RELIABLE. SUSTAINABLE. RESPONSIBLE.

CONNECTED

2019 AUDITED FINANCIAL STATEMENTS

OUC The *Reliable* One®

LETTER FROM THE GENERAL MANAGER AND COMMISSION PRESIDENT

For nearly a century, OUC has been a dynamic, innovative force in our community, ever evolving to meet customer needs.

From the beginning, we have led by forward thinking – pioneering new products, processes and technologies to better serve our customers – while constantly seeking innovative ways to strengthen our partnerships and expand renewable energy resources. Our commitment to keeping a keen focus on exceptional customer value remains unwavering.

In 2019, OUC expanded our relationship with our two largest customers – the Greater Orlando Aviation Authority and Universal Orlando Resort – beyond traditional electric and water services with long-term commitments that almost double our chilled water capacity and relaunch our back-up generation services. These new agreements, along with growing commercial electric vehicle (EV) and outdoor lighting programs, are enhancing revenue diversification while remaining committed to our core services – reliable, resilient and affordable electric and water services and solutions.

Building our renewable energy portfolio remains a priority, and in 2019, leveraging the traditional joint ownership model, OUC broke ground as the anchor tenant of the first jointly-owned public power utility-scale solar site. In partnership with the Florida Municipal Power Agency, OUC's share of three solar sites totaling 223.5-megawatts will be 108.5 megawatts with the remaining energy delivered throughout Florida to 11 other public power utilities. OUC also secured an additional 149 megawatts of solar energy resources, including battery storage, which when operational, will increase our renewable energy resources to more than 10 percent of our generation requirements. These new resources and the announced decommissioning of the City of Lakeland's Macintosh 3 generation facility in 2024, will be considered as we update our Electric Integrated Resource Energy Plan (EIRP). Slated to be completed by summer 2020, the EIRP will serve as a 20-year roadmap to meeting electric generation needs. The plan is being developed with input from customer and community stakeholders.

Diversifying our generation resources through innovation is just one way we've helped Orlando become the *Greenest City in the Southeast*. Another way we are moving forward is through collaboration with community and business partners to expand the penetration of EVs, keeping Orlando as one of the top 10 *"EV Ready"* cities and the state of Florida as a leader in building infrastructure needed for the future. This includes annual EV Ride and Drive events; a partnership with LYNX, which is the City of Orlando's public transportation provider, to electrify mass transit; and spearheading a public-private consortium to leverage state-wide Volkswagen settlement grant funds to build infrastructure needed to move electrification forward. Also in 2019, OUC engaged in a public-private partnership to evaluate the use of hydrogen as an energy storage project – a critical element in moving forward with expanding solar usage.

Augmenting energy delivery facilities and advancing technologies to meet generation diversity and steady customer growth within the Orlando and St. Cloud communities including expanded interlocal power supply agreements is also an area of focus. Initiatives such as transmission line upgrades and installation of automated distribution technologies to identify and clear line faults are all centered toward moving OUC closer to a smarter, self-healing energy system that builds on the best in-class reliability and resiliency our customers expect from us.

Our focus on delivering exceptional water quality in a reliable and sustainable manner is always a source of pride for OUC. Beyond our efforts to modernize the water distribution system in downtown Orlando, our team continues to partner with state agencies and peer utilities to evaluate alternative water resources – like the Lower, Lower Floridan Aquifer – to ensure an adequate supply of clean, safe drinking water well into the future. We are also leveraging state-of-the-art leak detection devices, to locate system weaknesses and remedy these in advance of an outage. And, our use of advanced metering technology is furthering conservation of this precious resource by proactively alerting those with higher than normal consumption, not only supporting our sustainability commitment but delivering customer value.

OUC Commission 2019
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

Being innovative and the partner of choice cannot be achieved without the hard work and commitment of our employees. In 2019, OUC launched an organizational employee engagement survey to build upon our strengths and address opportunities. Action plans to deliver on companywide survey results are being implemented with an overall commitment to improve collaboration, enhance talent management and effectively plan for succession to ensure OUC continues to be a valuable asset within the community.

Meeting the needs of our customers, employees and community in a safe and responsible manner while our industry evolves and transitions is our primary mission. We take pride in the many ways we work to accomplish this – from vigilantly protecting our systems and customers from cyber security breaches to hardening our delivery systems to combat the growing impacts of climate change.

Keeping the lights on, the water flowing and providing customer-focused solutions is what makes us The *Reliable* One and The *Sustainable* One.

Clint Bullock

Clint Bullock
General manager & CEO

Cesar Calvet
Commission President

CONSOLIDATED FINANCIAL HIGHLIGHTS

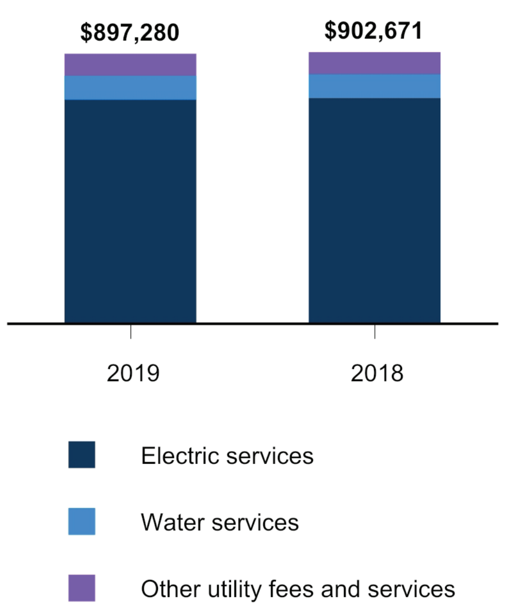
(Dollars in thousands)		2019		2018	% Increase / -Decrease
Operating revenues	$	897,280	$	902,671	-0.6%
Operating revenues excluding fuel revenues	$	639,627	$	629,407	1.6%
Operating expenses	$	775,589	$	775,199	0.1%
Fuel for generation and purchased power	$	288,552	$	306,255	-5.8%
Non-operating expenses	$	25,851	$	29,697	-13.0%
Income before contributions	$	95,840	$	97,775	-2.0%
City of Orlando dividend and revenue-based payments	$	92,708	$	90,008	3.0%
Utility plant, net	$	2,516,249	$	2,489,456	1.1%
Total assets and deferred outflows of resources	$	3,681,322	$	3,718,502	-1.0%
Long-term debt, net	$	1,504,679	$	1,564,637	-3.8%
Net position	$	1,446,142	$	1,394,846	3.7%
Current debt service coverage		2.71		2.49	8.8%
Senior bond ratings [1]		AA, Aa2, AA		AA, Aa2, AA	

[1] Bond Rating Agencies: Fitch Ratings, Moody's Investors Service and Standard & Poor's, respectively.

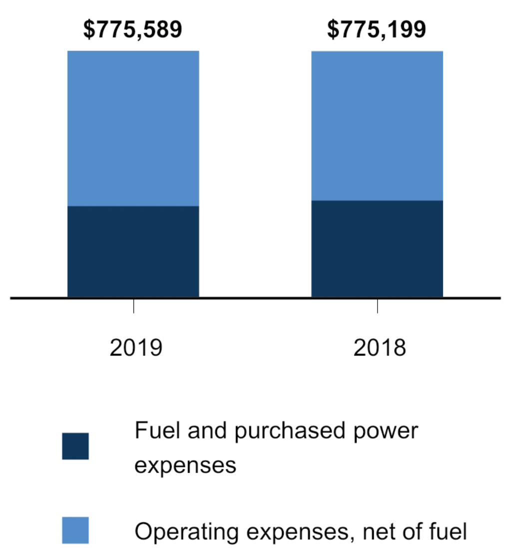
CONSOLIDATED STATISTICAL HIGHLIGHTS

Electric metered services		248,595		242,971	2.3%
Electric sales (mWh)		7,863,859		8,112,279	-3.1%
Average annual residential usage (kWh)		11,696		11,570	1.1%
Average residential revenue per kWh	$	0.1158	$	0.1134	2.1%
Water metered services		143,432		142,044	1.0%
Water sales (Mgal)		28,791		28,847	-0.2%
Average annual residential usage (Kgal)		78		80	-2.5%
Average residential revenue per Kgal	$	2.9285	$	2.8112	4.2%

Operating Revenues at September 30 (Dollars in thousands)



Operating Expenses at September 30 (Dollars in thousands)



AUDITED FINANCIAL STATEMENTS

ORLANDO UTILITIES COMMISSION

September 30, 2019

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, 2019 and 2018, 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, 2019 and 2018, 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 6-13, 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 49-51 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 22, 2019 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 22, 2019

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 electric and water utility services and solutions. OUC is responsible for a portfolio of utility 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.

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 to align ratemaking with financial reporting guidance, the Board has approved regulatory actions that have resulted in the deferral or recognition of certain revenues or expenses.

In 2019, the Board approved regulatory actions, beyond the use of fuel reserves, that increased reserves $18.5 million including deferring $20.0 million from the settlement of a terminated wholesale power supply agreement and $4.5 million from the deferral of actuarially determined post-retirement past service credits. The Board also approved regulatory actions which resulted in the use of $6.0 million of electric and water reserves to offset the impact from the four-year phased-in water rate plan, legal costs associated with the pending Stanton Energy Center (SEC) claim and expanded stakeholder integration costs for the electric integrated resource planning initiative.

In 2018, regulatory actions, beyond the use of fuel reserves, resulted in the use of $13.8 million of electric and water reserves to offset Series 2018A Bonds financing costs, the four-year phased-in water rate plan, the commencement of accelerated depreciation for fossil fuel generation facilities and one-time post-implementation costs for the new customer care and billing (CC&B) system. Also in 2018, the Board approved the deferral of unrealized mark-to-market investment valuations.

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, public workshops are held, customers are notified and Board action is taken.

In August 2019, an average 3.3 percent price increase was approved by the Board for residential electric customers. This price increase, effective October 1, 2019, will increase the average residential electric customer billing for 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.

In February 2017, a four-year water price plan was approved by the Board to increase water prices. In August 2019, the third scheduled price change was approved by the Board increasing the average residential and commercial customer water bill 6.2 percent beginning October 1, 2019. 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.

