated to be recognized in the Statements of Revenues, Expenses and Changes in Net Position in the near future, including service agreement costs and collateral or margin deposits for interest rate and fuel hedges resulting from unrealized market valuations. Prepaid expenses at September 30, 2020 and 2019 were $10.7 million and $26.1 million, respectively, of which collateral or margin deposits for interest rate and fuel hedges were $2.7 million and $18.0 million, respectively.

Hedging derivative instruments: All effective derivative instruments were included in the Statements of Net Position as either an asset or liability measured at fair value. Changes in the fair value of the hedging derivative instruments during the year were deferred and recognized in the period in which the derivative was settled. Ineffective interest rate hedges have been deferred as a regulatory asset as approved by the Board and discussed further in Note G and Note M. The settlement of fuel and financial related hedging derivative instruments were included as part of fuel for generation and purchased power costs and interest expense, respectively, in the Statements of Revenues, Expenses and Changes in Net Position.

Current portion of long-term debt: Bonds payable due within one year represent scheduled principal payments due within the upcoming year, in accordance with the serial requirements of the bond agreements. Funds to satisfy these scheduled principal payments are segregated and included as a component of internally designated assets.

Accounts payable and accrued expenses: Accounts payable and accrued expenses include liabilities for supplier-related goods and services received, fuel and purchased power costs incurred and self-insurance accrual requirements. In addition, included under the heading of other accounts payable and accrued expenses were environmental accruals of $1.7 million at September 30, 2020 and 2019.

Note B – Summary of Significant Accounting Policies (continued)

The following summarizes the significant payable balances included under this heading at September 30:

(Dollars in thousands)	2020	2019
Supplier payables	$ 40,078	$ 32,569
Fuel and purchased power payables	16,024	19,512
Other accounts payable and accrued expenses	4,953	3,955
Accrued self-insurance expenses	3,349	3,442
Hurricane related supplier payables	—	3,354
Total accounts payable and accrued expenses	**$ 64,404**	**$ 62,832**

Pension plan and other postemployment benefits plan (OPEB): For purposes of measuring the net pension and OPEB liabilities, deferred outflows and inflows of resources and pension and OPEB expenses, information about the fiduciary net position of the OUC Defined Benefit Pension Plan and OPEB Plan additions to/deductions from the plan's fiduciary net position were determined on the same basis as they were reported by the plans in their standalone reports. For this purpose, the plan recognized benefit payments (including refunds of employee contributions) when due and payable in accordance with the benefit terms; and, investments were reported at fair value, except for money market and alternative investments, which were reported at amortized cost.

Compensated absences and accrued wages: OUC accrues vacation leave for all employees annually in January. Sick leave is earned annually on the employee's anniversary date and is accrued based on a ratio of sick leave taken to sick leave earned. This ratio is then used to determine an employee's payout at either the retirement rate of 50.0 percent or termination rate of 25.0 percent. No payout is accrued for employees with less than two years of employment. Compensatory time is also included in the liability and is accrued when earned.

As a result of COVID-19 and the changing workforce dynamics, the accrued liability for compensated absences at September 30, 2020 was $13.3 million compared to $11.6 million at September 30, 2019. Accrued wages at September 30, 2020 and 2019 were $4.5 million and $3.8 million, respectively.

Asset retirement obligation and other liabilities: Included in this amount are accrued long-term liabilities associated with closure and post-closure cost activities for generation and related facility assets and advances received from customers for construction commitments.

Long-term liabilities associated with the St. Lucie Unit 2 nuclear generation facility (SL2) are accrued in accordance with accounting and regulatory guidance for asset retirement obligations (ARO) and the license maturity period of 2043. The ARO associated with SL2 was determined based on the December 2015 decommissioning report approved by the Florida Public Service Commission (FPSC). OUC's minority share of the SL2 facility is 6.09 percent, and decommissioning closure costs, in 2015 dollars, were estimated to be $52.9 million. This liability continues to be systematically accreted over a life consistent with the plant's license period and at September 30, 2020 and 2019 was $58.5 million and $57.3 million, respectively. As of September 30, 2020 and 2019, nuclear generation facility decommissioning funds of $47.2 million and $44.7 million, respectively, were restricted to pay for OUC's minority share of the SL2 ARO.

Costs associated with the closure and post-closure costs for landfills operated at the Stanton Energy Center (SEC) are estimated to be $3.4 million. Accrued costs based on the capacity used to date of 65.9 percent and 56.8 percent were $2.5 million and $1.9 million as of September 30, 2020 and 2019, respectively.

Developer and customer funds received for system development fees and assets are recorded as deferred contributions in aid of construction in the period in which they are received on the Statements of Net Position. As projects are completed, the contributions are then recognized as revenue. The deferred contributions in aid of construction at September 30, 2020 and 2019 was $22.3 million and $13.0 million, respectively.

Unamortized discount/premium: Unamortized discount/premium on outstanding bonds were recorded in the year of issuance. Amortization of these amounts were recorded using the bonds outstanding method based on the individual serial maturities and was presented net of accumulated amortization.

Note B – Summary of Significant Accounting Policies (continued)

Net positions: OUC classifies net position into three components as follows:

- **Net investment in capital assets:** This component of net position consists of capital assets, net of accumulated depreciation reduced by the outstanding debt balances used to acquire or construct these assets.
- **Restricted:** This component consists of net position with external constraints placed on their use. Constraints include those by debt indentures, grants or laws and regulations of other governments and those established by law through constitutional provisions or enabling legislation.
- **Unrestricted:** This component of net position consists of net position that is not included in the definition of “net investment in capital assets” or “restricted.”

Subsequent events: Subsequent events for OUC have been evaluated through November 20, 2020, which is the date the financial statements were available to be issued and no events of this nature were noted.

Implementation of New GASB Accounting Standards

OUC early adopted GASB Statement No. 90, “Majority Equity Interests,” (Statement No. 90) during the year ended September 30, 2020. Statement No. 90 requires that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment or permanent fund. This statement had no effect on the financial statements.

Future GASB Accounting Standard Implementations

In May 2020, the GASB issued Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance", (Statement No. 95) with the primary objective to provide temporary relief regarding standard implementation in light of COVID-19. As such, certain implementation dates were extended in accordance with the new standards.

Reporting Impacts

In January 2017, GASB Statement No. 84, “Fiduciary Activities,” (Statement No. 84) was issued. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the standard is on control of the assets and fiduciary responsibilities associated with retaining asset control on behalf of the beneficiaries with whom a fiduciary relationship exists including note disclosures and required supplementary information. The updated effective date of this standard (as amended by Statement No. 95) is for periods beginning after December 15, 2019. OUC will adopt this standard for the fiscal year beginning October 1, 2020. Management has yet to determine the impact, if any, to the financial statements or supplemental reporting.

In January 2020, GASB Statement No. 92, "Omnibus 2020," (Statement No. 92) was issued, addressing practice issues identified during prior implementation and application of certain GASB statements. This statement includes provisions related to the effective date of Statement No. 87, reporting of intra-entity transfers of assets between a primary government and component unit pension or other postemployment benefit plans, the applicability of Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68," as amended, Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," as amended, and Statement No. 84, "Fiduciary Activities," to reporting assets accumulated for postemployment benefits and postemployment benefit arrangements, measurement of liabilities related to asset retirement obligations in a government acquisition, reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers, nonrecurring fair value measurements of assets or liabilities, and terminology related to derivative instruments. The effective date of this standard is for periods beginning after June 15, 2021. This statement is under review and management has yet to determine the impact, if any, to the financial statements.

In June 2020, the GASB issued Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32". The objectives of this statement are to increase consistency and comparability for component units that do not have a governing board, mitigate costs associated with the reporting of certain retirement plans, and enhance accounting and financial reporting for 457 deferred compensation plans that meet the definition of a pension plan. The effective date of this standard is for periods beginning after June 15, 2021. This statement is under review and management has yet to determine the impact, if any, to the financial statements.

Note B – Summary of Significant Accounting Policies (continued)

Transactional Impacts

In June 2017, GASB Statement No. 87, “Leases,” (Statement No. 87) was issued. Statement No. 87 requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as deferred outflows or inflows of resources based on the payment provisions of the contract. The updated effective date of this standard (as amended by Statement No. 95) is for periods beginning after June 15, 2021. This statement is under review and management has yet to determine the impact, if any, to the financial statements.

In March 2020, the GASB issued Statement No. 93, "Replacement of Interbank Offered Rates," (Statement No. 93) to address the elimination of the London Interbank Offered Rate (LIBOR) in its current form. The objective of this statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this statement are effective for reporting periods beginning after June 15, 2020. This statement is under review and management has yet to determine the impact, if any, to the financial statements.

In March 2020, GASB Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements," (Statement No. 94) was issued. Statement No. 94 requires that public-private and public-public partnerships that meet the definition of a lease apply the guidance in Statement No. 87, "Leases," based on amended criteria. This statement also provides accounting and financial reporting guidance for availability payment arrangements. The effective date of this standard is for periods beginning after June 15, 2022. This statement is under review and management has yet to determine the impact, if any, to the financial statements.

In May 2020, the GASB issued Statement No. 96, "Subscription-Based Information Technology Arrangements". This statement provides uniform accounting and financial reporting requirements for governments who enter into subscription-based contracts to use vendor provided information technology which affords governments access to software and associated tangible assets without granting a perpetual license or title. The effective date of this standard is for periods beginning after June 15, 2022. Management has yet to determine the impact, if any, to the financial statements or supplemental reporting requirements.

Note C – Utility Plant

Utility plant, net represents 73.3 percent and 70.2 percent of total assets in 2020 and 2019, respectively. In response to the implementation of increased safety protocols and cost saving initiatives, capital plan spending decreased and the completion of several self-constructed assets was delayed. The annual depreciation recapture rate was 116.9 percent in 2020 compared to 77.7 percent in 2019.

Net utility plant increased 3.0 percent and 1.1 percent in 2020 and 2019, respectively. Beyond the utility plant additions, OUC continues to supplement generation resources with renewable energy power purchase agreements as outlined in Note D and Note J.

Activities for the years ended September 30, 2020 and 2019 were as follows:

Utility Plant (Net) (Dollars in thousands)	**2019**	**Additions**	**Transfers**	**Retirements/ reclassifications**	**2020**
Utility plant					
Electric	$ 3,368,952	$ 26,460	$ 66,294	$ (12,868)	$ 3,448,838
Water	630,858	4,776	20,243	(1,798)	654,079
Chilled Water	116,994	—	1,159	—	118,153
Lighting	96,944	—	11,919	(1,154)	107,709
Shared/Customer Service	258,021	1,860	(3,950)	(47,897)	208,034
Total utility plant	**4,471,769**	**33,096**	**95,665**	**(63,717)**	**4,536,813**
Accumulated depreciation					
Electric	(1,676,999)	(103,179)	(10,164)	(4,619)	(1,794,961)
Water	(265,727)	(18,085)	—	1,827	(281,985)
Chilled Water	(56,310)	(3,344)	—	(20)	(59,674)
Lighting	(47,777)	(5,473)	—	1,102	(52,148)
Shared/Customer Service	(148,105)	(16,548)	10,164	47,812	(106,677)
Total accumulated depreciation	**(2,194,918)**	**(146,629)**	**—**	**46,102**	**(2,295,445)**
Total depreciable utility plant, net	2,276,851	(113,533)	95,665	(17,615)	2,241,368
Land and other non-depreciable assets	83,171	1,142	—	—	84,313
Construction work in progress	156,227	206,961	(95,665)	(1,845)	265,678
Utility plant, net	**$ 2,516,249**	**$ 94,570**	**$ —**	**$ (19,460)**	**$ 2,591,359**

Utility Plant (Net) (Dollars in thousands)	**2018**	**Additions**	**Transfers**	**Retirements/ reclassifications**	**2019**
Utility plant					
Electric	$ 3,242,461	$ 17,759	$ 130,236	$ (21,504)	$ 3,368,952
Water	617,396	4,275	10,965	(1,778)	630,858
Chilled Water	116,901	48	45	—	116,994
Lighting	87,986	—	8,991	(33)	96,944
Shared/Customer Service	248,881	1,784	12,160	(4,804)	258,021
Total utility plant	**4,313,625**	**23,866**	**162,397**	**(28,119)**	**4,471,769**
Accumulated depreciation					
Electric	(1,579,790)	(98,131)	—	922	(1,676,999)
Water	(250,507)	(16,951)	—	1,731	(265,727)
Chilled Water	(52,929)	(3,729)	—	348	(56,310)
Lighting	(43,032)	(4,745)	—	—	(47,777)
Shared/Customer Service	(135,377)	(17,797)	—	5,069	(148,105)
Total accumulated depreciation	**(2,061,635)**	**(141,353)**	**—**	**8,070**	**(2,194,918)**
Total depreciable utility plant, net	2,251,990	(117,487)	162,397	(20,049)	2,276,851
Land and other non-depreciable assets	73,253	9,978	—	(60)	83,171
Construction work in progress	164,213	155,777	(162,397)	(1,366)	156,227
Utility plant, net	**$ 2,489,456**	**$ 48,268**	**$ —**	**$ (21,475)**	**$ 2,516,249**

Note D – Generation Resources

OUC secures its generation resource needs through owned assets and power purchase agreements as follows:

Wholly owned and OUC operated: OUC maintains fiscal, budgetary and operating control of SEC Unit B with no undivided participant ownership interests.

