

2023

BENEFIT PLAN REPORTS

DEFINED BENEFIT PENSION REPORT AND
OTHER POST-EMPLOYMENT BENEFITS REPORT



OUC100
A Century of Reliability

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Selected Statistical and Financial Information (Unaudited)

	<u>2023</u>	<u>2022</u>
<u>Defined Benefit Pension Plan</u>		
Funded ratio	87.6%	88.1%
Actuarial Liability	545.0	538.0
Net Asset Value	459.5	431.0
Investment return	12.4%	(17.0)%
Discount rate	6.75%	6.75%
Contribution rate as a percentage of payroll	16.8%	16.5%
Ratio of market value of assets to total payroll	3.82	3.82
Ratio of actuarial accrued liability to payroll	4.53	4.77
Ratio of actives to retirees and beneficiaries	1.30	1.30
Ratio of net cash flow to market value of assets	(5.2)%	(4.5)%

Other Post-Employment Benefits Plan

Funded ratio	115.2%	124.0%
Actuarial (Asset)/Liability	(20.5)	(29.4)
Net Asset Value	152.5	138.3
Investment return	15.0%	(18.1)%
Discount rate	6.75%	6.75%
Contribution rate as a percentage of payroll	1.4%	1.0%
Ratio of market value of assets to total payroll	1.27	1.23
Ratio of actuarial accrued liability to payroll	1.12	1.09
Ratio of actives to retirees and beneficiaries	1.32	1.31
Ratio of net cash flow to market value of assets	(4.1)%	(4.0)%



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Report of Independent Auditors

Plan Trustees and Participants
Orlando Utilities Commission Defined Benefit Pension Plan

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Orlando Utilities Commission Defined Benefit Plan (the Plan) as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Plan’s basic financial statements as listed in the table of contents (collectively referred to as the “basic financial statements”).

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan at September 30, 2023 and 2022, and the changes in Plan fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employer contributions to the pension plan, and schedule of investment returns be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 have also issued our report dated August 20, 2024 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Ernst + Young LLP

August 20, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Report

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

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

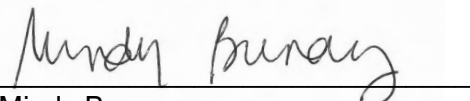
Based on the statements above, it is management's assertion that the financial statements for the Trust do not omit disclosures necessary for a fair representation of the information; nor do they improperly include untrue statements of a material fact or statements of a misleading nature.



Clint Bullock
General Manager &
Chief Executive Officer



Christopher P. McCullion
Chief Financial Officer



Mindy Brenay
Chief Financial Officer - Ex Officio



Wade Durham
Director of Accounting & Budget

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

The following discussion and analysis of the Pension Plan's financial performance provides an overview of the financial activities and changes in net position for the years ended September 30, 2023, 2022 and 2021. This discussion and analysis should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Basic Financial Statements and Required Supplementary Information

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

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

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

Condensed Statements of Plan Fiduciary Net Position

(Dollars in thousands)	As of September 30,		
	2023	2022	2021
Assets			
Investments	\$ 459,649	\$ 429,547	\$ 541,053
Receivables	597	2,788	1,016
Total assets	460,246	432,335	542,069
Liabilities	710	1,318	2,511
Plan fiduciary net position	\$ 459,536	\$ 431,017	\$ 539,558

Condensed Statements of Changes in Plan Fiduciary Net Position

(Dollars in thousands)	Years ended September 30,		
	2023	2022	2021
Additions			
Net increase/(decrease) in fair value of investments	\$ 43,246	\$ (96,687)	\$ 87,225
Interest, dividends and other income, net of investment expense	8,960	7,586	8,015
Contributions	15,237	17,988	19,542
Total additions	67,443	(71,113)	114,782
Deductions			
Benefit payments, including refunds of employee contributions	38,696	37,174	34,810
Administrative expenses, net of foreign tax withheld	228	254	323
Total deductions	38,924	37,428	35,133
Net increase/(decrease) in plan fiduciary net position	28,519	(108,541)	79,649
Plan fiduciary net position - beginning of year	431,017	539,558	459,909
Plan fiduciary net position - end of year	\$ 459,536	\$ 431,017	\$ 539,558

MANAGEMENT'S DISCUSSION AND ANALYSIS

2023 Compared to 2022

Fiduciary Net Position

Investments: In 2023, the Pension Plan experienced an increase in investments of \$30.1 million, or 7.0 percent, as a result of overall investment market gains of 12.4 percent offset by annual benefit payments. This compares to a net decrease of \$111.5 million or 20.6 percent in the prior year inclusive of annual benefit payments.