Contract pricing: The pricing of chilled water, lighting, back-up generation, electric vehicle charging and solar services and solutions are implemented 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)		**2019**		**2018**		**2017**
Assets						
Utility plant, net	$	2,516,249	$	2,489,456	$	2,451,068
Restricted and internally designated assets		611,948		657,489		539,295
Current assets		263,113		261,150		268,545
Other assets		190,640		209,141		241,555
Total assets		**3,581,950**		**3,617,236**		**3,500,463**
Deferred outflows of resources		**99,372**		**101,266**		**120,739**
Total assets and deferred outflows of resources	**$**	**3,681,322**	**$**	**3,718,502**	**$**	**3,621,202**
Liabilities						
Long-term debt, net	$	1,504,679	$	1,564,637	$	1,477,363
Current liabilities		252,544		258,339		260,483
Other liabilities and credits		179,613		207,717		250,413
Total liabilities		**1,936,836**		**2,030,693**		**1,988,259**
Deferred inflows of resources		**298,344**		**292,963**		**291,820**
Net position						
Net investment in capital assets		1,102,332		1,071,359		1,048,799
Unrestricted		343,810		323,487		292,324
Total net position		**1,446,142**		**1,394,846**		**1,341,123**
Total liabilities, deferred inflows of resources and net position	**$**	**3,681,322**	**$**	**3,718,502**	**$**	**3,621,202**

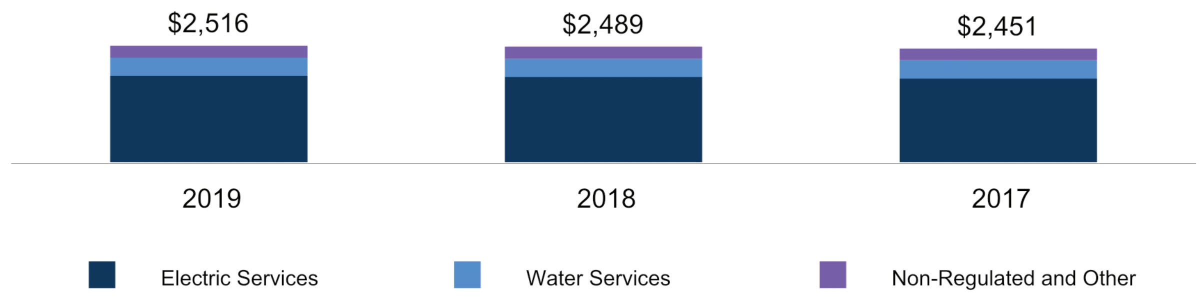
2019 Compared to 2018

Assets

Utility plant, net: Utility plant assets comprise over 70.2 percent of total assets and in 2019, increased $26.8 million inclusive of accumulated depreciation. Current year plant additions were $189.6 million with a focus on multi-year energy delivery upgrades to strengthen system reliability including transmission line upgrades. Capital additions were offset by systematic depreciation charges of $144.8 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Utility Plant, net at September 30
(Dollars in millions)



Restricted and internally designated assets: Restricted and internally designated assets of $611.9 million were $45.5 million less than prior year. The decrease was due to the net reimbursement of $52.2 million of construction funds and the use of fuel, water and electric reserves in the amount of $10.3 million, $3.3 million and $2.7 million, respectively. These decreases were offset by the receipt of a $20.0 million settlement payment as a result of a terminated wholesale supply agreement, a $5.7 million increase in customer-provided system development funds and $2.3 million in land sale proceeds in accordance with the Board-approved Policy for Accounting Treatment of Disposal of Capital Assets.

Current assets: Current assets of $263.1 million were $2.0 million higher than prior year. Fuel for generation inventories increased $8.6 million and derivative collateral deposits increased $14.0 million as a result of unfavorable market valuation changes coupled with a $7.2 million increase in unrealized investment valuations. These increases were offset by a decrease of $16.6 million in customer accounts receivable primarily due to a change in the timing of billing for customers with consolidated bills and a $6.9 million decrease in cash and investments.

Other assets: Other assets decreased $18.5 million from the prior year due to the recognition of pension and other post-employment benefits (OPEB) regulatory expenses of $16.2 million, net of the Board approved action to defer actuarially determined OPEB credits, and a decrease of $4.7 million in deferred unrealized investment valuation changes.

Deferred outflows of resources: In 2019, deferred outflows of resources decreased by $1.9 million. The change was due to the amortization of prior period refunded bond costs of $6.7 million, and the systematic amortization of pension and OPEB benefits of $4.5 million, offset by an $11.0 million increase in the fair value of interest rate and fuel derivative instruments.

Liabilities

Long-term debt, net: In 2019, long-term debt decreased $60.0 million from 2018. The decrease was due to the reclassification of $60.3 million of the current portion of long-term bonds payable. In addition, systematic amortization of bond-related premiums of $17.3 million was recognized offset by a $17.8 million change in the fair value of the interest rate swap derivatives. OUC maintained a rating of AA from Standard & Poor's and Fitch Ratings and Aa2 from Moody's Investor Service. Total long-term debt outstanding at September 30, 2019 was $1,504.7 million.

Current liabilities: Current liabilities decreased $5.8 million in 2019 as compared to 2018. The decrease was primarily due to an $8.6 million reduction in the current portion of bonds payable and a $5.1 million decrease in the timing of fuel and purchased power payables, offset by a $3.4 million increase in accrued Hurricane Dorian costs, a $3.0 million increase in fair value changes of fuel derivatives and a $1.1 million increase in compensated absences and accrued wages.

Other liabilities and credits: Other liabilities were $28.1 million lower than 2018. The change was primarily driven by the impact of favorable market conditions on hedging derivative instruments and the systematic recognition of unfunded actuarially determined pension and OPEB benefits.

Deferred inflows of resources: Deferred inflows of resources increased $5.4 million in 2019. The change was primarily due to the Board action to defer $20.0 million in proceeds from the termination of a wholesale power supply agreement, increases in unrealized pension and OPEB gains of $5.7 million and the deferral of land sale proceeds of $2.3 million. These increases were offset by the planned use of fuel and base reserves of $9.4 million and $6.0 million, respectively, and the continued systematic recognition of deferred gains on sale to offset generation facility depreciation expenses of $5.1 million.

2018 Compared to 2017

Assets

Utility plant, net: Utility plant, net increased $38.4 million inclusive of accumulated depreciation. 2018 plant additions were $184.7 million. The increase was primarily due to capital spending for major projects including several multi-year transmission line upgrades to improve system reliability and capacity, water system upgrades and fossil fuel generation facility upgrade projects inclusive of the Stanton Energy Center (SEC) Unit A and Unit B major outages. Capital additions were offset by systematic depreciation charges of $141.1 million.

Restricted and internally designated assets: Restricted and internally designated assets of $657.5 million were $118.2 million higher than the prior year. Restricted assets increased $89.6 million due to the timing of Series 2018A Bonds construction fund reimbursements and an increase in the debt service fund of $12.6 million. Internally designated funds increased $28.6 million for the funding of the capital reserves of $22.0 million and $5.0 million for customer-provided system development funds. These increases were offset by the use of electric and water reserves of $13.8 million.

Current assets: Current assets of $261.1 million were $7.4 million lower than the prior year. Customer accounts receivable decreased $14.4 million due to the timing of the implementation of the CC&B system in 2017 and a change in the billing process for customers with consolidated bills. Additionally, fuel for generation inventories decreased $6.6 million and derivative collateral deposits decreased $1.9 million. These changes were offset by a $4.2 million increase in outstanding participant receivables and an increase in cash and investments of $7.7 million.

Other assets: Other assets decreased $32.4 million from the prior year primarily due to a decrease in prepaid expenses and investment valuation changes. Prepaid expenses decreased $18.9 million for the recognition of deferred major outage costs at SEC Unit A and Unit B generation facilities. Investment valuation changes along with actuarial assumption changes lowered unrecognized pension and OPEB costs $11.7 million and $6.8 million, respectively. Investment valuation changes decreased the unrecognized valuation on interest rate swap derivatives by $2.8 million. Effective beginning October 1, 2017, the Board approved a regulatory action to defer unrealized investment valuations to align market driven timing differences with the rate-making model. Unrealized losses deferred in 2018 were $4.7 million.

Deferred outflows of resources: In 2018, deferred outflows of resources decreased by $19.5 million. The change was due to the systematic amortization of OPEB, pension and refunded bond costs of $7.0 million, $5.8 million, and $6.1 million, respectively.

Liabilities

Long-term debt, net: In 2018, long-term debt increased $87.3 million as compared to 2017. The primary driver of this change was the issuance of the Series 2018A Bonds in the amount of $180.0 million. These increases were offset by scheduled bond maturities of $68.9 million and the systematic amortization of bond-related premiums of $17.9 million. In addition, the fair value of the interest rate swap derivatives decreased $7.0 million.

Current liabilities: Current liabilities decreased $2.1 million in 2018 as compared to 2017. Accounts payable and accrued expenses decreased $16.5 million as a result of accrued storm restoration costs and lower fuel related costs. These decreases were offset by increases in current bonds payable of $10.5 million. Additionally, there were increases in accrued interest and customer deposits of $2.1 million and $1.2 million, respectively.

Other liabilities and credits: Other liabilities were $42.7 million lower than that of 2017. The change was primarily driven by decreases in the net pension and OPEB liabilities of $26.4 million and $20.4 million, respectively, as a result of favorable market valuations and the systematic recognition of unfunded actuarial liabilities. These variances were offset by an increase in the asset retirement liability related to St. Lucie Unit 2 (SL2) of $1.7 million.

Deferred inflows of resources: Deferred inflows of resources increased $1.1 million in 2018. The change was primarily due to increases in the unrealized pension and OPEB fair market valuation gains of $12.6 million and $3.4 million, respectively, and an increase in the valuation of unrecognized interest rate swap derivatives related to the Series 2015B Bonds of $4.3 million. These increases were offset by the use of electric and water reserves of $13.8 million. Additionally, there was a decrease due to the continued systematic recognition of deferred gains on sale to offset generation facility depreciation expenses of $5.3 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

(Dollars in thousands)	2019	2018	2017
Operating revenues	$ 897,280	$ 902,671	$ 878,649
Operating expenses	775,589	775,199	754,314
Operating income	**121,691**	**127,472**	**124,335**
Net non-operating expenses	25,851	29,697	28,174
Income before contributions	**95,840**	**97,775**	**96,161**
Contributions in aid of construction	18,818	16,564	18,642
Annual dividend	(63,362)	(60,616)	(59,061)
Increase in net position	**51,296**	**53,723**	**55,742**
Net position - beginning of year	**1,394,846**	**1,341,123**	**1,285,381**
Net position - end of year	**$ 1,446,142**	**$ 1,394,846**	**$ 1,341,123**

2019 Compared to 2018

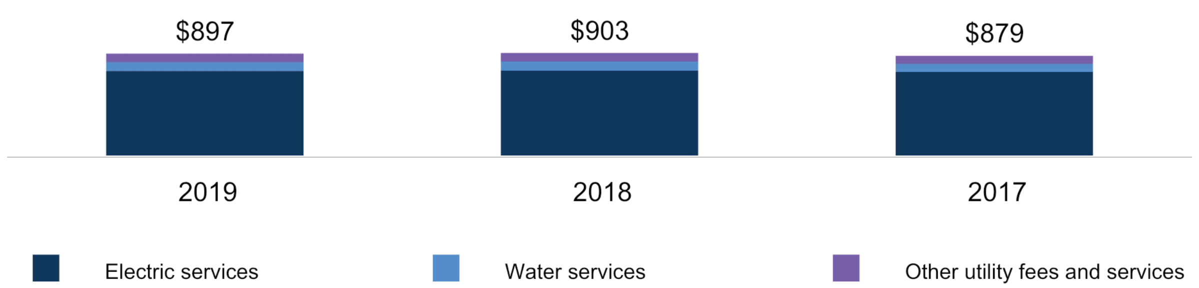
Changes in Net Position

Total operating revenues: Operating revenues decreased $5.4 million, or 0.6 percent, compared to 2018.