Jointly owned and OUC operated: OUC maintains fiscal, budgetary and operating control at four power generation facilities for which there are undivided participant ownership interests. These undivided ownership interests are with the Florida Municipal Power Agency (FMPA) and Kissimmee Utility Authority (KUA). Each agreement is limited to the generation facilities and excludes the external facilities. OUC also maintains operational control of a wastewater treatment facility at the Stanton Energy Center through an agreement with Orange County.

Jointly owned and non-OUC operated: OUC maintains an undivided participant interest at the SEC Unit A located at OUC's SEC, SL2 and McIntosh 3 (MAC3) generation facilities. In each of these agreements, fiscal, budgetary and operational controls are not maintained by OUC, with the exception of fuel-related services at SEC Unit A where OUC retains responsibility as fuel agent through the power purchase agreement term. Funds secured in this role as fuel agent are restricted on the Statements of Net Position and disclosed in Note E.

Power purchase agreements: OUC maintains contractual commitments to secure traditional generation resources, beyond its ownership interest, through its power purchase agreement at the SEC Unit A generation facility. In addition, renewable energy generation resources are secured through a variety of third party providers all of whom maintain fiscal, budgetary and operational controls of these generation resources.

OUC operated, non-OUC operated and power purchase agreements are as follows:

	Operational year	Nameplate capacity	OUC undivided ownership interest	Net OUC megawatt capacity	Fuel source
Wholly owned and operated					
Stanton Unit B (SEC Unit B)	2010	300	100.00%	300	Natural gas
Jointly owned and operated					
Indian River (IRP - A&B)	1989	76	48.80%	37	Natural gas
Indian River (IRP - C&D)	1992	224	79.00%	177	Natural gas
Stanton Unit 1 (SEC Unit 1)	1987	425	68.55%	291	Coal
Stanton Unit 2 (SEC Unit 2)	1996	425	71.59%	304	Coal
Jointly owned and non-OUC operated					
Stanton Unit A (SEC Unit A)	2003	633	28.00%	177	Natural gas
McIntosh Unit 3 (MAC3) [1]	1982	364	40.00%	146	Coal
St. Lucie Unit 2 (SL2)	1983	850	6.09%	52	Nuclear
Power purchase agreement					
Stanton Unit A (SEC Unit A)	2018	n/a [2]	n/a [2]	330	Natural gas
Solar	2010-2020	n/a [2]	n/a [2]	123	Solar
Landfill Gas	2011-2016	n/a [2]	n/a [2]	21	Landfill gas

[1] In May 2019, Lakeland Electric, the owner-operator of MAC3, announced the shuttering-in of this generation facility no later than 2024

[2] Power purchase agreements are based on contracted terms related to individual generation or expected availability of generation under each agreement and nameplate capacity and undivided interest are not applicable

Asset valuation: Jointly owned and OUC-operated generation facility asset balances and the jointly owned and non-OUC operated assets at MAC3 include the cost of common and/or external facilities. At the other jointly owned and non-OUC operated generation facility, participants pay user charges to the operating entity for the cost of common and/or external facilities. User charges paid through the power purchase agreement for SEC Unit A are remitted back to OUC at their proportionate ownership interest of shared facilities.

Allowance for generation facility depreciation and asset retirement obligations are determined by each participant based on their proportionate ownership interest.

Note D – Generation Resources (continued)

The following is a summary of OUC's recorded gross and net share of each jointly and wholly owned power generation facility at September 30, including reclassified utility plant assets in 2019:

	2020			2019		
(Dollars in thousands)	Utility plant	Accumulated depreciation	Net book value	Utility plant	Accumulated depreciation	Net book value
SEC Unit 2	$ 539,369	$ 306,102	$ 233,267	$ 527,937	$ 289,246	$ 238,691
SEC Unit B	300,970	113,139	187,831	300,505	101,305	199,200
SEC Unit 1	447,219	302,393	144,826	427,530	287,367	140,163
SL2	206,790	97,824	108,966	201,580	95,527	106,053
MAC3	209,316	162,847	46,469	205,343	150,748	54,595
SEC Unit A	95,482	58,875	36,607	88,375	53,946	34,429
IRP	60,427	52,297	8,130	59,886	50,125	9,761
Total	**$ 1,859,573**	**$ 1,093,477**	**$ 766,096**	**$ 1,811,156**	**$ 1,028,264**	**$ 782,892**

Note E – Cash, Cash Equivalents and Investments

OUC maintains a portion of its cash, cash equivalents and investments in qualified public depository accounts with institutions insured by the Federal Deposit Insurance Corporation or collateralized by a pool of U.S. Governmental securities, per the Florida Security for Public Deposits Act, Chapter 280, of the Florida Statutes as well as other types authorized by the Finance Committee Charter.

Unexpended funds from the sale of bonds, debt service funds, and other special funds are included in the restricted and internally designated assets section of the Statements of Net Position. The use of these funds is designated in accordance with applicable debt indentures, Board action, or any other laws and regulations established through legislation.

Securities are recorded at fair value with realized gains and losses recognized when incurred and unrealized gains and losses deferred as a component of regulatory assets in the Statements of Net Position. Refer to Note G for further detail.

The Finance Committee Charter, inclusive of the maximum portfolio weighting, provides management with guidelines to ensure risks associated with these assets are mitigated. The following are the key controls which OUC utilizes to mitigate investment risk:

- **Interest rate risk:** To mitigate this risk, OUC limits maturities based on investment type and credit strength and executes 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:** OUC views this type of risk as minimal due to its use of Qualified Public Depositories (QPD) of the State of Florida, Local government investment pools which are backed by securities allowed by law by the State of Florida or money market mutual funds rated at the highest available credit rating for this type of security with a stable net asset value but could be subject to daily mark to market and no later than next day liquidity. OUC had $248.7 million and $218.8 million of investments held in money market funds and QPD accounts that were exposed to this risk as of September 30, 2020 and 2019, respectively.
- **Credit risk:** To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, OUC limits investments to those rated, at a minimum, “A-1 / P-1 / F1” or equivalent for commercial paper and “A3 / A-” for medium-term corporate notes by nationally recognized rating agencies.
- **Foreign currency risk:** OUC is not authorized to invest in foreign currency and, as such, is not exposed to this risk.
- **Concentration risk:** This is the risk of loss associated with the extent of OUC’s investment in a single issuer. OUC places limits on the amounts invested in any one issuer for certain types of securities. The following were the investment concentrations greater than 5.0 percent for a single issuer as of September 30:

Note E – Cash, Cash Equivalents and Investments (continued)

Investment type (Dollars in Thousands)		2020			2019	
Money market mutual funds						
MSIFT Ultra Short Fund	$	91,000	15.7 %	$	69,000	10.7 %
U.S. Agencies						
Federal Home Loan Mortgage Corporation	$	59,989	10.4 %	$	—	— %
Federal Home Loan Banks	$	31,278	5.4 %	$	63,181	9.8 %
Federal Farm Credit Banks	$	7,980	1.4 %	$	35,358	5.5 %
Local government surplus funds investment pool						
Florida FIT LGIP CP Pool	$	36,260	6.3 %	$	27,738	4.3 %
Florida State Board of Administration	$	13,122	2.3 %	$	110,980	17.1 %
U.S. Treasury notes	$	5,674	1.0 %	$	49,511	7.6 %

The following table summarizes the investment criteria underlying the Finance Committee Charter segregated by investment type, credit guidelines and maximum portfolio weighting.

Investment type	Credit guidelines	Maximum portfolio weighting	Portfolio weighting at September 30, 2020	Portfolio weighting at September 30, 2019
Certificates of deposit	Investments held by or purchased from institutions certified with the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes.	5%	—%	—%
Corporate notes and multi-national sovereign debt	Minimum rating of "A3" / "A-" by at least two nationally recognized rating agencies.	35%	25%	22%
Municipal notes	Minimum "A" rating by a nationally recognized rating agency.	25%	3%	1%
Bankers acceptances	Inventory based with an unsecured, uninsured and unguaranteed obligation rating of at least "P-1" and "A", and "A-1" and "A" by Moody's and S&P, respectively. Bank must be ranked in the top 100 banks.	10%	—%	—%
Money market mutual funds	Limited to funds that meet a stable net asset value and have the highest available credit rating for this type of security.	30%	16%	11%
Commercial paper	Minimum rating of "A-1", "P-1" and "F1" by at least two nationally recognized rating agencies.	20%	5%	16%
Depository accounts	Investments held by or purchased from institutions certified with the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes.	30%	19%	2%
Local government surplus funds investment pool [1]	Qualified under the laws of the State of Florida with no limitations or restrictions on withdrawals.	25%	9%	21%
U.S. Treasury notes	Direct obligations that are unconditionally guaranteed by the United States Government.	100%	1%	7%
U.S. Agencies	Indebtedness issued by government-sponsored enterprises (GSE), which are non-full faith and credited by the United States Government.	100%	22%	20%
Repurchase and reverse repurchase agreements	Secured transactions executed under a master repurchase agreement with collateral limited to direct governmental and agency obligations with terms of less than 10 years and held and maintained by a third-party trust at a market value of 102% of the cash value.	50% and 20%, respectively	—%	—%

[1] Financial Statements for the Florida Prime investment pool may be obtained by contacting the Chief Financial Officer, State Board of Administration of Florida, 1801 Hermitage Boulevard, Suite 101, Tallahassee, Florida 32308 and Financial Statements for the Florida Fixed Income Trust investment pool may be obtained by contacting the Administrator for Florida Fixed Income Trust, c/o Wertz York Capital Management Group, P.O. Box 9691, Tampa, FL 33674.

Note E – Cash, Cash Equivalents and Investments (continued)

The following schedule discloses the weighted average maturity in years for each of the investment classifications at September 30:

Investment type	Credit ratings Moody's Investors Service/Standard & Poor's/Fitch Ratings	2020	2019
Corporate notes and multi-national sovereign debt	Aaa - A3 / AA - BBB+ / AA - A	2.90	2.19
Municipal notes	Aaa - A2 / AAA - BBB+ / AAA	3.78	1.50
U.S. Agencies	Aaa / AA+ / AAA	3.12	1.90
U.S. Treasury notes	Aaa / AA / AAA	1.60	0.91
Commercial paper	A-1 / P-1 / F1	0.14	0.10

The following schedule discloses cash, cash equivalents and investments at September 30, including the financial liquidity measure of days on hand:

(Dollars in thousands)	2020	2019
Cash and cash equivalents		
Cash	$ 515	$ 4,279
Local government investment pool	49,382	138,718
Money market mutual funds	91,717	69,848
Depository accounts	107,743	10,269
Commercial paper	—	10,999
Total cash and cash equivalents	**249,357**	**234,113**
Investments		
U.S. Treasury notes	5,674	49,511
Corporate notes and multi-national sovereign debt	145,535	141,199
U.S. Agencies	129,700	126,407
Commercial paper	29,841	95,635
Municipal notes	19,796	5,060
Total investments	**330,546**	**417,812**
Total cash, cash equivalents and investments	**$ 579,903**	**$ 651,925**
Restricted and internally designated assets		
Restricted assets		
Construction funds	$ —	$ 25,777
Nuclear generation facility decommissioning funds	47,199	44,713
Total restricted assets	**47,199**	**70,490**
Internally designated assets		
Stabilization funds	175,114	182,056
Deposits and advances	124,928	119,007
Debt service sinking funds	98,793	89,361
Capital reserve	23,468	83,468
Renewal and replacement fund	55,717	55,717
Self-insurance fund and excess pension plan fund	17,216	11,849
Customer assistance fund	1,168	—
Total internally designated assets	**496,404**	**541,458**
Total restricted and internally designated assets	**543,603**	**611,948**
Cash and investments	**36,528**	**40,158**
Less accrued interest receivable from restricted and internally designated assets	**(228)**	**(181)**
Total cash, cash equivalents and investments	**$ 579,903**	**$ 651,925**
Days cash on hand	**327**	**337**

Note F – Fair Value Measurements

OUC 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 for which OUC has no assets.