Changes in Fiduciary Net Position

Net increase in fair value of investments: Investment gains were \$43.2 million in 2023 compared to investment losses of \$96.7 million in 2022 as a result of overall market gains. International and domestic equity funds experienced the largest change in performance with annual gains of 24.4 percent and 22.0 percent, respectively, compared with prior year losses of 33.2 percent and 23.4 percent, respectively.

Interest, dividends and other income, net of investment expense: Interest, dividends and other income were higher in 2023, with an income yield of approximately 2.0 percent of the average investment valuation as compared to 1.5 percent in 2022.

Contributions: Actuarially determined contribution amounts for the current year were calculated as of October 1, 2021. Employer contributions in 2023, based on investment valuations at October 1, 2021 decreased \$2.8 million from prior year due to a higher than expected investment return compared to the assumed rate of 7.0%.

Benefit payments, including refunds of employee contributions: In 2023, the amount of benefit payments, inclusive of a 2.0 percent cost of living increase based on the investment valuation at October 1, 2021 exceeding 12.0 percent, was slightly higher than prior year.

Net increase in plan fiduciary net position: A \$28.5 million increase in plan fiduciary net position was recognized in 2023 due to overall market valuation gains. OUC continues to remit to the Trust the required actuarial annual contribution and the Pension Plan's net position remains on target to finance all projected future benefit payments.

2022 Compared to 2021

Fiduciary Net Position

Investments: In 2022, the Pension Plan experienced a decrease in investments of \$111.5 million, or 20.6 percent, as a result of an overall market decline and annual benefit payments. This compares to a net increase of \$81.0 million in the prior year inclusive of annual benefit payments. Additionally, in accordance with the asset allocation study and investment policy guidelines, the allocation of investments in the alternative portfolio were increased in 2022 with the intent to stabilize and enhance achieving the target investment return.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Fiduciary Net Position

Net decrease in fair value of investments: Investment losses were \$96.7 million in 2022 compared to investments gains of \$87.2 million in 2021 as a result of overall declining market conditions. Investments in the domestic and international equity investment classifications experienced annual losses of 23.4 percent and 33.2 percent respectively, compared with prior year annual gains of 32.9 percent and 26.3 percent, respectively.

Interest, dividends and other income, net of investment expense: Interest, dividends and other income was slightly lower in 2022, with an income yield of approximately 1.5 percent of the average investment valuation as compared to 1.6 percent in 2021. Investment expenses increased by 26.3 percent during current year as result of fees associated with the expanded alternative investment portfolio.

Contributions: Actuarially determined contribution amounts for the current year were calculated as of October 1, 2020. Employer contributions in 2022 decreased \$1.6 million from prior year due to a higher than expected investment return compared to the assumed rate of 7.25%.

Benefit payments, including refunds of employee contributions: In 2022, the amount of benefit payments, inclusive of a 2.0 percent cost of living increase, was slightly higher than prior year.

Net decrease in plan fiduciary net position: A \$108.5 million decrease in plan fiduciary net position was recognized in 2022 due to overall market valuation losses. OUC continues to remit to the Trust the required actuarial annual contribution and the Pension Plan's net position remains on target to finance all projected future benefit payments.

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

There were no new state regulations, plan or actuarial assumption changes, except for market valuation changes subsequent to the reporting period, that would materially affect the Pension Plan's financial condition as of the date of this report.

STATEMENTS OF PLAN FIDUCIARY NET POSITION

(Dollars in thousands)	As of September 30,	
	2023	2022
Assets		
Investments		
Cash and cash equivalents	\$ 16,358	\$ 9,924
U.S. equity funds	206,464	183,906
Fixed income funds	56,645	63,963
International equity funds	71,282	58,905
Real estate funds	44,335	54,111
Alternative investments	64,241	58,439
Balanced mutual fund investments	324	299
Total investments	<u>459,649</u>	<u>429,547</u>
Receivables		
Pending investment sales	232	2,583
Net interest and dividends receivable	365	205
Total receivables	<u>597</u>	<u>2,788</u>
Total assets	<u>460,246</u>	<u>432,335</u>
Liabilities		
Pending investment purchases	695	1,299
Investment advisory fees payable	15	19
Total liabilities	<u>710</u>	<u>1,318</u>
Plan fiduciary net position	<u>\$ 459,536</u>	<u>\$ 431,017</u>