Electric and water revenues: In 2019, retail energy revenues increased $20.6 million as a result of price changes and customer growth in 2019. These increases were offset by an equivalent decrease in wholesale energy revenues from the termination of a wholesale power supply agreement. In addition, electric revenues decreased $6.4 million compared to 2018 as a result of a $6.4 million reduction in the use of reserves in 2019. Water revenues were $1.1 million higher than prior year due to the impact of the second year of a phased-in price increase which generated an additional $3.0 million offset by a $1.5 million decrease in the use of water reserves.

Other utility fees and revenues: Other revenues remained consistent with 2018 with a $0.6 million increase in OUConvenient lighting revenues offset by a $0.5 million decrease in chilled water revenues.

Operating Revenues at September 30
(Dollars in millions)



Total operating expenses: In 2019, operating expenses were $0.4 million, or 0.1 percent, higher than 2018.

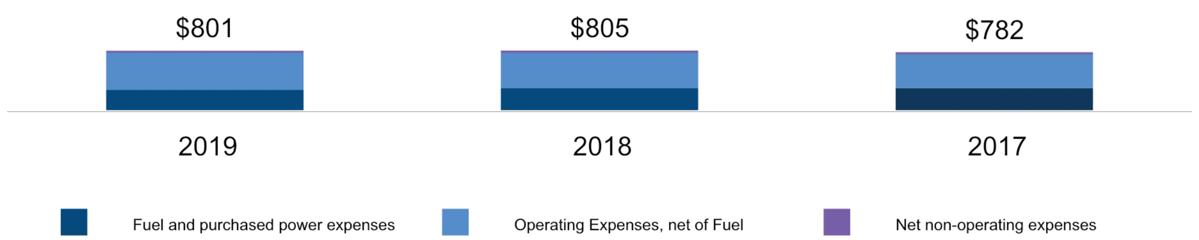
Fuel and purchased power decreased $17.7 million due to commodity pricing and savings from a renegotiated power supply agreement.

Operating expenses, excluding fuel and purchased power, were $14.4 million higher than 2018. This increase was driven by $2.9 million in legal costs related to the Stanton Energy Center coal contamination claim, $2.7 million in costs for Hurricane Dorian, net of an anticipated federal cost reimbursement, and increased labor costs. These changes were offset by a prior year one-time consolidated billing adjustment of $1.2 million.

Depreciation and amortization expenses were $3.7 million higher than 2018 primarily due to the annualized impact of the prior year planned major outages at SEC Unit A and Unit B.

Net non-operating expenses: Total net non-operating expenses for 2019 were $3.8 million lower than 2018. The change was driven by an increase of $4.3 million in interest income as a result of earnings on construction funds throughout the year.

Operating and Non-Operating Expenses at September 30
(Dollars in millions)



Contributions in aid of construction: Contributions in aid of construction of $18.8 million for 2019 were $2.3 million higher than 2018.

2018 Compared to 2017

Changes in Net Position

Total operating revenues: Operating revenues increased $24.0 million, or 2.7 percent, compared to 2017.

Electric and water revenues: Total electric revenues were $9.1 million higher than 2017 excluding the net impact of using an additional $2.3 million of electric reserves in 2018. The growth in electric revenues was driven by a 2.1 percent increase in customers in both the OUC and St. Cloud service territories along with incremental growth in wholesale sales as a result of available wholesale capacity. Water revenues were $7.8 million higher than prior year due to a 1.0 percent growth in customers, a mid-year rate increase and the use of $4.8 million of water reserves.

Other utility fees and revenues: Fees and other revenues increased by $4.3 million primarily due to a $1.9 million increase in customer service fees, a $1.7 million increase in OUConvenient lighting revenues and a $0.6 million increase in chilled water revenues.

Total operating expenses: In 2018, operating expenses were $20.9 million, or 2.8 percent, higher than 2017.

Fuel for generation and purchased power decreased $2.6 million due to lower transportation and commodity costs.

Operating expenses, excluding fuel and purchased power, were $11.3 million higher than 2017, inclusive of $8.6 million of one-time storm restoration expenses incurred in 2017. This increase was driven by higher planned generation and distribution reliability expenses as well as annual inflationary changes in the Central Florida area.

Depreciation and amortization expenses were $12.2 million higher than 2017 primarily from the depreciation of major outage costs at SEC Unit A and Unit B and the go-live impact of the CC&B system.

Net non-operating expenses: Total net non-operating expenses for 2018 were $1.5 million higher than 2017. The increase was driven by a $3.0 million increase in Series 2018A Bonds net interest expenses and a $2.3 million decrease in the recognition of non-operating reserves. This change was offset by the Board approved action to defer unrealized investment valuations consistent with the rate-making model which, in 2017, included a valuation loss of $3.8 million.

Contributions in aid of construction: Contributions in aid of construction of $16.6 million for 2018 were $2.1 million lower than 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 the City of Orlando's goal to transition to renewable energy by 2050. To achieve this goal, OUC has launched an Electric Integrated Resource Plan (EIRP) initiative. The EIRP will serve as a roadmap for OUC's electric future helping to balance reliability, economic feasibility, resource innovation, and environmental sustainability with the long-term needs, interests, and values of our customers and community. While this initiative moves forward, OUC continues to prepare for the shuttering-in of Lakeland Electric's coal unit and expansion of its renewable energy resources and pilot new technologies with the planned installation of 257.5 MW of utility scale solar in 2020 through 2023 including the installation of battery storage. OUC is also engaged in a Department of Energy grant in a public-private partnership to evaluate the use of hydrogen to increase the penetration and efficiency of solar energy and storage.

Transmission and Distribution: OUC continues to evaluate and pilot programs through its Smart Grid program to enhance the reliability, availability and efficiency of the electric system while increasing value for our customers. Aligned with this program is a Smart City program which is also evaluating and piloting data and technology concepts to improve sustainability, enhance the quality of life for those who reside in the city and expand economic development opportunities. The initial projects include the implementation of technology enhancements that will automate the identification, clearance and restoration of faults and outages and increase customer responsiveness.

Legislative and Regulatory: As OUC's electric operations are subject to legislative and regulatory mandates, rulings regarding environmental matters can have a significant impact on operational and financial results. OUC's intentions are to ensure compliance with any rule requirements and also allow a "glide path" that would ensure reliability, resiliency, price stability and equity for its customers as well as allow for cost recovery consistent with the lives of the impacted assets. See Note J for further information.

Prices: Pricing Plans 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, traditional pricing changes are being evaluated to enable enhanced cost alignment and reduce the seasonal variability of customer billings.

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 and authorizes an annual average withdrawal rate of 109.2 million gallons per day (mgd). In conjunction with the issuance of the CUP, agreed-upon alternative water supply options are required. These alternatives are required one year in advance of the CUP expiration on October 1, 2021. If no suitable alternate water supply projects can be developed before October 1, 2020, an automatic CUP reduction may be triggered reducing the CUP to 100.1 mgd. OUC is currently pursuing an early application for renewal of its CUP and continuing to pursue alternative water supply options to preserve the current CUP at 109.2 mgd.

Expansion of Contracted Services

OUC continues to pursue opportunities to grow contracted services and expand on non-traditional utility services.

In 2019, OUC and the Greater Orlando Aviation Authority (GOAA) executed a Global Agreement for OUC to provide chilled water, backup generation, electric vehicle charging and on-site solar energy for a term of twenty years. In November 2019, OUC and Universal executed an agreement for OUC to provide chilled water services for a term of twenty five years.

Financing

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 and outstanding financial instruments.

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

(Dollars in thousands)	As of September 30 2019	2018
Assets		
Utility plant, net		
Utility plant in service	$ 4,471,769	$ 4,313,625
Allowances for depreciation and amortization	(2,194,918)	(2,061,635)
Utility plant in service, net	2,276,851	2,251,990
Land	83,171	73,253
Construction work in progress	156,227	164,213
Total utility plant, net	**2,516,249**	**2,489,456**
Restricted and internally designated assets		
Restricted assets	70,490	131,796
Internally designated assets	541,458	525,693
Total restricted and internally designated assets	**611,948**	**657,489**
Current assets		
Cash and investments	40,158	47,099
Customer receivables, net	80,679	97,287
Miscellaneous receivables, net	8,003	9,889
Accrued utility revenue	37,515	38,003
Fuel for generation	26,787	18,223
Materials and supplies inventory, net	40,736	38,479
Accrued interest receivable	3,094	2,127
Prepaid and other expenses	26,141	9,698
Hedging derivative instruments maturing within one year	—	345
Total current assets	**263,113**	**261,150**
Other assets		
Regulatory assets	162,337	178,987
Other long-term assets	28,303	30,154
Total other assets	**190,640**	**209,141**
Total assets	**3,581,950**	**3,617,236**
Deferred outflows of resources		
Accumulated decrease in fair value of hedging derivatives	12,508	2,536
Fair value of asset retirement obligation	6,062	6,687
Unrealized pension and postretirement benefits contributions and losses	46,752	51,262
Unamortized loss on refunded bonds	34,050	40,781
Total deferred outflows of resources	**99,372**	**101,266**
Total assets and deferred outflows of resources	**$ 3,681,322**	**$ 3,718,502**

See Notes to the Financial Statements for additional information.