Investments

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

- **Depository accounts** include money market and other liquid funds which are classified as Level 1 since quoted prices in active markets are available. According to GASB Statement No. 72, "Fair Value Measurement and Application," (Statement No. 72), money market investments and participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less and are held by governments other than external investment pools are measured at amortized cost.
- **Local government surplus funds investment pools** are classified as Level 2 as they are financial instruments held in co-mingled funds. According to Statement No. 72, an external investment pool is measured at the amortized cost per share determined by the pool.
- **Debt securities** classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Derivative Instruments

The fair value of OUC's interest rate swap agreements are based on a discounted cash flow model with Level 2 inputs including the value of the relevant market index upon which the swaps are based. The fair value of OUC's debt is presented in Note H and Note M.

Fuel derivatives are classified as Level 1 in the fair value hierarchy since quoted commodity prices in active markets are available. The fair value of OUC's fuel hedges is presented in Note M.

Donated Capital Assets

Donated capital assets are measured at acquisition value. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date. The donated capital assets acquisition value for water infrastructure received from developers and customers were included as contributions in aid of construction in the Statements of Revenues, Expenses and Changes in Net Position and were $4.2 million and $4.1 million for the years ended September 30, 2020 and 2019, respectively.

Note F – Fair Value Measurements (continued)

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

(Dollars in thousands)	2020	2019
Cash equivalents and investments		
Investments by fair value level:		
Debt securities		
Level 1		
U.S. Treasury notes	$ 5,674	$ 49,511
Level 2		
U.S. Agencies	129,700	108,546
Corporate notes and multi-national sovereign debt	145,534	141,199
Municipal notes	16,796	5,060
Total Level 2	**292,030**	**254,805**
Total investments by fair value level	**297,704**	**304,316**
Investments measured at the amortized costs:		
Debt securities		
U.S. Agencies	—	17,861
Municipal notes	3,000	—
Commercial paper	29,841	95,635
Total investments measured at the amortized cost	**32,841**	**113,496**
Cash equivalents measured at the amortized cost:		
Local government investment pool	49,382	138,718
Money market mutual funds	91,717	69,848
Depository accounts	107,743	10,269
Debt securities		
Commercial paper	—	10,999
Total cash equivalents measured at the amortized cost	**248,842**	**229,834**
Total cash equivalents and investments	**$ 579,387**	**$ 647,646**
Derivatives:		
Level 1		
Fuel hedges	$ 3	$ (7,566)
Level 2		
Interest rate swaps	(23,412)	(22,633)
Total derivatives	**$ (23,409)**	**$ (30,199)**

Note G – Regulatory Deferrals

Based on Board action, OUC has recorded the following regulatory assets and credits that will be included in the rate- making process and recognized as expenses and revenues, respectively, in future periods.

Regulatory Assets

Deferred operating expenses: The following deferrals resulted from Board approved actions in response to unbudgeted operating costs or changes in accounting guidance which were and will continue to be included in the rate-making process in future periods.

- **Long-term employee benefit expenses:** As a result of the implementation of new accounting guidance, prior service costs for pension were approved to be recognized in a manner that, at a minimum, matches the annual funding amount. Similar action was taken for past service costs associated with OPEB and both actions were aligned to be recognized through 2024. Beginning in 2019, actuarial valuation changes, to reflect previously approved plan changes, resulted in OPEB actuarially determined credit amounts. To ensure the effective recovery of these credits, the Board approved the deferral of these amounts to offset the regulatory asset and credit amounts of $5.6 million and $4.5 million were recognized at September 30, 2020 and 2019, respectively. Beginning in 2020, the recognition of both the pension and OPEB regulatory amounts were extended an additional eight years, through 2032, and at September 30, 2020 and 2019 the combined regulatory amounts for postemployment benefits were $90.3 million and $109.4 million, respectively.
- **Emergency response expenses:** Emergency response costs are incurred in conjunction with unplanned major events including weather and other historic emergency response events such as the recent pandemic. At September 30, 2020 and September 30, 2019, regulatory amounts for emergency response expenses were $18.4 million and $23.2 million, respectively.
    - **Weather related emergency response expenses:** Costs in the amount of $40.2 million were incurred for storm preparation and restoration efforts for Hurricane Matthew, Hurricane Irma, Hurricane Dorian and Hurricane Isaias since 2016. In anticipation of cost reimbursement through the Federal Emergency Management Agency (FEMA) process, the Board approved regulatory assets for Hurricane Matthew, Hurricane Irma and Hurricane Dorian in the amount of.$23.2 million. In 2020, OUC received $3.9 million from FEMA and recognized $2.0 million of ineligible Hurricane Dorian costs.
    - **COVID-19 emergency response expenses:** In 2020, OUC incurred $5.5 million in response to COVID-19 for the purchase of cleaning supplies, social distancing measures, medical screening measures and personal protective equipment. The Board approved the deferral of costs incurred in response to the COVID-19 pandemic of $1.1 million in anticipation of reimbursement from FEMA.
- Asset retirement obligation (ARO) costs: ARO costs are based on the difference between the decommissioning accretion expense for SL2 and the earnings on the associated restricted decommissioning funds. To date, retirement accretion expenses exceed the investment earnings, resulting in an asset retirement obligation regulatory asset at September 30, 2020 and 2019 of $7.8 million and $7.4 million, respectively.

Deferred non-operating expenses: The following deferrals resulted from Board approved actions in response to unplanned non-operating expenses which were and will continue to be included in the rate-making process in future periods.

- **Unrecognized fair value interest rate hedge expenses:** In conjunction with the refinancing of the Series 2011A Windows Bonds, the underlying interest rate swap settlement payments were deferred until October 2020 with settlement terms aligned to the term rate period of the Series 2017A Bonds. On September 30, 2020, Series 2017A Bonds were refunded with the Series 2020A Bonds and the underlying swap was terminated and the fair value loss at the date of termination was included under the heading of unamortized loss on refunded bonds. The unrecognized fair value of the deferred interest rate hedge settlement payments at September 30, 2019 was $17.7 million.
- **Deferred bond issue costs:** In conjunction with the implementation of new accounting guidance for bond issue costs, a regulatory asset was established for a ten-year period to allow for the recovery of previously deferred bond issue costs. Debt issue costs incurred after 2015 are expensed as incurred. The unrecognized issue cost at September 30, 2020 and 2019 was $2.5 million and $3.4 million, respectively.
- **Deferred Series 1993 and 1993B bond interest costs:** As a result of differing short-term and long-term rates at the date of debt issuance, costs associated with the short-term higher rate were deferred and systematically recognized over the remaining period of the original bond series. The amount of deferred charges at September 30, 2020 and 2019 was $0.8 million and $1.2 million, respectively.

Note G – Regulatory Deferrals (continued)

Regulatory Credits

Deferred operating credits: The following deferrals resulted from Board approved actions in response to unbudgeted transactions which were and will continue to be included in the rate-making process in future periods.

- **Fuel reserves:** Fuel reserves were established in accordance with guidelines from the Public Utilities Regulatory Policies Act of 1978 and represent the difference between the fuel costs charged to customers, inclusive of accrued utility revenue, and fuel costs incurred. The amount of fuel reserves at September 30, 2020 and 2019 was $72.5 million and $77.3 million, respectively. Fuel reserves also included funds internally designated to facilitate the transition to a clean energy generation portfolio in the amounts of $30.7 million and $31.7 million, respectively, at September 30, 2020 and 2019. These funds will be leveraged to support customer price stability as the Electric Integrated Resource Plan (EIRP) is implemented over the upcoming ten-year period.
- **Base rate reserves:** Rate reserves are designed to maintain stable electric and water customer pricing with target ranges reviewed and approved annually by the Finance Committee. Base rate reserves at September 30, 2020 and 2019 were $81.6 million and $82.6 million, respectively.

  The decrease in base rate reserves in 2020 of $1.0 million was due to the use of these reserves to offset economic development efforts as previously approved by the Board in accordance with the Economic Development Policy.

  In 2019, base rate reserves increased $14.0 million as a result of the Board approved the deferral of $20.0 million from the termination of a wholesale power supply agreement with the intent to use these funds through the original agreement term of 2023. In addition, the Board approved the use of $6.0 million in reserves to continue supporting the phased-in multi-year water price change plan, the now dismissed Stanton Energy Center legal claim and the expanded stakeholder engagement initiatives included with the EIRP initiative.
- **Capital reserves:** In accordance with the Board's Capital Asset Disposal policy, the sale of capital assets in excess of $0.5 million resulting in a gain are required to be deferred and recognized systematically over a period consistent with the lives of the assets with which they are associated. Capital reserves from the sale of assets at September 30, 2020 and 2019 were $41.4 million and $47.2 million, respectively.

  In 2019, gains on the sale of property of $2.3 million were deferred. These gains were combined with previously executed asset disposal gains and settlements, including the sale of the Indian River Plant steam generation facility in 1999 and eminent domain action of OUC's administration building parking garage in 2005. In 2020, there were no gains on the sale of property.

Deferred non-operating credits: The following deferrals resulted from Board approved actions in response to unplanned non-operating transactions which were and will continue to be included in the rate-making process in future periods.

- **Unrealized investment valuations:** Mark-to-market valuation changes for investments with a maturity of one year or greater are deferred. At September 30, 2020 and 2019, these unrealized investment valuations resulted in a deferred gain of $6.8 million and $4.5 million, respectively.

In conjunction with the recording of these regulatory credits, the Board internally designated funds in the amount of $175.1 million and $182.1 million at September 30, 2020 and 2019, respectively.

The following is a summary of OUC's regulatory deferrals at September 30:

(Dollars in thousands)	2020	2019
Regulatory assets		
Deferred operating expenses	$ 116,519	$ 140,023
Deferred non-operating expenses	3,365	22,314
Total regulatory assets	**$ 119,884**	**$ 162,337**
Regulatory credits		
Deferred operating credits	$ 226,241	$ 238,787
Unrealized investment valuations	6,762	4,451
Total regulatory credits	**$ 233,003**	**$ 243,238**

Note H – Long-Term Debt

The following schedule summarizes the long-term debt activity for the years ended September 30:

Bond Series (Dollars in thousands)	Final principal payment	Interest rates (%)	2019	Additions during year	Decreases during year	2020	Current portion
2010A	2040	5.66%	$ 200,000	$ —	$ —	$ 200,000	$ —
2010C	2022	4.00 - 5.25%	38,255	—	8,895	29,360	9,320
2011B	2023	5.00%	49,350	—	13,985	35,365	14,670
2011C	2027	4.00 - 5.00%	86,450	—	12,820	73,630	13,430
2012A	2027	4.00 - 5.00%	47,280	—	—	47,280	—
2013A	2025	5.00%	223,095	—	10,140	212,955	21,290
2015A	2035	5.00%	94,905	—	—	94,905	—
2016A	2033	4.00 - 5.00%	91,780	—	14,500	77,280	15,220
2017A [5]	2027	3.00 - 5.00%	98,360	—	98,360	—	—
2018A	2038	5.00%	150,220	—	—	150,220	—
2019A	2040	5.00%	54,735	—	—	54,735	—
2020A [5]	2027	5.00%	—	95,115	—	95,115	—
Total fixed rate debt			1,134,430	95,115	158,700	1,070,845	73,930
2008	2033	Variable rate [1,3]	200,000	—	—	200,000	—
2015B	2039	Variable rate [1,4]	115,090	—	—	115,090	—
Total variable rate debt			315,090	—	—	315,090	—
Total debt			1,449,520	95,115	158,700	1,385,935	$ **73,930**
Less current portion			(60,340)	13,590	—	(73,930)	
Total long-term debt			**$ 1,389,180**	**$ 108,705**	**$ 158,700**	**$ 1,312,005**	