See Notes to the Financial Statements for additional information

STATEMENTS OF CHANGES IN PLAN FIDUCIARY NET POSITION

(Dollars in thousands)	Years ended September 30,	
	2023	2022
Additions		
Contributions		
Employer	\$ 14,995	\$ 17,678
Plan member	242	310
Total contributions	<u>15,237</u>	<u>17,988</u>
Investment income, net of investment expense		
Net increase/(decrease) in fair value of investments	43,246	(96,687)
Interest, dividends and other income	11,865	10,988
Investment expense	(2,905)	(3,402)
Total investment income/(loss), net of investment expense	<u>52,206</u>	<u>(89,101)</u>
Total additions	<u>67,443</u>	<u>(71,113)</u>
Deductions		
Benefit payments, including refunds of employee contributions	38,696	37,174
Administrative expenses	228	254
Total deductions	<u>38,924</u>	<u>37,428</u>
Net increase/(decrease) in plan fiduciary net position	28,519	(108,541)
Plan fiduciary net position - beginning of year	431,017	539,558
Plan fiduciary net position - end of year	<u>\$ 459,536</u>	<u>\$ 431,017</u>

See Notes to the Financial Statements for additional information

NOTES TO THE FINANCIAL STATEMENTS

Note A – Plan Description

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

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

Administration: The Pension Plan is administered by OUC in accordance with the terms of the Plan and OUC has the authority to make changes subject to OUC Board (the Board) approval. Plan assets are segregated from OUC's assets and are separately managed by the OUC Defined Benefit Pension Administrative Committee or Trustees (the Trustees). The Trustees, comprised of four active employees and three retired employees, are appointed by the Board. In 2023, there was a vacancy due to the retirement of an active employee.

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

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

	2023	2022
Active cash balance plan members	1,161	1,107
Active traditional plan members	55	69
Inactive plan members (or their beneficiaries) currently receiving benefits	933	930
Inactive plan members entitled to deferred benefits	226	204
Total	2,375	2,310

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

- **Traditional defined benefit offering:** This benefit offering was closed on December 31, 1997. All employees hired prior to January 1, 1998 were eligible to participate in the traditional defined benefit offering unless they elected to participate in the defined contribution pension plan.
- **Cash balance defined benefit offering:** This is a non-contributory defined benefit offering adopted by OUC effective May 1, 2011. All employees hired subsequent to January 1, 1998 are eligible to participate, as well as employees hired prior to January 1, 1998 who elected to participate in the defined contribution pension plan.

NOTES TO THE FINANCIAL STATEMENTS

Note A – Plan Description (continued)

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

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

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

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

- **Early retirement:** A participant may retire with a reduced benefit at age 55 and a minimum of 10 years of service or at 25 years of service, regardless of age. The benefit reduction is equal to 1.0 percent per year for each year preceding the normal retirement date.
- **Termination of employment:** If the employment of any participant terminates after 10 years of service, but prior to early or normal retirement date for any reason other than the participant's death, such participant may elect to receive their vested benefit, based on years of service, beginning at age 55, reduced by 6.0 percent annually and prorated for each early month payable.
- **Post-retirement death benefit:** Upon the death of a participant after retirement and benefit payments have commenced, a death benefit will be payable based on the form of benefit elected by the participant excluding accumulated COLA benefits, which do not vest to the beneficiary.
- **Pre-retirement surviving beneficiary's benefit:** Upon the death of an active participant who did not reach early retirement date, with at least 10 years of vesting service, one-half of the early retirement benefit, reduced by 6.0 percent annually and prorated for each early month payable, is due to the beneficiary starting at the participant's earliest retirement age.

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

NOTES TO THE FINANCIAL STATEMENTS

Note A – Plan Description (continued)

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

- **Normal retirement:** This is the date in which a participant has attained age 62 and five years of credited service in the Pension Plan or 30 years of continuous credited service, as defined by the Pension Plan. Each participant shall be entitled to receive the benefit in the form of a lump-sum payout, a single life annuity or a 20-year term certain annuity commencing at their normal retirement date.

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

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

- **Vested termination of employment:** If the employment of a participant with five or more years of credited service terminates prior to normal retirement date for any reason or cause other than the death of the participant, the participant's account balance as of the termination date, along with annual interest credits equal to the actuarial assumed investment return on plan investments less 3.25 percent until normal retirement date, will be available for payment upon their normal retirement date. A participant with less than five years of credited service is not vested and their account balance is forfeited upon termination.
- **Disability:** A participant with five or more years of credited service who becomes permanently and totally disabled prior to eligibility for normal retirement shall be entitled to receive an amount as defined in the Pension Plan.
- **Death benefits:** Upon the death of a participant before retirement, the designated beneficiary shall be entitled to receive an amount as defined in the Pension Plan.