STATEMENTS OF NET POSITION

(Dollars in thousands)	As of September 30 2019	2018
Liabilities		
Current liabilities		
Payable from restricted and designated assets		
Current portion of long-term debt	$ 60,340	$ 68,915
Accrued interest payable on notes and bonds	29,283	30,883
Customer meter deposits	57,164	58,156
Total payable from restricted and designated assets	**146,787**	**157,954**
Payable from current assets		
Accounts payable and accrued expenses	62,832	62,386
Billings on behalf of state and local governments	20,563	19,693
Compensated absences and accrued wages	15,362	14,298
Accrued governmental payments	2,937	2,973
Hedging derivative instruments maturing within one year	4,063	1,035
Total payable from current assets	**105,757**	**100,385**
Total current liabilities	**252,544**	**258,339**
Other liabilities and credits		
Pension and net postretirement benefits liability	89,068	122,769
Asset retirement obligation and other liabilities	87,042	83,446
Hedging derivative instruments	3,503	1,502
Total other liabilities and credits	**179,613**	**207,717**
Long-term debt, net		
Bond and note principal	1,389,180	1,459,945
Unamortized premium	92,866	99,868
Fair value of derivative instruments	22,633	4,824
Total long-term debt, net	**1,504,679**	**1,564,637**
Total liabilities	**1,936,836**	**2,030,693**
Deferred inflows of resources		
Unrealized pension and postretirement benefits gains	54,072	48,415
Accumulated increase in fair value of hedging derivatives	—	5,519
Regulatory credits	243,238	237,817
Unamortized gain on refunded bonds	1,034	1,212
Total deferred inflows of resources	**298,344**	**292,963**
Net position		
Net investment in capital assets	1,102,332	1,071,359
Unrestricted	343,810	323,487
Total net position	**1,446,142**	**1,394,846**
Total liabilities, deferred inflows of resources and net position	**$ 3,681,322**	**$ 3,718,502**

See Notes to the Financial Statements for additional information.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years ended September 30	
(Dollars in thousands)	2019	2018
Operating revenues		
Retail electric revenues	$ 603,606	$ 589,455
Resale electric revenues	140,915	161,468
Water revenues	80,241	79,154
Chilled water revenues	30,914	31,397
Lighting revenues	15,395	14,749
Other revenues	26,209	26,448
Total operating revenues	**897,280**	**902,671**
Operating expenses		
Fuel for generation and purchased power	288,552	306,255
Unit/department expenses	286,961	272,559
Depreciation and amortization	144,801	141,101
Payments to other governments and taxes	55,275	55,284
Total operating expenses	**775,589**	**775,199**
Operating income	**121,691**	**127,472**
Net non-operating expenses		
Interest income	12,628	8,318
Other income, net	10,698	10,726
Amortization of gain on sale of assets	5,040	6,072
Interest expense	(54,217)	(54,813)
Total net non-operating expenses	**(25,851)**	**(29,697)**
Income before contributions	**95,840**	**97,775**
Contributions in aid of construction	18,818	16,564
Annual dividend	(63,362)	(60,616)
Increase in net position	**51,296**	**53,723**
Net position - beginning of year	**1,394,846**	**1,341,123**
Net position - end of year	**$ 1,446,142**	**$ 1,394,846**

See Notes to the Financial Statements for additional information.

STATEMENTS OF CASH FLOWS

	Years ended September 30	
(Dollars in thousands)	2019	2018
Cash flows from operating activities		
Cash received from customers	$ 909,512	$ 908,504
Cash paid for fuel and purchased power	(301,941)	(299,910)
Cash paid for unit/department expenses excluding salaries and benefits	(99,431)	(67,009)
Cash paid for salaries and benefits	(175,679)	(173,994)
Cash paid for storm recovery	(2,102)	(17,479)
Cash paid to other governments and taxes	(55,310)	(55,213)
Net cash provided by operating activities	**275,049**	**294,899**
Cash flows from non-capital related financing activities		
Dividend payment	(63,362)	(60,616)
Pension bond principal and interest payments	(5,143)	(5,146)
Build America Bond interest subsidy received	3,043	3,708
Net cash used in non-capital related financing activities	**(65,462)**	**(62,054)**
Cash flows from capital related financing activities		
Utility plant net of contributions in aid of construction	(168,711)	(160,391)
Debt interest payments	(64,317)	(61,264)
Collateral deposits	(8,146)	2,900
Principal payments and refunding costs on long-term debt	(129,769)	(53,630)
Debt issuances	65,944	180,000
Debt issuance expense	(1,109)	(1,039)
Net cash used in capital related financing activities	**(306,108)**	**(93,424)**
Cash flows from investing activities		
Proceeds from sales and maturities of investment securities	379,206	334,838
Purchases of investment securities	(293,287)	(436,079)
Investments and other income received	35,275	(8,519)
Net cash provided by/(used in) investing activities	**121,194**	**(109,760)**
Net increase in cash and cash equivalents	**24,673**	**29,661**
Cash and cash equivalents - beginning of year	**209,440**	**179,779**
Cash and cash equivalents - end of year	**$ 234,113**	**$ 209,440**
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 121,691	$ 127,472
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization of plant charged to operations	144,801	141,101
Depreciation and amortization charged to fuel for generation and purchased power	2,953	4,219
Depreciation of vehicles and equipment charged to unit/department expenses	2,651	2,575
Changes in assets and liabilities		
Decrease in receivables and accrued revenue	20,082	1,722
(Increase)/Decrease in fuel and materials and supplies inventories	(3,594)	14,018
Decrease in accounts payable	(1,275)	(18,609)
(Decrease)/Increase in deposits payable and liabilities	(5,759)	17,200
(Decrease)/Increase in stabilization and deferred credits	(6,501)	5,201
Net cash provided by operating activities	**$ 275,049**	**$ 294,899**
Reconciliation of cash and cash equivalents		
Restricted and internally designated cash and cash equivalents	$ 229,834	$ 173,645
Cash and investments	4,279	35,795
Cash and cash equivalents - end of year	**$ 234,113**	**$ 209,440**
Non-cash investing, capital and financing activities		
Increase in donated utility plant assets	$ 4,141	$ 4,839
Increase/(Decrease) in fair value of investments	$ 4,451	$ (4,677)
Decrease in accounts payable related to utility plant purchases	$ 89	$ 770

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 utility 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 provision for doubtful accounts. Operating expenses include fuel and purchased power, unit/department expenses, taxes, and depreciation on capital assets. Net non-operating expenses include those 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 has been secured to ensure these changes are implemented in a measured and responsible manner.

In August 2019, the Board approved a 3.3 percent electric price increase effective on October 1, 2019 to raise the average residential customer's bill using 1,000 kWh per month to $109.50. In August 2018, the Board approved an electric price neutral change lowering fuel prices 7.7 percent and increasing customer and energy prices. These price changes kept the average residential customer using 1,000 kWh per month at $106.00.

In February 2017, a four-year water price plan was approved by the Board to increase water prices in a measured and responsible manner. In August 2019, the third price change was approved by the Board increasing the average residential and commercial customer water bill 6.2 percent beginning October 1, 2019. The prior 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.

The pricing of contracted services such as chilled water, lighting, back-up generation, electric vehicle charging and solar solutions are implemented utilizing a cost recovery model with pricing defined within the contract terms.

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 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 2019 and 2018. 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 and Renewable	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 valuation changes 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 and local economic market conditions. 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.

Note B – Summary of Significant Accounting Policies (continued)

The net customer receivable balances of $80.7 million and $97.3 million at September 30, 2019 and 2018 include an allowance for doubtful accounts of $17.6 million and $16.0 million, respectively. Included in net customer receivables were billings on behalf of the State and other local governments of $8.8 million and $11.5 million at September 30, 2019 and 2018, inclusive of an allowance for doubtful accounts of $2.9 million and $2.4 million, respectively. Agency billings are not reflected in the Statements of Revenues, Expenses and Changes in Net Position. Bad debt expenses were $1.7 million and $0.9 million for the years ended September 30, 2019 and 2018, respectively.

As of September 30, 2019 and 2018, miscellaneous receivables were $8.0 million and $9.9 million, net of allowance for doubtful accounts of $2.5 million and $1.6 million for the years ended September 30, 2019 and 2018, respectively.

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

(Dollars in thousands)	2019	2018
Customer receivables, net		
Customer receivables	$ 66,409	$ 78,626
Agency receivables	8,775	11,467
Wholesale receivables	5,495	7,194
Total customer receivables, net	**80,679**	**97,287**
Miscellaneous receivables, net	**8,003**	**9,889**
Total accounts receivable, net	**$ 88,682**	**$ 107,176**

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 $37.5 million and $38.0 million at September 30, 2019 and 2018, respectively, including unbilled electric fuel revenues in the amount of $9.5 million and $10.3 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, 2019 and 2018 was $26.8 million and $18.2 million, respectively.

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, 2019 and 2018 was $40.7 million and $38.5 million, including an allowance for obsolescence of $9.9 million and $9.6 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, 2019 and 2018 were $26.1 million and $9.7 million, respectively, for which collateral deposits for interest rate hedges were $18.0 million and $3.9 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, 2019 and 2018.

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)	2019	2018
Supplier payables	$ 32,569	$ 30,590
Fuel and purchased power payables	19,512	24,604
Other accounts payable and accrued expenses	3,955	4,089
Accrued self-insurance expenses	3,442	3,103
Hurricane related supplier payables	3,354	—
Total accounts payable and accrued expenses	**$ 62,832**	**$ 62,386**

Pension plan and other post-employment benefits plan (OPEB): For purposes of measuring the net pension and OPEB liabilities, the related deferred outflows of resources and deferred 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. At September 30, 2019 and 2018, the estimated liability for compensated absences and accrued wages was $15.4 million and $14.3 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, 2019 and 2018 was $57.3 million and $56.1 million, respectively. As of September 30, 2019 and 2018, nuclear generation facility decommissioning funds of $44.7 million and $41.8 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 56.8 percent and 41.5 percent were $1.9 million and $1.3 million as of September 30, 2019 and 2018, respectively.

Unamortized discount/premium: Unamortized discounts or premiums 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.

Contributions in aid of construction: Developer and customer funds received for system development fees and assets were recorded as contributions in aid of construction in the period in which they were received on the Statements of Revenues, Expenses and Changes in Net Position.

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 22, 2019, which is the date the financial statements were available to be issued and no events of this nature were noted.

Note B – Summary of Significant Accounting Policies (continued)

Implementation of New GASB Accounting Standards

OUC early adopted GASB Statement No. 91, *"Conduit Debt Obligations,"* (Statement No. 91) during the year ended September 30, 2019. The objective of this Statement is to enhance the comparability and consistency of conduit debt obligation reporting and reporting of related transactions and other events by state and local government issuers. This Statement also is intended to improve the relevance, reliability, and understandability of information about conduit debt obligations. Note disclosures are required to define conduit debt obligations, the aggregate outstanding principal amount of the issuers' conduit debt obligations, a description of each type of commitment and the amount recognized and how the liabilities changed during the reporting period. This statement had no effect on the financial statements.