Bond Series (Dollars in thousands)	Final principal payment	Interest rates (%)	2018	Additions during year	Decreases during year	2019	Current portion
2003T	2018	5.29%	$ 5,010	$ —	$ 5,010	$ —	$ —
2009B	2033	5.00%	65,160	—	65,160	—	—
2010A	2040	5.66%	200,000	—	—	200,000	—
2010C	2022	4.00 - 5.25%	46,735	—	8,480	38,255	8,895
2011B	2023	5.00%	62,675	—	13,325	49,350	13,985
2011C	2027	4.00 - 5.00%	86,450	—	—	86,450	12,820
2012A	2027	4.00 - 5.00%	49,515	—	2,235	47,280	—
2013A	2025	5.00%	228,465	—	5,370	223,095	10,140
2015A	2035	5.00%	94,905	—	—	94,905	—
2016A	2033	4.00 - 5.00%	126,275	—	34,495	91,780	14,500
2017A	2027	3.00 - 5.00%	98,360	—	—	98,360	—
2018A	2038	5.00%	150,220	—	—	150,220	—
2019A	2040	5.00%	—	54,735	—	54,735	—
Total fixed rate debt			1,213,770	54,735	134,075	1,134,430	60,340
2008	2033	Variable rate [2,3]	200,000	—	—	200,000	—
2015B	2039	Variable rate [2,4]	115,090	—	—	115,090	—
Total variable rate debt			315,090	—	—	315,090	—
Total debt			1,528,860	54,735	134,075	1,449,520	$ **60,340**
Less current portion			(68,915)	—	(8,575)	(60,340)	
Total long-term debt			**$ 1,459,945**	**$ 54,735**	**$ 125,500**	**$ 1,389,180**	

[1] Variable rates ranged from 0.08% to 6.95% for the year ended September 30, 2020.
[2] Variable rates ranged from 1.11% to 2.41% for the year ended September 30, 2019.
[3] The Series 2008 Variable Rate Demand Obligation Bonds of $200.0 million are supported by a Standby Bond Purchase Agreement (SBPA), which will expire on April 4, 2022.
[4] The Series 2015B Variable Rate Demand Obligation Bonds of $115.1 million are supported by a SBPA, which will expire on October 1, 2025.
[5] The Series 2017A Bonds were refunded by the Series 2020A Bonds in 2020.

Note H – Long-Term Debt (continued)

Debt service requirements: Aggregate annual debt service requirements at September 30 are presented below. The schedule includes net receipts and payments on outstanding effective interest rate swap agreements and interest subsidies anticipated on refundable tax credits. The Series 2008 and Series 2015B Bonds were reported according to the scheduled maturity dates as management anticipates these bonds will remain outstanding.

Variable interest rates are included based upon budgeted projections and are assumed to remain static until their maturity. As these rates vary, actual interest payments on variable rate bonds and effective hedging derivative instruments will vary in relation to these changes.

(Dollars in thousands)	Principal	Interest	Federal interest subsidy	Total
2021	$ 82,050	$ 54,999	$ (3,730)	$ 133,319
2022	80,240	51,081	(3,730)	127,591
2023	75,220	47,299	(3,730)	118,789
2024	75,940	44,138	(3,730)	116,348
2025	76,185	40,340	(3,730)	112,795
2026-2030	328,500	154,467	(18,650)	464,317
2031-2035	324,725	100,990	(18,220)	407,495
2036-2040	269,145	36,154	(9,484)	295,815
Long-term debt	**1,312,005**	**529,467**	**(65,004)**	**1,776,469**
Current portion	**73,930**	**52,363**	**(3,730)**	**122,563**
Total debt	**$ 1,385,935**	**$ 581,829**	**$ (68,734)**	**$ 1,899,032**

General bond resolution: All bonds outstanding were subject to the provision of this resolution for which some of the key provisions are as follows:

- **Rate covenant:** The net revenue requirement for annual debt service has been set at 100.0 percent of available funds plus net revenues at 125.0 percent of annual debt service.
- **Conditions precedent:** This test is limited to OUC's certification that it meets the rate covenant.
- **Flow of funds:** There are no funding requirements; however, consistent with prior resolutions, OUC can determine whether to fund a debt service reserve account on an issue-by-issue basis or internally designate funds.
- **System definition:** OUC's system definition has been modified to utility system. This definition is a more expansive definition to accommodate organizational changes and the expansion into new services.
- **Sale of assets:** System assets may be sold if the sale will not interfere with OUC's ability to meet rate covenants. The net benefit of capital asset dispositions in excess of $0.5 million will be reinvested into the utility system or used to retire outstanding debt. As such, there are no assets pledged as collateral.
- **Finance-related consequences and acceleration:** There are no events of default or other termination events with finance-related consequences or subjective acceleration clauses.

Refunded bonds: Consistent with accounting guidance, all refunded and defeased bonds are treated as extinguished debt for financial reporting purposes and have been removed from the Statements of Net Position. The proceeds secured from refunding transactions are invested in United States Treasury obligations in irrevocable escrow deposit trust funds. Each escrow deposit trust is structured to mature at such time as to provide sufficient funds for the payment of maturing principal and interest on the refunded bonds. Interest earned or accrued on these escrow funds has been pledged and will be used for the payment of the principal and interest on each respective bond series.

Note H – Long-Term Debt (continued)

On September 30, 2020, OUC issued the Series 2020A fixed rate bonds with a par amount of $95.1 million and a premium of $27.1 million. The proceeds were used for the refunding of the Series 2017A Bonds of $98.4 million and the termination of the associated interest rate swap in the amount of $23.2 million. The Series 2020A Bonds have maturity dates through October 1, 2027. The bonds were issued with fixed rate coupons of 5.0 percent.

Debt Issued (Dollars in thousands)	Par Amount Issued	Premium on Issuance	Par Amount Refunded	Savings	PV Savings	Accounting Loss	Savings % of Refunded Bonds	Debt Refunded
2020A	$ 95,080	$ 27,107	$ 98,360	$ 1,502	$ 1,440	$ 23,161	1.5%	2017A

Interest rate swaps: OUC limits its execution of interest rate swap agreements to major financial institutions with a minimum credit rating of “A3” or “A-” by any two nationally recognized credit rating agencies. The ratings of all current swap counterparties met the minimum rating requirements as of the execution dates. All counterparty ratings continue to meet this credit criteria and OUC does not anticipate nonperformance by a counterparty nor have any instances of this nature occurred. In the event of the termination of a swap agreement, OUC may be required to make or be subject to receive a termination payment, as shown in the swap schedule below.

In 2020, OUC entered into a fixed rate swap agreement in the notional amount of $150.0 million. Under the swap agreement, OUC will pay a fixed rate of 1.3 percent and receive a floating rate equal to 80.0 percent of three-month LIBOR. The swap agreement is subject to an optional early termination provision by OUC upon written notice to the counterparty at least five business days in advance. The agreement has a maturity date of October 1, 2046 with a mandatory termination date of October 1, 2021 should the early termination option not be exercised. OUC intends to terminate the swap upon the issuance of fixed rate bonds in 2021.

In 2019, OUC and the counterparty of the Series 2015B Bonds interest rate swap entered into an agreement to defer the option to settle the swap at par value in October 2020 to October 2027. In consideration of the extension, OUC received a net present value benefit of $5.0 million in the form of an interest rate reduction of 29.5 basis points.

The following schedule summarizes OUC’s fair value position, based on quoted market rates, for its outstanding swap agreements at September 30, 2020 and 2019. Costs associated with these agreements are deferred and amortized over the life of the underlying bond agreement. The notional amounts below are the basis for which interest is calculated; however, the notional amounts are not exchanged.

Bond Series	Notional amount (000)'s	OUC pays	Rate paid	Rate received	Initiation date	Termination date	2020 Fair value liability/ (asset)	2019 Fair value liability/ (asset)	Counterparty
2021A	$ 150,000	Fixed	1.31%	80% of LIBOR	2/20/2020	10/1/2046	$ 12,648	$ —	Wells Fargo
2017A	$ 100,000	Fixed	3.78%	67% of LIBOR	6/1/2011	9/30/2020	$ —	$ 17,691	Morgan Stanley
2015B	$ 115,090	Fixed	2.08%	67% of LIBOR	10/23/2015	10/1/2039	$ 10,764	$ 4,942	Goldman Sachs
Total							**$ 23,412**	**$ 22,633**	

Wells Fargo Bank counterparty credit rating - Aa2 / A+ / AA-

Morgan Stanley counterparty credit rating - A3 / A+

Goldman Sachs counterparty credit rating - A1 / A+ / A+

In accordance with each interest rate swap agreement, collateral deposits are required for valuations that exceed the established thresholds to mitigate the counterparty’s credit risk exposure.

Collateral deposits, held by OUC counterparties, in excess of the contractual threshold at September 30, 2020 and 2019 were $1.9 million and $7.7 million, respectively.

Unused lines of credits: There were no unused lines of credit at September 30, 2020 and 2019.

Note I – Insurance Programs

Background

OUC was exposed to various risks of loss related to torts, theft and destruction of assets, errors and omissions and natural disasters. In addition, OUC was exposed to risks of loss due to injuries and illness of its employees. These risks were managed through OUC’s self-insurance and third-party claims administration programs, and recovery of eligible costs through FEMA public assistance grants.

Third party coverage is available for liabilities, in excess of the self-insurance retention (SIR), for employee-related claims, including health and wellness benefits and workers' compensation, as well as for general and vehicle claims, which include but are not limited to slip, trip and falls, customer property damage from power surges, and motor vehicle accidents. OUC also retains third-party administrator services for its health and wellness program and workmen's compensation coverages. OUC’s transmission and distribution systems are not covered by property insurance, since such coverage is generally not available.

Under the self-insurance program, OUC was liable for all claims up to certain maximum amounts per occurrence. At September 30, 2020 and 2019, the following coverages were available:

Type of coverage	OUC limits	Third party limits
Health and wellness benefits	$0.25 million per insured/year	125.0% of expected annual claims up to $2.0 million
Workers' compensation	$0.5 million per occurrence	$0.5 million to statutory limit
General and vehicle liability	$2.0 million per occurrence	$2.0 million to $50.0 million and up to $10.0 million for directors and officers, fiduciary responsibilities, and criminal activities

Liabilities

Liabilities associated with the health and wellness programs included amounts for claims that were incurred but not reported, based on actuarial information received in conjunction with OUC's annual State of Florida self-insurance filing. For workers’ compensation claims, liabilities were determined based on past experience and the age and type of claim. Liabilities associated with general and vehicle liability coverage were determined based on historic information in addition to estimated costs for current pending claims.

Liabilities associated with OUC's self-insurance program at September 30 were as follows:

(Dollars in thousands)	2019	Payments, net	Incurred claims	2020
Health and wellness benefits	$ 2,264	$ (21,196)	$ 21,158	$ 2,226
Workers' compensation	777	(201)	19	595
General and vehicle liability	365	(185)	187	367
Total	**$ 3,406**	**$ (21,582)**	**$ 21,364**	**$ 3,188**

(Dollars in thousands)	2018	Payments, net	Incurred claims	2019
Health and wellness benefits	$ 1,976	$ (21,770)	$ 22,058	$ 2,264
Workers' compensation	699	(352)	430	777
General and vehicle liability	369	(198)	194	365
Total	**$ 3,044**	**$ (22,320)**	**$ 22,682**	**$ 3,406**

The total of these liabilities is included in the Statements of Net Position under the heading of accounts payable and accrued expenses.

Claims

It is the opinion of OUC’s general counsel that OUC, as a statutory commission, may enjoy sovereign immunity against tort claims under Section 768.28, Florida Statutes, in the same manner as a municipality, as allowed by Florida Court of Appeals rulings. Under current case law and these rulings, the Florida Statutes, OUC's limit of liability for tort claims for general liability or vehicle liability is $0.2 million per claim or a total of $0.3 million for the same incident or occurrence; greater liability can result only through an act of the Florida Legislature. Furthermore, under applicable case law sovereign immunity shall not be deemed to have been waived or the limits of liability increased as a result of obtaining or providing insurance in excess of statutory limitations.