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

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

NOTES TO THE FINANCIAL STATEMENTS

Note B – Summary of Significant Accounting Policies

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

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. For plan years ended September 30, 2023 and 2022, management used estimates of the actuarial calculation of the required employer contribution and fair valuation of real estate and alternative assets in the preparation of plan financial statements.

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

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

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

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

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

Contributions: Employer contributions to the Trust were deposited based on the actuarially determined required amounts.

NOTES TO THE FINANCIAL STATEMENTS

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

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

(Dollars in thousands)	2023		2022	
Total pension liability				
Service cost	\$	7,779	\$	7,158
Interest on the total pension liability		35,531		35,753
Difference between expected and actual experience		2,399		(600)
Assumption changes		—		10,628
Benefit payments, including refunds of plan member contributions		(38,696)		(37,174)
Net change in total pension liability		7,013		15,765
Total pension liability - beginning of year		537,951		522,186
Total pension liability - end of year	\$	544,964	\$	537,951
Plan fiduciary net position				
Contributions - employer	\$	14,995	\$	17,678
Contributions - plan members		242		310
Investment income/(loss), net of investment expense		52,206		(89,101)
Benefit payments, including refunds of plan member contributions		(38,696)		(37,174)
Administrative expense		(228)		(254)
Net change in plan fiduciary net position		28,519		(108,541)
Plan fiduciary net position - beginning of year		431,017		539,558
Plan fiduciary net position - end of year	\$	459,536	\$	431,017
Net pension liability/(asset) - beginning of year	\$	106,934	\$	(17,372)
Net pension liability - end of year	\$	85,428	\$	106,934
Plan fiduciary net position as a percentage of total pension liability		84.3 %		80.1 %

The measurement of the Total Pension Liability (TPL) was determined by Gabriel, Roeder, Smith & Company, an independent actuary, in accordance with the American Academy of Actuaries Interpretations, and there were no deviations from the guidance in the Actuarial Standards of Practice in the selection of assumptions used to determine the TPL and related measures. Annual actuarial amounts for reporting were calculated using the entry age normal cost method, as reported in the actuarial valuations, dated September 30, 2023 and 2022.

NOTES TO THE FINANCIAL STATEMENTS

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

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

	<u>2023</u>	<u>2022</u>
Plan Benefit Assumptions		
Annual COLA	2.0% based on actual COLA granted for 2024 and 1.0% per year, compounded annually, thereafter	0.0% based on actual COLA granted for 2023 and 1.0% per year, compounded annually, thereafter
Hybrid Plan interest credit rate	6.0% based on actual interest rate granted for 2024 and 5.0% per year for active members and 3.5% per year for terminated vested members, thereafter	4.0% based on actual interest rate granted for 2023 and 5.0% per year for active members and 3.5% per year for terminated vested members, thereafter
Actuarial Assumptions		
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent of pay	Level percent of pay
Asset valuation method	20.0% of the difference between expected actuarial value, based on assumed return, and market value is recognized each year with 10.0% corridor around market value	20.0% of the difference between expected actuarial value, based on assumed return, and market value is recognized each year with 10.0% corridor around market value
Inflation	2.25% per year	2.25% per year
Investment rate of return	6.75%	6.75%
Salary increases	4.5% to 10.0% per year, depending on age and plan offering	4.5% to 10.0% per year, depending on age and plan offering
Mortality	PUB-2010 Headcount Weighted General Below Median Employee Mortality Table (for pre-retirement mortality) and PUB-2010 Headcount Weighted General Below Median Healthy Retiree Mortality Table (for post-retirement mortality), with separate rates for males and females and ages set back one year for males, with mortality improvements projected to all future years after 2010 using Scale MP-2018	PUB-2010 Headcount Weighted General Below Median Employee Mortality Table (for pre-retirement mortality) and PUB-2010 Headcount Weighted General Below Median Healthy Retiree Mortality Table (for post-retirement mortality), with separate rates for males and females and ages set back one year for males, with mortality improvements projected to all future years after 2010 using Scale MP-2018

Experience is reviewed by the actuaries for consistency with assumptions and changes made as needed. The most recent experience study was completed in October 2020. This experience study examined actual demographic experience during the seven-year period from October 1, 2012 through September 30, 2019. Based on the results of this experience study, assumption changes were reflected in the October 1, 2020 valuation report.