Future GASB Accounting Standard Implementations

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. Note disclosures and required supplementary information requirements about fiduciary activities are also addressed. The effective date of this standard is for periods beginning after December 15, 2018. OUC will adopt this standard for the fiscal year beginning October 1, 2019. Management has yet to determine the impact, if any, to the financial statements or supplementary reporting requirements.

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 effective date of this standard is for periods beginning after December 15, 2019. This statement is under review and management has yet to determine the impact, if any, to the financial statements.

In August 2018, GASB Statement No. 90, "*Majority Equity Interests*," (Statement No. 90) was issued. 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. The effective date of this standard is for periods beginning after December 15, 2018. OUC will adopt this standard for the fiscal year beginning October 1, 2019. Management has yet to determine the impact of adopting this standard, if any, to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note C – Utility Plant

Utility plant, net represents 70.2 percent and 68.8 percent of total assets in 2019 and 2018, respectively, with a 77.7 percent and 80.0 percent depreciation recapture rate in the cost recovery model.

Net utility plant increased 1.1 percent and 1.6 percent in 2019 and 2018, respectively, with new renewable energy generation resources provided through power purchase agreements outlined in Note D and Note J.

Activities for the years ended September 30, 2019 and 2018 were as follows:

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**

Utility Plant (Net) (Dollars in thousands)	**2017**	**Additions**	**Transfers**	**Retirements/ reclassifications**	**2018**
Utility plant					
Electric	$ 3,110,900	$ 16,406	$ 125,779	$ (10,624)	$ 3,242,461
Water	599,592	5,248	13,009	(453)	617,396
Chilled Water	116,848	—	53	—	116,901
Lighting	88,191	—	3,100	(3,305)	87,986
Shared/Customer Service	243,785	1,356	11,387	(7,647)	248,881
Total utility plant	**4,159,316**	**23,010**	**153,328**	**(22,029)**	**4,313,625**
Accumulated depreciation					
Electric	(1,489,540)	(93,691)	—	3,441	(1,579,790)
Water	(235,156)	(15,812)	—	461	(250,507)
Chilled Water	(49,352)	(4,290)	—	713	(52,929)
Lighting	(41,843)	(4,494)	—	3,305	(43,032)
Shared/Customer Service	(124,473)	(18,393)	—	7,489	(135,377)
Total accumulated depreciation	**(1,940,364)**	**(136,680)**	**—**	**15,409**	**(2,061,635)**
Total depreciable utility plant, net	2,218,952	(113,670)	153,328	(6,620)	2,251,990
Land and other non-depreciable assets	73,091	177	—	(15)	73,253
Construction work in progress	159,025	161,539	(153,328)	(3,023)	164,213
Utility plant, net	**$ 2,451,068**	**$ 48,046**	**$ —**	**$ (9,658)**	**$ 2,489,456**

Note D – Generation Resources

OUC secures its generation system 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 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 through its agreement with Nextera Energy at the SEC Unit A generation facility and renewable energy generation resources 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					
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	2010-2016	n/a [2]	n/a [2]	15	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 in 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 operated generation facility asset balances for SEC Unit 1, SEC Unit 2, and IRP A-D and the jointly owned and non-OUC operated generation facility asset at MAC3 include the cost of common and/or external facilities. At the other jointly owned and non-OUC operated generation facilities, 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.

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

NOTES TO THE FINANCIAL STATEMENTS

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:

	2019			2018		
(Dollars in thousands)	Utility plant	Accumulated depreciation	Net book value	Utility plant	Accumulated depreciation	Net book value
SEC Unit 2	$ 510,034	$ 278,679	$ 231,355	$ 493,221	$ 262,868	$ 230,354
SEC Unit B	300,505	101,305	199,200	298,126	88,331	209,795
SEC Unit 1	409,627	276,801	132,826	405,325	262,061	143,264
SL2	201,580	95,527	106,053	199,111	93,431	105,680
MAC3	205,343	150,748	54,595	200,492	142,298	58,193
SEC Unit A	88,375	53,946	34,429	88,350	48,534	39,817
IRP A-D	59,886	50,125	9,761	59,320	48,011	11,308
Total	**$ 1,775,350**	**$ 1,007,131**	**$ 768,219**	**$ 1,743,945**	**$ 945,534**	**$ 798,411**

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 are 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 $218.8 million and $137.6 million of investments held in money market funds and QPD accounts that were exposed to this risk as of September 30, 2019 and 2018, 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)		2019			2018	
Local government surplus funds investment pool						
Florida State Board of Administration	$	110,980	17.1%	$	56,029	8.4%
Money market mutual funds						
MSIFT Ultra Short Fund	$	69,000	10.7%	$	44,000	6.6%
U.S. Agencies						
Federal Home Loan Banks	$	63,181	9.8%	$	75,182	11.3%
Federal Farm Credit Banks	$	35,358	5.5%	$	—	N/A
U.S. Treasury notes	$	49,511	7.6%	$	213,592	32.1%

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, 2019	Portfolio weighting at September 30, 2018
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%	22%	21%
Municipal notes	Minimum "A" rating by a nationally recognized rating agency.	25%	1%	2%
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%	11%	7%
Commercial paper	Minimum rating of "A-1", "P-1" and "F1" by at least two nationally recognized rating agencies.	20%	16%	9%
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%	2%	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%	21%	11%
U.S. Treasury notes	Direct obligations that are unconditionally guaranteed by the United States Government.	100%	7%	32%
U.S. Agencies	Indebtedness issued by government-sponsored enterprises (GSE), which are non-full faith and credited by the United States Government.	100%	20%	16%
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.

NOTES TO THE FINANCIAL STATEMENTS

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	2019	2018
Corporate notes and multi-national sovereign debt	Aaa - A3 / AAA - A- / AAA - A	2.19	2.13
Municipal notes	Aa2 - Aa3 / AA - AA- / AA - AA-	1.50	1.54
U.S. Agencies	Aaa / AA+ / AAA	1.90	1.42
U.S. Treasury notes	Aaa / AA / AAA	0.91	0.99
Commercial paper	A-1+ - A-1 / P-1 / F1+ - F1	0.10	0.00

The following schedule discloses cash, cash equivalents and investments at September 30:

(Dollars in thousands)		2019		2018
Cash and cash equivalents				
Cash	$	4,279	$	35,795
Local government investment pool		138,718		76,141
Money market mutual funds		69,848		44,977
Depository accounts		10,269		16,529
Commercial paper		10,999		19,999
U.S. Agencies		—		15,999
Total cash and cash equivalents		**234,113**		**209,440**
Investments				
U.S. Treasury notes		49,511		213,592
Corporate notes and multi-national sovereign debt		141,199		138,799
U.S. Agencies		126,407		89,451
Commercial paper		95,635		40,997
Municipal notes		5,060		11,798
Total investments		**417,812**		**494,637**
Total cash, cash equivalents and investments	**$**	**651,925**	**$**	**704,077**
Restricted and internally designated assets				
Restricted assets				
Construction funds	$	25,777	$	89,992
Nuclear generation facility decommissioning funds		44,713		41,804
Total restricted assets		**70,490**		**131,796**
Internally designated assets				
Stabilization funds		182,056		177,547
Deposits and advances		119,007		113,259
Debt service sinking funds		89,361		99,527
Capital reserve		83,468		71,468
Renewal and replacement fund		55,717		53,415
Self-insurance fund and excess pension plan fund		11,849		10,477
Total internally designated assets		**541,458**		**525,693**
Total restricted and internally designated assets		**611,948**		**657,489**
Cash and investments		**40,158**		**47,099**
Less accrued interest receivable from restricted and internally designated assets		**(181)**		**(511)**
Total cash, cash equivalents and investments	**$**	**651,925**	**$**	**704,077**

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 because 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 as 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 in the amounts of $4.1 million and $4.8 million for the years ended September 30, 2019 and 2018, respectively.

Note F – Fair Value Measurements (continued)

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

(Dollars in thousands)	2019	Level 1	Level 2
Cash equivalents and investments			
Investments by fair value level:			
Debt securities			
U.S. Agencies	$ 108,546	$ —	$ 108,546
U.S. Treasury notes	49,511	49,511	—
Corporate notes and multi-national sovereign debt	141,199	—	141,199
Municipal notes	5,060	—	5,060
Total investments by fair value level	**304,316**	**$ 49,511**	**$ 254,805**
Investments measured at the amortized costs:			
Debt securities			
U.S. Agencies	17,861		
Commercial paper	95,635		
Total investments measured at the amortized cost	**113,496**		
Cash equivalents measured at the amortized cost:			
Local government investment pool	138,718		
Money market mutual funds	69,848		
Depository accounts	10,269		
Debt securities			
Commercial paper	10,999		
Total cash equivalents measured at the amortized cost	**229,834**		
Total cash equivalents and investments	**$ 647,646**		
Derivatives:			
Interest rate swaps	$ (22,633)	$ —	$ (22,633)
Fuel hedges	(7,566)	(7,566)	—
Total derivatives	**$ (30,199)**	**$ (7,566)**	**$ (22,633)**

(Dollars in thousands)	2018	Level 1	Level 2
Cash equivalents and investments			
Investments by fair value level:			
Debt securities			
U.S. Agencies	$ 89,451	$ —	$ 89,451
U.S. Treasury notes	118,662	118,662	—
Corporate notes and multi-national sovereign debt	106,361	—	106,361
Municipal notes	11,798	—	11,798
Total investments by fair value level	**326,272**	**$ 118,662**	**$ 207,610**
Investments measured at the amortized costs:			
Debt securities			
Corporate notes and private placements	32,438		
U.S. Treasury notes	94,930		
Commercial paper	40,997		
Total investments measured at the amortized cost	**168,365**		
Cash equivalents measured at the amortized cost:			
Local government surplus funds investment pool	76,141		
Money market mutual funds	44,977		
Depository accounts	16,529		
Debt securities			
U.S. Agencies	15,999		
Commercial paper	19,999		
Total cash equivalents measured at the amortized cost	**173,645**		
Total cash equivalents and investments	**$ 668,282**		
Derivatives:			
Interest rate swaps	$ (4,824)	$ —	$ (4,824)
Fuel hedges	(2,192)	(2,192)	—
Total derivatives	**$ (7,016)**	**$ (2,192)**	**$ (4,824)**

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 as a result of 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:** Past service costs for pension and OPEB recognized as a result of the implementation of new accounting guidance are being recognized through 2025 in a manner that, at a minimum, matches the annual actuarial required funding amount. In 2019, the impact of previously approved plan modifications resulted in actuarially determined OPEB credits of $4.5 million. To effectively recover the net impact of this and future actuarially determined credit amounts, the Board approved the deferral of these credit amounts. The amount of deferred long-term employee benefit costs at September 30, 2019 and 2018 was $109.4 million and $130.3 million, respectively.
- **Storm preparation and restoration expenses:** Costs in the amount of $39.2 million were incurred for storm preparation and restoration efforts for Hurricanes Matthew, Irma and Dorian. In anticipation of partial cost recovery through the Federal Emergency Management Agency (FEMA) cost reimbursement process, the Board approved regulatory assets for each storm. In 2019, costs of $2.0 million were approved for deferral in response to Hurricane Dorian. The amount of the regulatory asset established for hurricane restoration costs as of September 30, 2019 and 2018 was $23.2 million and $21.2 million, respectively.
- **Asset retirement obligation 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, 2019 and 2018 of $7.4 million and $6.9 million, respectively.