Note I – Insurance Programs and Claims (continued)

Under certain of its business transactions, OUC is obliged to waive sovereign immunity to the enforcement of contractual provisions by the counterparty as well as to its contractual indemnification obligations to the counterparty. OUC's contractual liability is insured under its general liability policies, in excess of its $2.0 million self-insured retention, and capped in the aggregate over the life of each agreement.

To support the operations and maintenance of OUC's self-insurance programs, an internally designated fund was established from operating revenues. A review is performed annually and in 2020, the fund was increased $5.5 million to cover increases in the health and wellness programs and contract performance requirements. The self-insurance reserve balance was $16.5 million and $11.0 million at September 30, 2020 and 2019, respectively. Refer to Note E for details related to cash reserves.

Nuclear liability insurance: Liability for accidents at the SL2 nuclear power plant, for which OUC has a minority interest, is governed by the Price-Anderson Act which limits the public liability of nuclear reactor owners to the amount of insurance available from private sources and an industry retrospective payment plan. Florida Power and Light (FPL), for SL2, maintains private liability insurance for all participants owning an undivided interest in the nuclear generation facility of $450.0 million per site and participates in a secondary financial protection system. In addition, FPL participates in nuclear mutual companies that provide limited insurance coverage for property damage, decontamination and premature decommissioning risks. Irrespective of the insurance coverage, should a catastrophic loss occur, the amount of insurance available may not be adequate to cover property damage and other expenses incurred. The majority owner of a nuclear power plant is subject to retrospective assessments of up to $1,100.0 million per unit, per incident at any nuclear utility reactor in the United States, payable at a rate not to exceed $164.0 million per incident, per year. In the case of SL2, FPL is contractually entitled to recover a proportionate share of any such assessment from the owners of minority interests in SL2 which, at the maximum level, approximates $20.0 million plus applicable taxes per incident. Any such assessment to minority owners would be borne by each minority owner at their proportionate ownership share. See Note D for OUC's ownership interest in SL2.

On behalf of all the co-owners of SL2, FPL carries in excess of $2,750.0 million of property damage insurance; however, substantially all insurance proceeds must first be used to satisfy decontamination and clean-up costs before they can be used for repair or restoration of plants.

Note J – Commitments, Contingent Liabilities and Regulation

Fuel for Generation and Power Purchase Commitments

Fuel supply and transportation: OUC periodically enters into natural gas and fossil fuel supply and transportation contracts which align with its owner-operator responsibilities and fuel agent obligations for SEC Unit A. The amounts below represent the full commitment of which a proportionate amount is attributable to the participant owners.

Long-term natural gas discounted supply agreements were executed in the amounts of 16,800 million and 11,800 million British thermal units (MMBtu) per day, for terms not exceeding 30 years, for years ending September 30, 2020 and 2019, respectively. Contract terms for these agreements price the physical supply of gas, at the time of purchase, based on market indices adjusted for the contractually agreed upon discounted price. In the schedule below, variable pricing is included based upon the final market price at September 30, 2020 and are assumed to remain static through contract expiration. As the market price fluctuates, actual market rate and discount will vary in relation to these changes.

Power Purchase Agreements (PPA): OUC has a capacity commitment in addition to its participant ownership interest in SEC Unit A, the term of which is 11 years. OUC also retains power purchase commitments for seven solar and three landfill gas renewable energy resources. The solar and landfill gas PPAs have a total contract capacity of 144.7 megawatts of which OUC purchases a portion or all energy that is produced at the sites and there are no capacity payments related to these agreements.

(Dollars in thousands)	Fuel	Transportation	Power Purchase Commitments	Total
2021	$ 52,333	$ 30,755	$ 19,138	$ 102,226
2022	52,008	27,770	17,538	97,316
2023	28,811	26,087	18,159	73,057
2024	27,738	13,308	17,226	58,272
2025	27,769	10,519	17,226	55,514
2026-2030	46,693	41,325	86,130	174,148
2031 - thereafter	177,025	36,162	21,533	234,720
Total	$ 412,377	$ 185,926	$ 196,950	$ 795,253

Note J – Commitments, Contingent Liabilities and Regulation (continued)

Regulation

The electric utility industry continues to be affected by a number of legislative and regulatory factors. The following summarizes the key regulations impacting OUC.

Environmental Protection Agency (EPA)

Greenhouse Gas (GHG) Regulation: In 2015 the EPA began issuing guidance regulating GHG emissions. The form and substance of this guidance has evolved over the past several years and on August 21, 2018, the EPA proposed a new rule, entitled the Affordable Clean Energy (ACE) Rule, to replace the Clean Power Plan (CPP). On June 19, 2019 the final ACE Rule was issued and the former GHG proposed guidance, the CPP, was repealed. The final ACE Rule directs states to develop a plan and establish CO_2 emission standards for individual existing coal-fired electric generating units within the state. Although states and environmental groups filed legal challenges to the final ACE Rule, the ACE Rule was enacted and will apply to OUC's existing coal-fired units once the Florida Department of Environmental Protection has established the emission standards for these units. While OUC's future costs to comply with this regulation are unknown, management has brought forward a long-term clean energy plan to convert the coal-fired units to natural gas, subject to Board approval in December 2020, to meet and exceed compliance standards.

Mercury and Air Toxics Standards (MATS) Rule: The EPA proposed the MATS Rule to enhance regulation for mercury and other hazardous air pollutant emissions from electric generating units in April 2015. In April 2016, the EPA finalized its supplemental finding in order to fulfill the directives of the Supreme Court of the United States. Although litigation of the MATS Rule continues, since April 2015, all affected OUC generating units have operated under the requirements of the MATS Rule.

EPA Coal Combustion Residual (CCR) Regulations: On April 17, 2015, the EPA issued new rules regulating the disposal and beneficial use of CCRs. In late 2016, Congress passed the Water Infrastructure Improvements for the Nation Act (WIIN Act), which fundamentally changed the manner in which the CCR rules are to be implemented. Under the WIIN Act, the EPA is authorized to review and approve state CCR permit programs that are at least as protective as the federal CCR rules. Provisions of the CCR regulations were remanded back to the EPA in August 2018 and the EPA issued proposed amendments to the CCR rule in July 2019. At this time, OUC's future costs to comply with these regulations are not anticipated to be material and are primarily related to new groundwater monitoring and reporting requirements contained within the CCR rules.

Interstate Transport Rule: Based on current modeling, Florida is not significantly contributing to any other state's ozone compliance and as such is meeting its transport-related obligations. Therefore OUC's electric generating units are not currently impacted by this ruling, although subsequent modeling could impact this status and require subsequent compliance measures.

Federal Regulation Enforcement

The Federal Energy Regulatory Commission (FERC) has primary jurisdiction over investor-owned utilities including rulemaking authority for non-discriminatory open transmission system access requirements and wholesale PPAs. To ensure OUC operates in a manner that is aligned with FERC's non-discriminatory open transmission system access requirements, OUC has adopted a "safe harbor" Open Access Transmission Tariff (OATT). This OATT ensures that OUC will have access to all transmission-related services offered by public utilities through its offering of reciprocal services. OUC's contractual PPAs are not subject to FERC oversight.

FERC also has the authority to impose standards which enforce an acceptable level of reliability to the Bulk Electric System. OUC is subject to these standards including Critical Infrastructure Protection standards through FERC's delegated authority to the SERC Reliability Corporation (SERC). Based on the October 2018 audit performed under FERC oversight, OUC remains substantially compliant with these standards. The next audit is scheduled for 2021.

Florida State Regulation

Legislation under Sections 366.80 through 366.85, and 403.519, Florida Statutes (FS), are known collectively as the Florida Energy Efficiency and Conservation Act (FEECA). This Act provides the FPSC with the authority to establish goals every five years to encourage electric utilities to increase the efficiency of energy consumption, limit the growth of energy consumption and minimize weather-sensitive peak demands. OUC submitted its five-year Conservation Plan in February 2020 and final approval was submitted through a Consummating Order on June 5, 2020. The FPSC's review of OUC's conservation goals and the supporting demand-side management plan covers the period between 2020 and 2024.

Note K – Major Agreements

All Requirement and Wholesale Power Supply Agreements

City of St. Cloud: In April 1997, OUC entered into an inter-local agreement with the City of St. Cloud (STC) to be the all requirements electric provider including maintaining and operating STC's electric transmission, distribution and generation facility rights and ownership interests. The term of the agreement commenced May 1, 1997 and, as amended in April 2003, continues until September 30, 2032. In return, OUC's commitment is to pay STC 9.5 percent of gross retail electric billings from STC customers billed during the second preceding fiscal year.

Billed revenues for the years ended September 30, 2020 and 2019, subject to the inter-local agreements are included under the heading of resale electric revenues and was $88.7 million and $83.9 million, respectively. Revenue-based payments recorded under the heading of payments to other governments and taxes for the years ended September 30, 2020 and 2019 were $7.6 million and $7.0 million, respectively.

City of Bartow: In October 2010, OUC entered into an inter-local agreement with the City of Bartow (Bartow) to provide wholesale electric services sufficient to meet Bartow's load requirements. In August 2017, a second long-term power supply agreement for capacity and energy was executed for a term of three years with an effective date of January 1, 2018. The current agreement is set to expire on January 1, 2021. Billed revenues, included under the heading of resale electric revenues, were $7.4 million and $9.3 million for the years ended September 30, 2020 and 2019, respectively.

City of Lake Worth: In February 2013, OUC and the City of Lake Worth (Lake Worth) initiated an agreement whereby OUC would act as the administrator to provide wholesale electric and asset management services. The term of the agreement began January 1, 2014 for three years with an option for Lake Worth to extend the term for two additional one-year terms. In September 2016, Lake Worth exercised its option to extend the term of the agreement through 2018. As of December 2018, OUC and Lake Worth began a new agreement for a term of six years beginning January 1, 2019 with an option to extend one more year. Billed revenues, included under the heading of resale electric revenues, were $7.2 million and $8.5 million for the years ended September 30, 2020 and 2019, respectively.

City of Winter Park: In August 2013, OUC and the City of Winter Park (Winter Park) initiated an agreement whereby OUC supplements Winter Park's electric capacity and energy requirements. The term of the agreement began January 1, 2014 with an initial term of six years. Effective January 1, 2020, OUC and Winter Park negotiated a new agreement for up to 20 megawatts of capacity and energy for a new seven-year term. Billed revenues, included under the heading of resale electric revenues, were $2.7 million and $4.0 million for the years ended September 30, 2020 and 2019, respectively. In addition, OUC and Winter Park have executed an inter-local agreement whereby OUC and Winter Park may pursue additional joint projects for energy efficiency and utility services.

Other Major Agreements

City of Orlando: OUC pays to the City of Orlando (City) a revenue-based payment and an income-based dividend payment. The underlying bi-lateral agreement defines the percentage of revenue based payments at 6.0 percent of retail revenues and the income based payment at 60.0 percent of income before contributions. In 2018, these payments were fixed for a three-year period based on a 3.0 percent annual escalation rate from 2018 to 2020. Total revenue and income-based payments for the years ended September 30, 2020 and 2019 were $95.5 million and $92.7 million, respectively. In 2021, the payment was fixed at $91.1 million and moving forward, the payment will continue based on the underlying bi-lateral agreement

Orange County: OUC pays a revenue-based payment to Orange County (County) calculated at 1.0 percent of gross retail electric and chilled water billings to customers within the County but outside the city limits of the City of Orlando and other municipalities. This payment is recorded under the heading of payments to other governments and taxes on the Statements of Revenues, Expenses and Changes in Net Position. Revenue-based payments were $1.5 million for each of the years ended September 30, 2020 and 2019.

Greater Orlando Aviation Authority: In June 2019, OUC and the Greater Orlando Aviation Authority (GOAA) Board executed a Global Agreement whereby OUC and GOAA will execute a series of project specific agreements under which OUC will own and operate facilities on GOAA's site, including chilled water and back-up generation services, and a floating solar energy system at the new South Terminal. Construction of these facilities is being performed by GOAA with collaboration from OUC and upon completion in 2021, OUC will purchase the chilled water and back-up generation facilities from GOAA, including the 12kV emergency distribution system at a total projected cost of $55.0 million.