Deferred non-operating expenses: The following deferrals resulted from Board approved actions as a result of 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. The unrecognized fair value of the deferred interest rate hedge settlement payments at September 30, 2019 and 2018 was $17.7 million and $10.0 million, respectively.
- **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, 2019 and 2018 was $3.4 million and $4.2 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, 2019 and 2018 was $1.2 million and $1.6 million, respectively.
- **Unrealized investment valuations:** Mark-to-market valuation changes for investments with a maturity of one year or greater are deferred. In 2019, these unrealized investment valuations resulted in a deferred gain of $4.5 million and in 2018, these unrealized investment valuations resulted in a deferred loss of $4.7 million.

Note G – Regulatory Deferrals (continued)

Regulatory Credits

Deferred operating credits: The following deferrals resulted from Board approved actions as a result of 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 represents 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, 2019 and 2018 was $72.8 million and $78.2 million, respectively. Fuel reserves also included funds internally designated to facilitate the transition to a clean energy generation portfolio in the amounts of $36.2 million and $41.1 million, respectively, at September 30, 2019 and 2018.
- **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.

  In 2019, 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, unplanned Stanton Energy Center litigation costs and the expanded stakeholder engagement initiatives included with the Electric Integrated Resource Plan initiative.

  In 2018, the Board approved the use of reserves in the amount of $13.8 million to offset costs related to the issuance of the Series 2018A Bonds, post-implementation customer billing activities, phased-in water price plan changes, and additional depreciation for fossil fuel generation facilities.

  Base rate reserves at September 30, 2019 and 2018 were $82.6 million and $68.6 million, respectively.
- **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.

  In 2019 and 2018, gains on the sale of property of $2.3 million and $0.8 million, respectively, 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.

  Capital reserves from the sale of assets at September 30, 2019 and 2018 were $47.2 million and $50.0 million, respectively.

Deferred non-operating credits: The following deferrals resulted from Board approved actions as a result of 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. In 2019, these unrealized investment valuations resulted in a deferred gain of $4.5 million and in 2018 these unrealized investment valuations resulted in a deferred loss of $4.7 million.

In conjunction with the recording of these regulatory credits, the Board internally designated funds in the amount of $182.1 million and $177.5 million at September 30, 2019 and 2018, respectively.

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

(Dollars in thousands)	2019	2018
Regulatory assets		
Deferred operating expenses	$ 140,023	$ 158,432
Deferred non-operating expenses	22,314	20,555
Total regulatory assets	**$ 162,337**	**$ 178,987**
Regulatory credits		
Deferred operating expenses	$ 238,787	$ 237,817
Deferred non-operating expenses	4,451	—
Total regulatory credits	**$ 243,238**	**$ 237,817**

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	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 [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			1,528,860	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**	

Bond Series (Dollars in thousands)	Final principal payment	Interest rates	2017	Additions during year	Decreases during year	2018	Current portion
2003T	2018	5.29%	$ 9,765	$ —	$ 4,755	$ 5,010	$ 5,010
2009B	2033	5.00%	65,160	—	—	65,160	—
2009C	2017	3.50 - 5.00%	19,040	—	19,040	—	—
2010A	2040	5.66%	200,000	—	—	200,000	—
2010C	2022	4.00 - 5.25%	54,830	—	8,095	46,735	8,480
2011B	2023	3.00 - 5.00%	68,100	—	5,425	62,675	13,325
2011C	2027	4.00 - 5.00%	86,450	—	—	86,450	—
2012A	2027	4.00 - 5.00%	51,670	—	2,155	49,515	2,235
2013A	2025	3.00 - 5.00%	230,965	—	2,500	228,465	5,370
2015A	2035	5.00%	94,905	—	—	94,905	—
2016A	2033	4.00 - 5.00%	142,690	—	16,415	126,275	34,495
2017A	2027	3.00 - 5.00%	98,360	—	—	98,360	—
2018A	2038	5.00%	—	150,220	—	150,220	—
Total fixed rate debt			1,121,935	150,220	58,385	1,213,770	68,915
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			1,437,025	150,220	58,385	1,528,860	$ **68,915**
Less current portion			(58,385)	—	10,530	(68,915)	
Total long-term debt			**$ 1,378,640**	**$ 150,220**	**$ 68,915**	**$ 1,459,945**	

[1] Variable rates ranged from 1.11% to 2.41% for the year ended September 30, 2019.
[2] Variable rates ranged from 0.88% to 1.85% for the year ended September 30, 2018.
[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, 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
2020	$ 73,930	$ 61,349	$ (3,718)	$ 131,561
2021	82,050	57,741	(3,718)	136,073
2022	80,240	54,237	(3,718)	130,759
2023	75,220	50,254	(3,718)	121,756
2024	75,940	46,494	(3,718)	118,716
2025-2029	351,915	179,521	(18,588)	512,848
2030-2034	306,895	115,955	(18,588)	404,262
2035-2039	294,525	48,619	(11,843)	331,301
2040-2044	48,465	2,744	(901)	50,308
Long-term debt	**1,389,180**	**616,914**	**(68,510)**	**1,937,584**
Current portion	**60,340**	**62,628**	**(3,718)**	**119,250**
Total debt	**$ 1,449,520**	**$ 679,542**	**$ (72,228)**	**$ 2,056,834**

General bond resolution: All bonds outstanding were subject to the provisions 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 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.

Issued bonds: In January 2018, OUC issued the fixed rate Series 2018A Bonds at a par value of $150.2 million and a premium of $30.9 million with a fixed rate coupon of 5.0 percent, paid semiannually. Proceeds from the sale of the bonds are being used to finance capital spending through 2019. The bonds are scheduled to mature beginning October 1, 2023 with a final maturity of October 1, 2038.

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 February 19, 2019, OUC issued the Series 2019A fixed rate bonds with a par amount of $54.7 million and a premium of $11.2 million. The proceeds were used for the refunding of the Series 2009B Bonds of $65.2 million. The Series 2019A Bonds have maturity dates between October 1, 2023 and October 1, 2033. The bonds were issued with fixed rate coupons of 5.0 percent.

Debt Issued (Dollars in thousands)	Month Issued	Par Amount Issued	Premium on Issuance	Par Amount Refunded	PV Savings	Accounting Gain	Savings % of Refunded Bonds	Debt Refunded
2019A	February 2019	$ 54,735	$ 11,209	$ 65,160	$ 13,024	$ 695	20.0%	2009B

There was no defeased debt outstanding at September 30, 2019. The amount of defeased debt at September 30, 2018 was $149.0 million.

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. Although some counterparty ratings have changed since the date of issuance, 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 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.

In 2017, the Series 2017A fixed rate bonds were issued and the proceeds were used for the refunding of the 2011A *Windows* Bonds. The periodic settlement of the underlying 2017A Interest Rate Swap payments was deferred in conjunction with the refunding. On October 1, 2020 the Series 2017A Bonds will be subject to a mandatory tender after which OUC intends to remarket the bonds to offset the restart of cash flows from the 2017A Interest Rate Swap.

The following schedule summarizes OUC's fair value position, based on quoted market rates, for its outstanding swap agreements at September 30, 2019 and 2018. 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	2019 Fair value liability/ (asset)	2018 Fair value liability/ (asset)	Counterparty
2017A	$ 100,000	Fixed	3.78%	67% of LIBOR	6/1/2011	10/1/2027	$ 17,691	$ 9,998	Morgan Stanley
2015B	$ 115,090	Fixed	1.78%	67% of LIBOR	10/23/2015	10/1/2039	4,942	(5,174)	Goldman Sachs
Total							$ 22,633	$ 4,824	

Goldman Sachs counterparty credit rating - A1 / A+ / A+
Morgan Stanley counterparty credit rating - A3 / BBB+ / 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.

At September 30, 2019, collateral deposits in the amount of $7.7 million, in excess of the contractual threshold of $10.0 million, were held by OUC counterparties. There were no collateral deposits with OUC counterparties at September 30, 2018.

Unused lines of credits: There were no unused lines of credit at September 30, 2019 and 2018.

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, 2019 and 2018, 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 have been 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)	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**

(Dollars in thousands)	2017	Payments, net	Incurred claims	2018
Health and wellness benefits	$ 1,861	$ (20,530)	$ 20,645	$ 1,976
Workers' compensation	618	(547)	628	699
General and vehicle liability	377	(130)	122	369
Total	**$ 2,856**	**$ (21,207)**	**$ 21,395**	**$ 3,044**

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 in 1997 from operating revenues. In 2019, the fund was increased $1.5 million to cover increases in the health and wellness programs and potential property damage claims. The self-insurance reserve balance was $11.0 million and $9.5 million at September 30, 2019 and 2018, 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 has entered 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.

In 2019, OUC entered into three natural gas discounted supply agreements for SEC Unit B totaling 11,800 million British thermal units (MMBtu) per day, for terms not exceeding 30 years. The price of the physical supply of gas is based on market indices at the time of purchase and will be a pass-through to OUC at the agreement discounted price as provided in the agreements. In the below schedule, variable pricing is included based upon the final market price at September 30, 2019 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 related to its participant ownership interest in SEC Unit A, the term of which is twelve years. OUC retains power purchase commitments for five solar and three landfill gas renewable energy resources. The solar and landfill gas PPAs have a total contract capacity of 36.2 megawatts. 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
2020	$ 53,958	$ 31,720	$ 21,032	$ 106,710
2021	40,591	30,755	19,138	90,484
2022	29,669	27,770	17,538	74,977
2023	10,910	26,087	18,159	55,156
2024	9,837	13,308	17,226	40,371
2025-2029	49,675	43,996	86,130	179,801
2030 - thereafter	199,049	44,010	38,759	281,818
Total	$ 393,689	$ 217,646	$ 217,982	$ 829,317

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 CO2 emission standards for individual existing coal-fired electric generating units within the state. Although states and environmental groups have filed legal challenges to the final ACE Rule, the ACE Rule has been 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, actions to continue to meet and exceed compliance standards remains a priority for OUC.

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. While there have been proposals to revise the original Rule, litigation challenges have hindered the implementation of any proposed rule changes. OUC owned and operated generation facilities have operated, and continue to operate, within compliance of this Rule since its inception in April 2015.

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 March 2015 and final approval was submitted through a Consummating Order on September 8, 2015. The approved plan calls for OUC to achieve a reduced level of conservation. Pursuant to Section 366.82, FS, the FPSC must review a utility's conservation goals not less than every five years. The FPSC's review of OUC's conservation goals and the supporting demand-side management plan covers the period between 2015 and 2024. OUC is in the process of submitting the 2020 conservation goals for the period between 2020 and 2029. The most current FEECA review docket has just been completed. Indications are that OUC will be held to the 2015 conservation goals.

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 revenue for the years ended September 30, 2019 and 2018, subject to the inter-local agreement is included under the heading of resale electric revenues and was $83.9 million and $79.6 million, respectively. Revenue-based payments recorded under the heading of payments to other governments and taxes for the years ended September 30, 2019 and 2018 were $7.0 million and $7.3 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. Billed revenues, included under the heading of resale electric revenues, were $9.3 million and $11.7 million for the years ended September 30, 2019 and 2018, 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 $8.5 million and $14.3 million for the years ended September 30, 2019 and 2018, 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 $4.0 million and $3.8 million for the years ended September 30, 2019 and 2018, 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, 2019 and 2018 were $92.7 million and $90.0 million, respectively.

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, 2019 and 2018.

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 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 postretirement 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. Postretirement benefits are funded through the Other Post-Employment Benefits (OPEB) Trust.

The Defined Benefit Pension and OPEB Trusts issue annual stand-alone financial statements, with the most recent report issued for the year ended September 30, 2018. 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/post-employment-benefit-reporting. The next available report will be issued in 2020 for the plan year ended September 30, 2019.

Pension and Other Postretirement Benefits

OUC is the administrator of the Orlando Utilities Commission Pension Plan (Pension Plan) and the Orlando Utilities Commission Other Post-Employment 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%

- **Postretirement 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 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, 2019 and 2018, the number of active employees enrolled in this pension benefit program were 1,048 and 1,037, respectively. Total contributions for the years ended September 30, 2019 and 2018 were $10.0 million ($4.3 million employer and $5.7 million employee) and $8.7 million ($3.6 million employer and $5.1 million employee), respectively.
- **Postretirement 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	
	2019	2018	2019	2018
Active cash balance plan members	1,038	974	1,042	978
Active traditional plan members	143	169	143	170
Inactive plan members currently receiving benefits	918	899	872	857
Inactive plan members entitled to deferred benefits	141	134	—	—
Total	**2,240**	**2,176**	**2,057**	**2,005**

Membership in the non-qualified 415 Trust included four active and three inactive participants currently receiving benefits and five active and three inactive participants currently receiving benefits as of the valuation date for the years ended September 30, 2019 and 2018, 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.

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, 2019 and 2018 was 24.0 percent and 25.4 percent, respectively.

Note L – Long-term Employee Benefits (continued)

OUC contributes, at a minimum, amounts actuarially determined directly to the OPEB Trust and the amounts for the years ended September 30, 2018 and 2017 were $7.0 million and $9.1 million, respectively. Since non-pension benefits were paid through operations, OUC was reimbursed by the Trust in 2018 and 2017, in the amounts of $7.4 million and $7.7 million, respectively. In 2019 and 2018, reimbursements from the OPEB Trust were lower than expenses, resulting in a net OPEB reimbursement receivable of $0.5 million and $0.4 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 7.7 percent and 10.4 percent, respectively.

In accordance with employee benefit accounting guidance, the $1.0 million contribution to the 415 Trust was recorded to internally designated assets in the Statements of Net Position as of September 30, 2018. No contributions were made to the 415 Trust in 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)	2019	2018	2019	2018	2019	2018
Total liability						
Service cost	$ 5,754	$ 5,748	$ 1,308	$ 1,331	$ 36	$ 28
Interest on the total liability	34,492	33,535	10,385	10,434	91	38
Benefit changes	—	408	—	—	—	1,124
Difference between expected and actual experience	4,904	3,706	(2,987)	(3,285)	82	373
Assumption changes	—	—	(7,658)	(2,093)	(96)	(132)
Benefit payments, including refunds of plan member contributions	(31,726)	(28,663)	(7,702)	(6,374)	(118)	(80)
Net change in total liability	**13,424**	**14,734**	**(6,654)**	**13**	**(5)**	**1,351**
Total liability - beginning of year	**485,865**	**471,131**	**145,788**	**145,775**	**2,613**	**1,262**
Total liability - end of year	**$ 499,289**	**$ 485,865**	**$ 139,134**	**$ 145,788**	**$ 2,608**	**$ 2,613**
Plan fiduciary net position						
Contributions - employer	$ 22,614	$ 21,876	9,068	13,384		
Contributions - plan members	555	660	—	—		
Total investment income, net of investment expense	37,039	48,761	10,956	13,420		
Benefit payments, including refunds of plan member contributions	(31,726)	(28,663)	(7,702)	(6,374)		
Administrative expense	(320)	(115)	(18)	(18)		
Net change in plan fiduciary net position	**28,162**	**42,519**	**12,304**	**20,412**		
Plan fiduciary net position - beginning of year	**390,855**	**348,336**	**120,642**	**100,230**		
Plan fiduciary net position - end of year	**$ 419,017**	**$ 390,855**	**$ 132,946**	**$ 120,642**		
Net liability - beginning of year	**$ 95,010**	**$ 122,795**	**$ 25,146**	**$ 45,545**		
Net liability - end of year	**$ 80,272**	**$ 95,010**	**$ 6,188**	**$ 25,146**		

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)	2019	2018
Pension plan		
Total pension liability	$ 499,289	$ 485,865
Net position	419,017	390,855
Net pension liability	80,272	95,010
415(m) pension plan		
Total pension liability	2,608	2,613
Pension liability	**$ 82,880**	**$ 97,623**
OPEB plan		
Total OPEB liability	$ 139,134	$ 145,788
Net position	132,946	120,642
Net OPEB liability	**$ 6,188**	**$ 25,146**

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, 2019 and 2018 were measured as of September 30, 2018 and 2017, 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:

	2018	2017
Plan benefit assumptions		
Annual COLA (pension only)	1.5%, based on actual COLA granted for the current year, and 1.0% per year, compounded annually, thereafter	2.0%, based on actual COLA granted for the current year, and 1.0% per year, compounded annually, thereafter
Hybrid Plan interest credit rate	5.5% 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 6.75% (5.52% for premiums in the first year) and gradually decreasing to an ultimate trend rate of 4.84% including 0.60% increase for excise tax	Based on Getzen Model, with trend starting at 7.0% (8.36% for premiums in the first year) and gradually decreasing to an ultimate trend rate of 4.97% including 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% - 7.5% per year, depending on years of service	3.75% - 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, 2018 and 2017, 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.

NOTES TO THE FINANCIAL STATEMENTS

Note L – Long-term Employee Benefits (continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of September 30, 2018 and 2017 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%	43.0%	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%	10.0%	4.5%
Alternative assets	10.0%	6.2%	10.0%	6.2%
Total	**100.0%**		**100.0%**	

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.

Discount rate: The discount rate used to measure the TPL and TOL was 7.25 percent, valued as of September 30, 2018 and 2017. 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, 2018 and 2017 was calculated using a municipal bond rate of 3.83 percent and 3.50 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 and NOL calculations to a 1.0 percent increase and a 1.0 percent decrease in the discount rates used to measure the TPL at September 30:

	NPL		NOL	
(Dollars in thousands)	**2018**	**2017**	**2018**	**2017**
1.0 percent decrease - 6.25%	$ 128,108	$ 142,627	$ 22,723	$ 43,007
Current discount rate - 7.25%	$ 80,272	$ 95,010	$ 6,188	$ 25,146
1.0 percent increase - 8.25%	$ 39,168	$ 54,177	$ (7,634)	$ 10,262

The following presents the sensitivity of the TPL calculations for the 415 Trust to a 1.0 percent increase and a 1.0 percent decrease in the discount rates used to measure the TPL at September 30:

	2018		2017	
(Dollars in thousands)	**Rate**	**TPL**	**Rate**	**TPL**
1.0 percent decrease	2.83%	$ 2,920	2.50%	$ 2,930
Current discount rate	3.83%	$ 2,608	3.50%	$ 2,613
1.0 percent increase	4.83%	$ 2,350	4.50%	$ 2,351

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

(Dollars in thousands)	2018		2017	
1.0 percent decrease	5.75% decreasing to 3.84%	$ (8,576)	6.00% decreasing to 3.97%	$ 9,250
Current assumption	6.75% decreasing to 4.84%	$ 6,188	7.00% decreasing to 4.97%	$ 25,146
1.0 percent increase	7.75% decreasing to 5.84%	$ 23,849	8.00% decreasing to 5.97%	$ 44,230

Note L – Long-term Employee Benefits (continued)

Pension and OPEB expense, deferred outflows of resources and deferred inflows of resources: OUC recorded $10.4 million and $13.4 million in pension expense, $0.2 million and $1.3 million in non-qualified pension plan expense and credits of $4.5 million and $0.9 million in OPEB expense for the years ended September 30, 2019 and 2018, 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.