Note K – Major Agreements (continued)

Universal City Development Partners, LLC: In November 2019, OUC and Universal City Development Partners, LLC (UCDP), executed an agreement under which OUC will own and operate chilled water facilities on property owned by UCDP. Construction of such facilities is being performed by OUC with collaboration from UCDP and is targeted to be completed in late 2022 at a total contract value of $55.0 million.

Note L – Long-term Employee Benefits

OUC provides a traditional Defined Benefit Pension Plan for employees hired prior to January 1, 1998 and a Hybrid Pension Plan for employees hired on or after January 1, 1998. Included in the Hybrid Pension Plan are benefits provided through a cash balance defined benefit plan and a defined contribution plan. In addition, OUC offers non-pension postemployment benefits, including health and wellness and life insurance coverage to retirees and a utility discount for retirees hired prior to 1985.

The defined pension plan benefits are funded through the Defined Benefit Pension Trust, while the defined contribution benefits are funded through direct distributions to employees. Non-pension postemployment benefits are funded through the Other Postemployment Benefits (OPEB) Trust.

The Defined Benefit Pension and OPEB Trusts issue annual stand-alone financial statements, with the most recent reports issued for the year ended September 30, 2019. These reports, which include detailed information about the fiduciary net positions, may be obtained by writing to OUC Benefit Plans, Reliable Plaza at 100 West Anderson Street, Orlando, Florida 32801 or from the OUC website at www.ouc.com/about-ouc/postemployment-benefit-reporting. The next available report will be issued in 2021 for the plan year ended September 30, 2020.

Pension and Other Postemployment Benefits

OUC is the administrator of the Orlando Utilities Commission Pension Plan (Pension Plan) and the Orlando Utilities Commission Other Postemployment Benefits Plan (OPEB Plan), both single-employer benefit plans with the authority to modify benefits subject to Board approval. Plan assets held in trusts are separately managed through the appointment of Board-approved Trustees and Trustee-approved advisors.

The Pension Plan Trustees administer the Orlando Utilities Commission 415(m) Plan Trust (415 Trust) for pension benefit payments that exceed the Internal Revenue Service Section 415(b) limits. OUC maintains fiduciary responsibility over this non-qualified trust.

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

Traditional Plan

- **Defined benefit:** This benefit offering was closed on December 31, 1997 and provides benefits to all employees hired prior to January 1, 1998 who did not elect to transition their pension plan interests to the defined contribution pension plan. Under the provisions of this closed offering, benefits vest after five years of service and are earned for up to a maximum service period of 30 years. Upon retirement, participants who have attained normal retirement age receive a pension benefit equal to 2.5 percent of the highest three consecutive years' average base earnings times years of employment. The normal retirement age of a participant is the date at which the participant has attained age 62 and five years of participation in the plan. A participant may retire with a reduced benefit at age 55 with a minimum of ten years of service. The benefit reduction for early retirement is 1.0 percent per year for each year which precedes the normal retirement date.

  Benefit terms provide for annual cost of living adjustments (COLA) to each employee's retirement benefit subsequent to the employee's retirement date. Future COLA increases, each January 1st, are based on the net return on plan investments for the previous fiscal year as follows:

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

- **Non-pension postemployment benefits:** Employees are also provided continued access to health and wellness and life insurance coverage upon retirement on or after age 55 with at least ten years of service or at any age after completing 25 or more years of service. Secondary health coverage is also available for those retirees who are Medicare eligible. Costs associated with these benefits are fully subsidized for the employee and partially subsidized for their dependents.

Note L – Long-term Employee Benefits (continued)

Hybrid Plan

- **Cash balance defined benefit:** This benefit offering began on May 1, 2011 and provides benefits to all employees hired on or after January 1, 1998 and those who elected to transition their pension plan interests. Under the provisions of this plan, benefits vest after five years of service and are determined based on a sliding pay credit scale using a combination of an employee's age and years of service at September 30. Pay credits typically range from 5.0 percent to 12.0 percent and are earned annually. A service credit is earned if an employee has worked 1,000 hours or more in the fiscal year. Benefits are available at the earlier of an employee reaching age 62 with a minimum of five years of service or 30 years of continuous service. Annually, pay credits earn interest based on the net return on plan investments for the previous fiscal year as follows:

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

- **Defined contribution benefit:** This benefit offering began on January 1, 1998 and provides benefits to all employees hired on or after January 1, 1998 and those who elected to transition their pension plan interests. Under the provisions of this 401(a) plan, employees who regularly work 20 or more hours per week are required to participate with a contribution of 4.0 percent of their salary. This required contribution is matched equally by OUC. Eligible employees may also voluntarily contribute up to an additional 2.0 percent of their salary to their account. Beginning in March 2018, this additional 2.0 percent was also matched by OUC for employees completing seven years of service. Employees are fully vested after one year of employment. On September 30, 2020 and 2019, the number of active employees enrolled in this pension benefit program were 1,053 and 1,048, respectively. Total contributions for the years ended September 30, 2020 and 2019 were $10.4 million ($4.4 million employer and $6.0 million employee) and $10.0 million ($4.3 million employer and $5.7 million employee), respectively.
- **Non-pension postemployment benefits:** Employees and their dependents are provided access to health and wellness and life insurance coverage upon retirement on or after age 62 with at least five years of service or at any age after completing 30 years of service. Health and wellness benefits, inclusive of secondary health coverage for Medicare-eligible employees, are not directly subsidized. Participants are eligible for implicit subsidy benefits and, at retirement, access to an employer-funded health reimbursement account (HRA), indexed annually, which can be used to pay all eligible medical costs including medical premiums at retirement.

Employee benefit plan membership: The following table presents qualified plan participation as of the valuation date for the years ended September 30:

	Pension Plan		OPEB Plan	
	2020	2019	2020	2019
Active cash balance plan members	1,054	1,038	1,055	1,042
Active traditional plan members	122	143	122	143
Inactive plan members currently receiving benefits	928	918	902	872
Inactive plan members entitled to deferred benefits	144	141	—	—
Total	**2,248**	**2,240**	**2,079**	**2,057**

Membership in the non-qualified 415 Trust included three active and four inactive participants and four active and three inactive participants receiving benefits for the years ended September 30, 2020 and 2019, respectively.

Funding policy: OUC contributes, at a minimum, amounts actuarially determined. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. OUC is required to contribute the difference between the actuarially determined rate and the contribution rate of its employees.

- **Pension:** Traditional defined benefit required participant contributions are 4.0 percent of earnings until the later of age 62 or completion of 30 years of service, with no required contributions thereafter. No participant contributions are required for the cash balance defined benefit offering. The OUC required rate of contribution to the Pension Trust, net of participant contributions based on annual covered payroll, for the years ended September 30, 2020 and 2019 was 22.2 percent and 24.0 percent, respectively.

Note L – Long-term Employee Benefits (continued)

- **OPEB:** Participant contributions are not required to the trust however, participants are required to remit directly to OUC costs for their coverage beyond the employee's annual subsidy. OUC contributes, at a minimum, amounts actuarially determined directly to the OPEB Trust and the amounts for the years ended September 30, 2019 and 2018 were $3.7 million and $7.0 million, respectively. Since these benefits were paid through operations, OUC was reimbursed by the Trust in 2020 and 2019, in the amounts of $7.9 million and $7.4 million, respectively. In 2020 and 2019, reimbursements from the OPEB Trust were lower than expenses, resulting in a net OPEB reimbursement receivable of $0.0 million and $0.5 million, respectively. The rate of contribution to the OPEB Trust, based on annual covered payroll for the years ended September 30, 2018 and 2017 was 3.8 percent and 7.7 percent, respectively. No contributions were made to the 415 Trust in 2020 or 2019.

Long-term employee benefits liability: The following schedule presents the changes in net pension liability (NPL), total pension liability (TPL), and net OPEB liability (NOL) at September 30:

	Qualified plan				Non-qualified plan	
	Pension		OPEB		415 Trust	
(Dollars in thousands)	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Total liability						
Service cost	$ 5,867	$ 5,754	$ 1,186	$ 1,308	$ 40	$ 36
Interest on the total liability	35,407	34,492	9,906	10,385	99	91
Benefit changes	68	—	—	—	—	—
Difference between expected and actual experience	2,106	4,904	(2,192)	(2,987)	64	82
Assumption changes	—	—	(1,029)	(7,658)	350	(96)
Benefit payments, including refunds of plan member contributions	(33,576)	(31,726)	(7,371)	(7,702)	(157)	(118)
Net change in total liability	**9,872**	**13,424**	**500**	**(6,654)**	**396**	**(5)**
Total liability - beginning of year	**499,289**	**485,865**	**139,134**	**145,788**	**2,608**	**2,613**
Total liability - end of year	**$ 509,161**	**$ 499,289**	**$ 139,634**	**$ 139,134**	**$ 3,004**	**$ 2,608**
Plan fiduciary net position						
Contributions - employer	$ 22,491	$ 22,614	7,022	9,068		
Contributions - plan members	475	555	—	—		
Total investment income, net of investment expense	17,599	37,039	5,399	10,956		
Benefit payments, including refunds of plan member contributions	(33,576)	(31,726)	(7,371)	(7,702)		
Administrative expense	(240)	(320)	(17)	(18)		
Net change in plan fiduciary net position	**6,749**	**28,162**	**5,033**	**12,304**		
Plan fiduciary net position - beginning of year	**419,017**	**390,855**	**132,946**	**120,642**		
Plan fiduciary net position - end of year	**$ 425,766**	**$ 419,017**	**$ 137,979**	**$ 132,946**		
Net liability - beginning of year	**$ 80,272**	**$ 95,010**	**$ 6,188**	**$ 25,146**		
Net liability - end of year	**$ 83,395**	**$ 80,272**	**$ 1,655**	**$ 6,188**		

The following schedule presents the long-term employee benefits liability as reported in the Statements of Net Position for the years ended September 30:

(Dollars in thousands)	**2020**	**2019**
Pension plan		
Total pension liability	$ 509,161	$ 499,289
Net position	425,766	419,017
Net pension liability	83,395	80,272
415 Trust		
Total pension liability	3,004	2,608
Pension liability	**$ 86,399**	**$ 82,880**
OPEB plan		
Total OPEB liability	$ 139,634	$ 139,134
Net position	137,979	132,946
Net OPEB liability	**$ 1,655**	**$ 6,188**

Note L – Long-term Employee Benefits (continued)

Actuarial methods and assumptions used to measure TPL, NPL and NOL: The TPL, NPL and NOL as of September 30, 2020 and 2019 were measured as of September 30, 2019 and 2018, respectively. Since the measurement date and valuation date are the same, no update procedures were used to roll forward the TPL and TOL from the valuation date to the measurement date.

The measurements of the TPL and TOL was determined by 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 TOL and related measures. Annual actuarial amounts for reporting were calculated using the entry age normal cost method.

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

	2019	2018
Plan benefit assumptions		
Annual COLA (pension only)	1.0%, based on actual COLA granted for the current year, and 1.0% per year, compounded annually, thereafter	1.5%, based on actual COLA granted for the current year, and 1.0% per year, compounded annually, thereafter
Hybrid Plan interest credit rate	5.0% for current year and 5.0% per year for active members and 4.0% per year for terminated vested members	5.0% per year for active members and 4.0% per year for terminated vested members
Healthcare cost trend rate	Based on Getzen Model, with trend starting at 6.5% (4.72% for premiums in the first year) and gradually decreasing to an ultimate trend rate of 4.24% plus 0.56% increase for excise tax	Based on Getzen Model, with trend starting at 6.75% (5.52% for premiums in the first year) and gradually decreasing to an ultimate trend rate of 4.24% plus 0.60% increase for excise tax
Actuarial assumptions		
Asset valuation method	20.0% of the difference between expected actuarial value, based on assumed return, and market value is recognized each year with 10.0% corridor around market value	20.0% of the difference between expected actuarial value, based on assumed return, and market value is recognized each year with 10.0% corridor around market value
Inflation	2.25% per year	2.25% per year
Investment rate of return	7.25%	7.25%
Salary Increases	3.75% to 7.5% per year, depending on years of service	3.75% to 7.5% per year, depending on years of service
Mortality	RP-2000 Combined Healthy Participant Mortality Table for active members and RP-2000 Mortality Table for Annuitants for non-disabled inactive members, with mortality improvements projected to all future years using Scale BB	RP-2000 Combined Healthy Participant Mortality Table for active members and RP-2000 Mortality Table for Annuitants for non-disabled inactive members, with mortality improvements projected to all future years using Scale BB

Employer contributions were assumed to be made at the end of each calendar quarter. Member contributions were assumed to be received continuously throughout the year based upon the computed percent of payroll.