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

	Pension		OPEB	
(Dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Deferred outflows of resources				
Pension and OPEB plans				
Employer's contributions to the plan after measurement of NPL	$ 22,491	$ 22,614	$ 7,022	$ 9,068
Changes in assumptions	9,447	14,418	—	—
Differences between expected and actual experience	6,259	2,993	1,080	1,694
Subtotal pension and OPEB plans	**38,197**	**40,025**	**8,102**	**10,762**
415(m) pension plan				
Benefit payments	157	113	—	—
Changes in assumptions	32	54	—	—
Differences between expected and actual experience	264	308	—	—
Subtotal 415(m) pension plan	**453**	**475**	**—**	**—**
Total deferred outflows of resources	**$ 38,650**	**$ 40,500**	**$ 8,102**	**$ 10,762**

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

	Pension		OPEB	
(Dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Deferred inflows of resources				
Pension and OPEB plans				
Net difference between projected and actual earnings on plan investments	$ 19,953	$ 15,802	$ 5,002	$ 3,545
Changes in assumptions	2,141	4,603	9,217	3,719
Differences between expected and actual experience	1,225	2,104	16,399	18,542
Subtotal pension and OPEB plans	**23,319**	**22,509**	**30,618**	**25,806**
415(m) pension plan				
Changes in assumptions	135	100	—	—
Subtotal 415(m) pension plan	**135**	**100**	**—**	**—**
Total deferred inflows of resources	**$ 23,454**	**$ 22,609**	**$ 30,618**	**$ 25,806**

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

(Dollars in thousands)	**Pension**	**415 Trust**	**OPEB**
2020	$ (108)	$ 86	$ (7,380)
2021	(2,132)	70	(9,060)
2022	(4,914)	5	(8,256)
2023	(737)	—	(3,068)
2024	278	—	(1,774)
Net deferred outflows/(inflows) of resources	**$ (7,613)**	**$ 161**	**$ (29,538)**

The difference between actual earnings on plan investments are recorded in 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 postretirement 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, for qualified swap providers, to achieve at least an "A" rating category from at least two of the three nationally recognized rating agencies at the time of execution. 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, volatilities, time, underlying prices and other variables.

Fuel rate hedges: Fuel hedge risk is managed through the establishment of the Energy Risk Management Oversight 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, 2019 and 2018, 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, 2019 and 2018, 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 in the amount of the outstanding swap liability which is anticipated to be recovered through the rate-making model or future market valuation changes.

Note M – Hedging Activities (continued)

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

(Dollars in thousands)	2018 Fair Value	Change in fair value	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)**	**$ —**	

(Dollars in thousands)	2017 Fair Value	Change in fair value	2018 Fair Value	Net settlement charges	Notional amount
Interest rate swap agreements					
2015B Bonds [1]	$ 883	$ 4,291	$ 5,174	$ 1,121	$ 115,090
Forward interest rate contracts					
2017A Bonds [1,2]	(12,748)	2,750	(9,998)	—	$ 100,000
	$ (11,865)	**$ 7,041**	**$ (4,824)**	**$ 1,121**	

[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.

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 gains and losses for the year ended September 30, 2019 and 2018 for fuel-related derivatives resulted in net losses of $1.2 million and $1.8 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)	2018 Fair Value	Change in Fair Value	2019 Fair Value	2019 Notional Amount	Volume [1]
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)**		

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

Note M – Hedging Activities (continued)

(Dollars in thousands)	2017 Fair Value	Change in Fair Value	2018 Fair Value	2018 Notional Amount	Volume
Natural gas	$ 577	$ (549)	$ 28	1,100	MMBTU
Heating Oil	72	245	317	11	BBL
Total current fuel hedge assets	**649**	**(304)**	**345**		
Natural gas	146	(146)	—	—	MMBTU
Heating Oil	35	(35)	—	—	BBL
Total non-current fuel hedge assets	**181**	**(181)**	—		
Accumulated increase in fair value hedging derivatives	**$ 830**	**$ (485)**	**$ 345**		
Natural gas	$ (1,333)	$ 299	$ (1,034)	7,700	MMBTU
Crude oil	(62)	62	—	—	MBBLS
Total current fuel hedge liabilities	**(1,395)**	**361**	**(1,034)**		
Non-current natural gas fuel hedge liabilities	(703)	(799)	(1,502)	9,590	MMBTU
Accumulated decrease in fair value hedging derivatives	**$ (2,098)**	**$ (438)**	**$ (2,536)**		

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)	**2019**	**2018**	**2017**	**2016**	**2015**
Total pension liability					
Service cost	$ 5,754	$ 5,748	$ 5,539	$ 5,570	$ 5,935
Interest on the total pension liability	34,492	33,535	32,767	32,104	29,891
Benefit changes	—	408	—	—	15,187
Difference between expected and actual experience	4,904	3,706	(106)	(2,501)	(2,546)
Assumption changes	—	—	171	29,125	(14,449)
Benefit payments, including refunds of plan member contributions	(31,726)	(28,663)	(27,324)	(25,773)	(23,095)
Net change in total pension liability	**13,424**	**14,734**	**11,047**	**38,525**	**10,923**
Total pension liability - beginning of year	**485,866**	**471,132**	**460,085**	**421,560**	**410,637**
Total pension liability - end of year	**$ 499,290**	**$ 485,866**	**$ 471,132**	**$ 460,085**	**$ 421,560**
Plan fiduciary net position					
Contributions - employer	$ 22,614	$ 21,876	$ 17,803	$ 18,573	$ 21,198
Contributions - plan members	555	660	748	821	882
Total investment income, net of investment expense	37,039	48,761	29,872	4,783	28,906
Benefit payments, including refunds of plan member contributions	(31,726)	(28,663)	(27,324)	(25,773)	(23,095)
Administrative expense	(320)	(115)	(36)	(122)	(85)
Net change in plan fiduciary net position	**28,162**	**42,519**	**21,063**	**(1,718)**	**27,806**
Plan fiduciary net position - beginning of year	**390,856**	**348,337**	**327,274**	**328,992**	**301,186**
Plan fiduciary net position - end of year	**$ 419,018**	**$ 390,856**	**$ 348,337**	**$ 327,274**	**$ 328,992**
Net pension liability - beginning of year	**$ 95,010**	**$ 122,795**	**$ 132,811**	**$ 92,568**	**$ 109,451**
Net pension liability - end of year	**$ 80,272**	**$ 95,010**	**$ 122,795**	**$ 132,811**	**$ 92,568**
Plan fiduciary net position as a percentage of total pension liability	**83.9%**	**80.5%**	**73.9%**	**71.1%**	**78.0%**
Covered payroll	**$ 86,573**	**$ 78,314**	**$ 75,405**	**$ 72,479**	**$ 70,147**
Net pension liability as a percentage of covered payroll	**92.7%**	**121.3%**	**162.8%**	**183.2%**	**132.0%**

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

Long-term Employee Benefit Plans (continued)

OPEB plan (Dollars in thousands)	**2019**	**2018**	**2017**	**2016**
Total OPEB liability				
Service cost	$ 1,308	$ 1,331	$ 1,346	$ 1,480
Interest on the total OPEB liability	10,385	10,434	11,882	12,134
Difference between expected and actual experience	(2,987)	(3,285)	(23,969)	3,536
Assumption changes	(7,658)	(2,093)	(2,670)	(453)
Benefit payments, including refunds	(7,702)	(6,374)	(8,063)	(9,067)
Net change in total OPEB liability	(6,654)	13	(21,474)	7,630
Total OPEB liability - beginning of year	**145,788**	**145,775**	**167,249**	**159,619**
Total OPEB liability - end of year	**$ 139,134**	**$ 145,788**	**$ 145,775**	**$ 167,249**
Plan fiduciary net position				
Contributions - employer	$ 9,068	$ 13,384	$ 12,628	$ 14,117
Net investment income/(loss)	10,956	13,420	9,621	(1,195)
Benefit payments, including refunds	(7,702)	(6,374)	(8,062)	(9,067)
Administrative expense	(18)	(18)	(18)	(32)
Net increase in plan fiduciary net position	12,304	20,412	14,169	3,823
Plan fiduciary net position - beginning of year	120,642	100,230	86,061	82,238
Plan fiduciary net position - end of year	**$ 132,946**	**$ 120,642**	**$ 100,230**	**$ 86,061**
Net OPEB liability - beginning of year	**$ 25,146**	**$ 45,545**	**$ 81,189**	**$ 77,381**
Net OPEB liability - end of year	**$ 6,188**	**$ 25,146**	**$ 45,545**	**$ 81,189**
Plan fiduciary net position as a percentage of total OPEB liability	**95.6%**	**82.8%**	**68.8%**	**51.5%**
Covered payroll	**$ 86,892**	**$ 78,447**	**$ 71,856**	**$ 72,990**
Net OPEB liability as a percentage of covered payroll	**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: There were no revisions in benefits since September 30, 2018, the date of the last actuarial valuation. In 2018, 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, 2018 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.

The investment return rate was 7.25 percent as of the September 30, 2018 and 2017 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, 2018 and 2017, 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:

(Dollars in thousands)	Actuarially determined contribution	Actual contribution	Contribution deficiency / (excess)[1]	Covered payroll[2]	Contributions as a percentage of CP
Pension plan					
2019[3]	$ 22,491	$ 22,491	$ —	$ 90,907	24.7%
2018	$ 22,614	$ 22,614	$ —	$ 86,573	26.1%
2017	$ 21,876	$ 21,876	$ —	$ 78,314	27.9%
2016	$ 18,322	$ 17,803	$ 519	$ 75,405	23.6%
2015	$ 20,500	$ 18,573	$ 1,926	$ 72,479	25.6%
2014	$ 21,184	$ 21,198	$ (13)	$ 70,147	30.2%
2013	$ 18,893	$ 17,729	$ 1,164	$ 73,230	24.2%
2012	$ 17,120	$ 16,151	$ 969	$ 69,967	23.1%
2011	$ 17,162	$ 15,726	$ 1,436	$ 28,964	54.3%
2010	$ 15,012	$ 15,020	$ (8)	$ 30,479	49.3%
OPEB plan					
2019[3]	$ 7,022	$ 7,022	$ —	$ 91,035	7.7%
2018	$ 9,068	$ 9,068	$ —	$ 86,892	10.4%
2017	$ 13,384	$ 13,384	$ —	$ 78,447	17.1%
2016	$ 12,628	$ 12,628	$ —	$ 71,856	17.6%
2015	$ 14,117	$ 14,117	$ —	$ 72,990	19.3%
2014	$ 13,558	$ 13,558	$ —	$ 72,990	18.6%
2013	$ 14,358	$ 14,325	$ (33)	$ 70,692	20.3%
2012	$ 14,167	$ 14,177	$ 10	$ 71,121	19.9%
2011	$ 14,213	$ 14,953	$ 740	$ 68,806	21.7%
2010	$ 14,149	$ 14,142	$ (7)	$ 67,873	20.8%

[1] 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, prior to most recent experience study

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.

The Reliable One®

THIS PAGE PURPOSELY LEFT BLANK

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, 2019, 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 22, 2019.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Ernst & Young LLP

November 22, 2019

OUC

The *Reliable* One®

RELIABLE PLAZA
100 WEST ANDERSON STREET
ORLANDO, FL 32801