The projected long-term real rate of return on pension plan investments, valued as of September 30, 2019 and 2018, was determined with the assistance of the Plan's independent investment adviser and actuarial review 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, were combined to produce the long-term expected rate of return.

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

	Pension		OPEB	
Asset class	**Target allocation**	**Long-term expected real rate of return**	**Target allocation**	**Long-term expected real rate of return**
U.S. equity	43.0 %	7.5%	48.0 %	7.5%
International equity	15.0 %	8.5%	15.0 %	8.5%
Domestic bonds	17.0 %	2.5%	17.0 %	2.5%
International bonds	5.0 %	3.5%	5.0 %	3.5%
Real estate	10.0 %	4.5%	5.0 %	4.5%
Alternative assets	10.0 %	6.2%	10.0 %	6.3%
Total	**100.0 %**		**100.0 %**	

Note L – Long-term Employee Benefits (continued)

Discount rate: The discount rate used to measure the TPL and TOL was 7.25 percent, valued as of September 30, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that employee contributions would be made at the current contribution rate and that future employer contributions would be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on these assumptions, the fiduciary net position for both plans 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 TPL and TOL.

The TPL for the non-qualified plan as of September 30, 2019 and 2018 was calculated using a municipal bond rate of 2.75 percent and 3.83 percent, respectively, as reported in Fidelity's "20-Year Municipal GO AA Index" as reported on the last business day of the month of the measurement date.

The following presents the sensitivity of the NPL, NOL and TPL calculations to a 1.0 percent increase and a 1.0 percent decrease in the discount rates and medical cost assumption rates used to measure the TPL and TOL at September 30:

	Net Pension Liability		Net OPEB Liability		Total Pension Liability 415 Trust	
(Dollars in thousands)	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Discount rate	$ 83,395	$ 80,272	$ 1,655	$ 6,188	$ 3,004	$ 2,608
1.0 percent decrease	$ 131,176	$ 128,108	$ 17,964	$ 22,723	$ 3,406	$ 2,920
1.0 percent increase	$ 42,245	$ 39,168	$ (12,003)	$ (7,634)	$ 2,677	$ 2,350
Medical cost assumption rate			$ 1,655	$ 6,188		
1.0 percent decrease			$ (12,863)	$ (8,576)		
1.0 percent increase			$ 18,975	$ 23,849		

Pension and OPEB expense, deferred outflows of resources and deferred inflows of resources: OUC recorded $13.9 million and $10.4 million in pension expense, $0.3 million and $0.2 million in non-qualified pension plan expense and credits of $5.6 million and $4.5 million in OPEB expense for the years ended September 30, 2020 and 2019, respectively. In 2019, the Board approved the deferral of actuarially determined OPEB credits to expense to offset past service liabilities and allow for systematic recovery through rates.

In conjunction with the implementation of employee benefit accounting guidance, net pension and OPEB past service liabilities were deferred and recognized as regulatory assets. Board approval in 2019 also incorporated actuarially determined OPEB credit amounts derived as a result of previously approved plan benefit modifications. Refer to Note G for further details.

The following schedule presents information about the postemployment benefit-related deferred outflows of resources at September 30:

	Pension		OPEB	
(Dollars in thousands)	**2020**	**2019**	**2020**	**2019**
Deferred outflows of resources				
Pension and OPEB plans				
Employer's contributions to the plan after measurement of NPL	$ 22,405	$ 22,491	$ 3,682	$ 7,022
Changes in assumptions	4,477	9,447	—	—
Differences between expected and actual experience	6,338	6,259	467	1,080
Subtotal pension and OPEB plans	**33,220**	**38,197**	**4,149**	**8,102**
415 Trust				
Benefit payments	160	157	—	—
Changes in assumptions	258	32	—	—
Differences between expected and actual experience	183	264	—	—
Subtotal 415 Trust	**601**	**453**	**—**	**—**
Total deferred outflows of resources	**$ 33,821**	**$ 38,650**	**$ 4,149**	**$ 8,102**

Note L – Long-term Employee Benefits (continued)

The following schedule presents information about the postemployment benefit-related deferred inflows of resources at September 30:

	Pension		OPEB	
(Dollars in thousands)	2020	2019	2020	2019
Deferred inflows of resources				
Pension and OPEB plans				
Net difference between projected and actual earnings on plan investments	$ 6,291	$ 19,953	$ 919	$ 5,002
Changes in assumptions	—	2,141	7,916	9,217
Differences between expected and actual experience	403	1,225	13,102	16,399
Subtotal pension and OPEB plans	**6,694**	**23,319**	**21,937**	**30,618**
415 Trust				
Changes in assumptions	73	135	—	—
Subtotal 415 Trust	**73**	**135**	**—**	**—**
Total deferred inflows of resources	**$ 6,767**	**$ 23,454**	**$ 21,937**	**$ 30,618**

The following schedule presents the future recognition of expense for pension and other postemployment benefit-related deferred outflows of resources and deferred inflows of resources at September 30:

(Dollars in thousands)	Pension	415 Trust	OPEB
2021	$ 735	$ 192	$ (8,743)
2022	(2,046)	127	(7,938)
2023	2,131	49	(2,751)
2024	3,145	—	(1,457)
2025	156	—	(528)
Thereafter	—	—	(53)
Net deferred outflows/(inflows) of resources	**$ 4,121**	**$ 368**	**$ (21,470)**

The difference between actual earnings on plan investments, gains or losses, are recorded within unit/department expense over a five-year period. Changes in assumptions and the difference between expected and actual experience in the measurement of TPL and TOL are recorded in expense over a period equal to the average of the expected remaining service lives of all participants in the plan. Net credit deferred inflows of resources beyond current postemployment expenses will be recognized in the period incurred and, consistent with Board action outlined in Note G, will be deferred.

Note M – Hedging Activities

OUC manages the impacts of interest rate and fuel market fluctuations on its earnings, cash flows and market value of assets and liabilities through its hedging programs.

Interest rate hedges: Interest rate risk for variable rate debt, is managed through the execution of interest rate swap agreements (swaps). Swaps are executed in accordance with the Finance Committee Charter, presented to the Finance Committee and approved by the Board. Swaps are initiated in conjunction with bond transactions and as such, have inception and termination dates that align with the underlying debt series. Early termination of a swap can be executed in accordance with the terms of the agreement.

The Finance Committee Charter requires counterparty creditworthiness to achieve at least an “A” rating category from at least two of the three nationally recognized rating agencies, at the time of execution, maintaining a rating for qualified swap providers. In addition, two-way credit support agreements may be required with parental guarantees and/or letters of credit or collateral. In respect to the fair value of swaps, the value of these agreements takes into consideration the prevailing interest-rate environment and the specific terms and conditions of each contract. Fair value amounts are estimated using the zero-coupon discounting method, including utilizing option pricing models, which consider probabilities, volatility, time, underlying prices and other variables.

Note M – Hedging Activities (continued)

Fuel rate hedges: Fuel hedge risk is managed through the establishment of the Energy Risk Management Committee (ERMOC) with Finance Committee oversight. ERMOC's responsibilities include establishing volume and financial limits, as well as overall program compliance and counterparty creditworthiness. Counterparty creditworthiness is evaluated considering the market segment, financial ratios, agency and market implied ratings and other factors.

As a result of engaging in hedging activities, OUC is subject to the following key risks:

- **Credit risk:** This is the risk that results when counterparties are unable or unwilling to fulfill their present and future obligations. OUC addresses this risk through creditworthiness criteria included in its Finance Committee Charter and responsibilities of the ERMOC. Interest rate counterparties must have minimum credit ratings of "A-", issued by Standard and Poor's or Fitch Ratings or "A3", issued by Moody's Investors Service at the time the agreement is executed.
- **Interest rate risk:** This is the risk that changes in interest rates may adversely affect the fair values of OUC's financial instruments or cash flows. OUC is exposed to this risk through its pay-fixed receive variable rate swaps and, as such, has managed this risk through active management. There is no exposure to this risk for fuel hedges.
- **Basis risk:** This is the risk that arises when variable rates or prices of swaps and fuel hedges are based on different reference rates. OUC is exposed to this risk on its interest rate swap associated with the Series 2015B Bonds, as the variable-rate index received by OUC differs from the rate paid on the swap. OUC is exposed to this risk for fuel hedges due to a difference in commodity value between different delivery points or between cash market prices and the pricing points used in the financial markets.
- **Termination risk:** This is the risk that a derivative instrument's unplanned end will affect OUC's asset and liability strategy or potentially require termination payments. This risk is mitigated through OUC's creditworthiness criteria. To date, no instances of this nature have occurred.
- **Rollover risk:** This is the risk that a derivative instrument associated with a hedged item does not extend to the maturity of the hedged item. OUC is not exposed to this risk as all derivative instruments are hedged to maturity.
- **Market access risk:** This is the risk that OUC will not be able to enter credit markets for both swaps and fuel hedges or that credit markets will become more costly. OUC maintains a strong credit rating; "AA" from Standard & Poor's and Fitch Ratings and "Aa2" from Moody's Investors Service and to date, has not encountered any market barriers or credit market challenges.

In accordance with accounting guidance, outstanding derivatives are evaluated and classified as either hedging derivative instruments (effective) or investment derivative instruments (ineffective), with the accumulated change in fair market value recognized as deferred inflows/outflows of resources or investment income/expense, respectively.

Interest rate derivatives: As of September 30, 2020 and 2019, OUC's interest rate swap related to the Series 2015B Bonds have been determined to be effective and changes in the fair value of these derivatives were included on the Statements of Net Position. As of September 30, 2020, the 2021A forward interest rate swap has been determined to be effective and changes in the fair value of the derivative were included on the Statements of Net Position. As of September 30, 2019, the 2017A forward interest rate swap has been determined to be ineffective and, in accordance with Statement No. 62, OUC has established a regulatory asset. As of September 30, 2020, the 2017A forward interest rate swap was terminated in conjunction with the Series 2017A Bond refunding and the related regulatory asset was incorporated in the loss on refunding.

Note M – Hedging Activities (continued)

The following statement summarizes the interest rate derivative contracts outstanding for the years ended September 30:

(Dollars in thousands)	2019 Fair Value	Change in fair value	Settlement / (termination) amount	2020 Fair Value	Net settlement charges	Notional amount
Interest rate swap agreements						
2015B Bonds [1]	$ (4,942)	$ (5,823)	$ —	$ (10,765)	$ —	$ 115,090
Forward interest rate contracts						
2017A Bonds [1,2]	(17,691)	(5,468)	23,159	—	—	$ 100,000
2021A Bonds [1,3]	—	(12,647)	—	(12,647)	—	$ 150,000
	$ (22,633)	**$ (23,938)**	**$ 23,159**	**$ (23,412)**	**$ —**	

(Dollars in thousands)	2018 Fair Value	Change in fair value	Settlement / (termination) amount	2019 Fair Value	Net settlement charges	Notional amount
Interest rate swap agreements						
2015B Bonds [1]	$ 5,174	$ (10,116)	$ —	$ (4,942)	$ —	$ 115,090
Forward interest rate contracts						
2017A Bonds [1,2]	(9,998)	(7,693)	—	(17,691)	—	$ 100,000
	$ (4,824)	**$ (17,809)**	**$ —**	**$ (22,633)**	**$ —**	

[1] See Note H for additional information.
[2] Upon the refunding of the Series 2011A *Windows* Bonds by the Series 2017A Bonds, the Series 2017A Bonds became the series of bonds related to the 2017A Swap.
[3] The 2021A Bonds have not been issued, but the forward Swap contract was established in February 2020. The swap is to be in effect beginning April 2021.

Fuel derivatives: Fuel derivatives are settled in the period in which the option expires and are recognized as fuel expenses on the Statements of Revenues, Expenses and Changes in Net Position. Settlement losses for the year ended September 30, 2020 and 2019 for fuel-related derivatives were $9.6 million and $1.2 million, respectively. The outstanding fuel derivatives were determined to be effective, and as such, the changes in fair value have been recorded on the Statements of Net Position as either a deferred outflow of resources or deferred inflow of resources until such time as the contracts mature. The following is a summary of the fuel-related derivative transactions for the years ended September 30:

(Dollars in thousands)	2019 Fair Value	Change in Fair Value	2020 Fair Value	2020 Notional Amount	Volume [1]
Current natural gas fuel hedge assets	$ —	$ 2,343	$ 2,343	8,180	MMBTU
Non-current natural gas fuel hedge assets	—	2,406	2,406	22,830	MMBTU
Accumulated increase in fair value hedging derivatives	**$ —**	**$ 4,749**	**$ 4,749**		
Current natural gas fuel hedge liabilities	$ (4,063)	$ 3,967	$ (96)	690	MMBTU
Non-current natural gas fuel hedge liabilities	(3,503)	1,781	(1,722)	11,930	MMBTU
Accumulated decrease in fair value hedging derivatives	**$ (7,566)**	**$ 5,748**	**$ (1,818)**		

[1] Million British Thermal Units (MMBTU), Barrels (BBL)

(Dollars in thousands)	2018 Fair Value	Change in Fair Value	2019 Fair Value	2019 Notional Amount	Volume
Natural gas	$ 28	$ (28)	$ —	—	MMBTU
Heating Oil	317	(317)	—	—	BBL
Total current fuel hedge assets	**345**	**(345)**	**—**		
Accumulated increase in fair value hedging derivatives	**$ 345**	**$ (345)**	**$ —**		
Current natural gas fuel hedge liabilities	$ (1,034)	$ (3,029)	$ (4,063)	11,090	MMBTU
Non-current natural gas fuel hedge liabilities	(1,502)	(2,001)	(3,503)	15,630	MMBTU
Accumulated decrease in fair value hedging derivatives	**$ (2,536)**	**$ (5,030)**	**$ (7,566)**		

Long-term Employee Benefit Plans

Schedule of changes in net pension liability (NPL), total pension liability (TPL), net OPEB liability (NOL) and related ratios: The following schedules present multi-year trend information that demonstrate the components of change in the TPL, NPL and NOL 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 for September 30:

Pension Plan

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
Total pension liability						
Service cost	$ 5,867	$ 5,754	$ 5,748	$ 5,539	$ 5,570	$ 5,935
Interest on the total pension liability	35,407	34,492	33,535	32,767	32,104	29,891
Benefit changes	68	—	408	—	—	15,187
Difference between expected and actual experience	2,106	4,904	3,706	(106)	(2,501)	(2,546)
Assumption changes	—	—	—	171	29,125	(14,449)
Benefit payments, including refunds of plan member contributions	(33,576)	(31,726)	(28,663)	(27,324)	(25,773)	(23,095)
Net change in total pension liability	**9,872**	**13,424**	**14,734**	**11,047**	**38,525**	**10,923**
Total pension liability - beginning of year	**499,289**	**485,865**	**471,131**	**460,084**	**421,559**	**410,636**
Total pension liability - end of year	**$509,161**	**$499,289**	**$485,865**	**$471,131**	**$460,084**	**$ 421,559**
Plan fiduciary net position						
Contributions - employer	$ 22,491	$ 22,614	$ 21,876	$ 17,803	$ 18,573	$ 21,198
Contributions - plan members	475	555	660	748	821	882
Total investment income, net of investment expense	17,599	37,039	48,761	29,872	4,783	28,906
Benefit payments, including refunds of plan member contributions	(33,576)	(31,726)	(28,663)	(27,324)	(25,773)	(23,095)
Administrative expense	(240)	(320)	(115)	(36)	(122)	(85)
Net change in plan fiduciary net position	**6,749**	**28,162**	**42,519**	**21,063**	**(1,718)**	**27,806**
Plan fiduciary net position - beginning of year	**419,017**	**390,855**	**348,336**	**327,273**	**328,991**	**301,185**
Plan fiduciary net position - end of year	**$425,766**	**$419,017**	**$390,855**	**$348,336**	**$327,273**	**$ 328,991**
Net pension liability - beginning of year	**$ 80,272**	**$ 95,010**	**$122,795**	**$132,811**	**$ 92,568**	**$ 109,451**
Net pension liability - end of year	**$ 83,395**	**$ 80,272**	**$ 95,010**	**$122,795**	**$132,811**	**$ 92,568**
Plan fiduciary net position as a percentage of total pension liability	**83.6%**	**83.9%**	**80.5%**	**73.9%**	**71.1%**	**78.0%**
Covered payroll	**$ 90,907**	**$ 86,573**	**$ 78,314**	**$ 75,405**	**$ 72,479**	**$ 70,147**
Net pension liability as a percentage of covered payroll	**91.7%**	**92.7%**	**121.3%**	**162.8%**	**183.2%**	**132.0%**

415 Trust[1]

(Dollars in thousands)	2020	2019	2018	2017	2016
Total pension liability					
Service cost	$ 40	$ 36	$ 28	$ 22	$ 21
Interest on the total pension liability	99	91	38	41	40
Benefit changes	—	—	1,124	—	—
Difference between expected and actual experience	64	82	373	47	—
Assumption changes	350	(96)	(132)	97	—
Benefit payments, including refunds of plan member contributions	(157)	(118)	(80)	(51)	(56)
Net change in total pension liability	**396**	**(5)**	**1,351**	**156**	**5**
Total pension liability - beginning of year	**2,608**	**2,613**	**1,262**	**1,106**	**1,101**
Total pension liability - end of year	**$ 3,004**	**$ 2,608**	**$ 2,613**	**$ 1,262**	**$ 1,106**
Covered payroll	**$ 905**	**$ 1,114**	**$ 1,458**	**$ 920**	**$ 804**
Total pension liability as a percentage of covered payroll	**331.9 %**	**234.1 %**	**179.2 %**	**137.2 %**	**137.6 %**

Long-term Employee Benefit Plans (continued)

OPEB plan (Dollars in thousands)	2020	2019	2018	2017	2016
Total OPEB liability					
Service cost	$ 1,186	$ 1,308	$ 1,331	$ 1,346	$ 1,480
Interest on the total OPEB liability	9,906	10,385	10,434	11,882	12,134
Difference between expected and actual experience	(2,192)	(2,987)	(3,285)	(23,970)	3,536
Assumption changes	(1,029)	(7,658)	(2,093)	(2,670)	(452)
Benefit payments, including refunds	(7,371)	(7,702)	(6,374)	(8,063)	(9,067)
Net change in total OPEB liability	500	(6,654)	13	(21,475)	7,631
Total OPEB liability - beginning of year	**139,134**	**145,788**	**145,775**	**167,250**	**159,619**
Total OPEB liability - end of year	**$139,634**	**$139,134**	**$145,788**	**$145,775**	**$167,250**
Plan fiduciary net position					
Contributions - employer	$ 7,022	$ 9,068	$ 13,384	$ 12,628	$ 14,117
Net investment income/(loss)	5,399	10,956	13,420	9,621	(1,195)
Benefit payments, including refunds	(7,371)	(7,702)	(6,374)	(8,062)	(9,067)
Administrative expense	(17)	(18)	(18)	(18)	(32)
Net increase in plan fiduciary net position	5,033	12,304	20,412	14,169	3,823
Plan fiduciary net position - beginning of year	132,946	120,642	100,230	86,061	82,238
Plan fiduciary net position - end of year	**$137,979**	**$132,946**	**$120,642**	**$100,230**	**$ 86,061**
Net OPEB liability - beginning of year	**$ 6,188**	**$ 25,146**	**$ 45,545**	**$ 81,189**	**$ 77,381**
Net OPEB liability - end of year	**$ 1,655**	**$ 6,188**	**$ 25,146**	**$ 45,545**	**$ 81,189**
Plan fiduciary net position as a percentage of total OPEB liability	**98.8 %**	**95.6 %**	**82.8 %**	**68.8 %**	**51.5 %**
Covered payroll	**$ 91,035**	**$ 86,892**	**$ 78,447**	**$ 71,856**	**$ 72,990**
Net OPEB liability as a percentage of covered payroll	**1.8 %**	**7.1 %**	**32.1 %**	**63.4 %**	**111.2 %**

[1] For the non-qualified plan, there were no assets accumulated in a trust that meet the criteria in GASB Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,*" to pay related benefits. As such, assets were reported in OUC's financial statements and were not netted against the total pension liability.

Notes to schedule

Benefit and assumption changes: In 2019, various administrative plan changes were implemented related to the calculation of cash balance notional accounts and cash balance benefit payments, which were initially approved by the Board in 2017 to facilitate compliance with IRS Section 401(a)(17). In 2017, the Plan was amended to include a limited increase in the benefit multiplier, which resulted in a $0.4 million impact to the TPL as of the September 30, 2017 measurement date. In August 2015, an assumption study and experience review for the six-year period ended September 30, 2014 was completed, and changes were implemented effective September 30, 2015 to the salary, retirement, termination, and mortality assumptions. A new assumption study was completed by the actuaries in October 2020 and recommendations will be reviewed and considered by management. Potential changes will be presented to the trustees for approval to be effective with the October 1, 2020 actuarial valuation.

The investment return rate was 7.25 percent as of the September 30, 2019 and 2018 valuation dates. As the plan fiduciary net position was projected to be available to make all projected benefit payments, the single discount rate was also 7.25 percent as of September 30, 2019 and 2018, respectively.

Long-term Employee Benefit Plans (continued)

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

Contribution year [3] (Dollars in thousands)	Actuarially determined contribution	Actual contribution	Contribution deficiency / (excess) [1]	Covered payroll [2]	Contributions as a percentage of CP
Pension plan					
2020	$ 22,405	$ 22,405	$ —	$ 97,896	22.9%
2019	$ 22,491	$ 22,491	$ —	$ 90,907	24.7%
2018	$ 22,614	$ 22,614	$ —	$ 86,573	26.1%
2017	$ 21,876	$ 21,876	$ 0	$ 78,314	27.9%
2016	$ 18,322	$ 17,803	$ 519	$ 75,405	23.6%
2015	$ 20,500	$ 18,573	$ 1,927	$ 72,479	25.6%
2014	$ 21,184	$ 21,198	$ (14)	$ 70,147	30.2%
2013	$ 18,893	$ 17,729	$ 1,164	$ 73,230	24.2%
2012	$ 17,120	$ 16,151	$ 969	$ 69,967	23.1%
2011	$ 17,162	$ 15,726	$ 1,436	$ 28,964	54.3%
OPEB plan					
2020	$ 3,682	$ 3,682	$ —	$ 98,058	3.8%
2019	$ 7,022	$ 7,022	$ —	$ 91,035	7.7%
2018	$ 9,068	$ 9,068	$ —	$ 86,892	10.4%
2017	$ 13,384	$ 13,384	$ —	$ 78,447	17.1%
2016	$ 12,628	$ 12,628	$ —	$ 71,856	17.6%
2015	$ 14,117	$ 14,117	$ —	$ 72,990	19.3%
2014	$ 13,558	$ 13,558	$ 0	$ 72,990	18.6%
2013	$ 14,358	$ 14,325	$ (33)	$ 70,692	20.3%
2012	$ 14,167	$ 14,177	$ 10	$ 71,121	19.9%
2011	$ 14,213	$ 14,953	$ 740	$ 68,806	21.7%

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

[2] In 2011, covered payroll increased due to the establishment of the hybrid plan cash balance pension offering in addition to the traditional defined benefit pension offering.

[3] The actuarially determined contribution rates 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 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 7.5 percent depending on years of service, including inflation

Investment rate of return: 7.25 percent

Retirement age: Experience-based table of rates

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

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

Ernst & Young LLP
Suite 2800
200 South Orange Avenue
Orlando, Florida 32801

Tel: +1 407 872 6600
ey.com

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*

To Management and the Commissioners of
Orlando Utilities Commission

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 (OUC), which comprise the statement of net position as of September 30, 2020, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 20, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OUC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OUC's internal control. Accordingly, we do not express an opinion on the effectiveness of OUC'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 OUC'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Ernst & Young LLP

November 20, 2020

THIS PAGE PURPOSELY LEFT BLANK

The *Reliable* One®

RELIABLE PLAZA
100 WEST ANDERSON STREET
ORLANDO, FL 32801