The discount rate used to measure the TPL was 6.75 percent for both Pension Plan years ended September 30, 2023 and 2022. 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 Pension Plan fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees.

NOTES TO THE FINANCIAL STATEMENTS

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

Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the TPL.

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

(Dollars in thousands)	2023		2022	
1.0 percent decrease	\$	132,498	\$	154,444
Current discount rate		85,428		106,934
1.0 percent increase		44,441		65,662

The projected long-term real rates of return on Pension Plan investments, valued as of September 30, 2023 and 2022, were determined using a building block method, which considers historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions. These best-estimate ranges, net of assumed long-term inflation and investment expenses, are combined to produce the long-term expected rate of return.

The Pension Plan's target policy allocation and best estimates of arithmetic real rates of return for each major asset class as of September 30, 2023 and 2022 are summarized in the following table:

Asset class	2023 - 2022	
	Target allocation	Long-term expected real rate of return
U.S. equity	43.0%	7.5%
International equity	15.0%	8.5%
Domestic bonds	7.0%	2.5%
International bonds	5.0%	3.5%
Real estate	10.0%	4.5%
Alternative assets	20.0%	6.2%
Total	100.0%	

NOTES TO THE FINANCIAL STATEMENTS

Note D – Investments

The Trust maintains a portion of its cash, cash equivalents and investments in interest-bearing qualified public depository accounts with institutions insured by the Federal Deposit Insurance Corporation. Cash, cash equivalents and investments were managed by the Trustees with advisory services provided by the Trust's investment advisor. Investing activity is modeled to achieve the actuarial target return and in alignment with the Trustee approved Investment Policy.

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

- **Interest rate risk:** The investment policy limits holdings of the Trust based on investment type and credit strength and entrusts the Trustees and the Trust's investment advisor to execute transactions in accordance with the "prudent person" rule requiring the evaluation of current market conditions to ensure overall interest rate risks that might adversely affect the portfolio value are mitigated.
- **Custodial credit risk:** This is the risk that in the event of the failure of a depository financial institution or counterparty to a transaction, the Trust's deposits may not be returned or the Trust will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of another party. This risk is mitigated as all investment assets are maintained in the name of the Trust and not in the possession or title of a third party.
- **Credit and concentration risk:** These risks are mitigated by providing specific guidance as to the weighting and integrity of the deposit and investment instruments other than those investments in mutual funds, collective trusts, limited partnerships or other alternative investment vehicle, U.S. Treasury obligations, U.S. Agency obligations, and accounts insured by the Federal Deposit Insurance Corporation, as well as the execution of these transactions by the Trustees in accordance with the "prudent person" rule. At September 30, 2023 and 2022 there were no individually-held investments that made up more than 5.0 percent of the Trust's portfolio.
- **Foreign and digital currency risk:** This is the risk of loss associated with changes in foreign exchange or digital rates which could adversely affect investment valuations. The Trust does not hold any investments denominated in a foreign or digital currency, although it is exposed to foreign currency risk through its U.S. dollar-denominated international equity mutual funds and collective trusts, including those in private limited partnerships.
- **Liquidity risk:** This is the risk that securities within the Pension Plan cannot be sold quickly enough to meet future obligations. This risk is mitigated by limiting the amount of real estate and alternative assets held in commingled funds, private limited partnerships, or private equity structures, to 15.0 percent each. All other securities within the Pension Plan must be traded on a national exchange or be in an open ended mutual fund or commingled fund structure. These funds typically have daily liquidity and always have no lock up provisions that would prevent the Pension Plan from selling them as needed.

NOTES TO THE FINANCIAL STATEMENTS

Note D – Investments (continued)

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

		2023 - 2022
Domestic Equity Securities	Russell 3000	38%-48%
Foreign Equity Securities	MSCI-ACWxUS	10%-20%
Bank Loans	S&P / LSTA Leveraged Loan	0%-5%
Cash & Cash Equivalents		0%-10%
Global Fixed Income	Barclays Global Aggregate ex US	0%-5%
Real Estate	NCREIF ODCE Eq-Wt	5%-15%
Domestic Fixed Income	Barclays US Aggregate Bond	2%-22%
Alternative Assets	Strategy Index	0%-25%

Rate of return: The annual money-weighted rate of return on Pension Plan investments, net of Pension Plan investment expense resulted in a gain of 12.4 percent and a loss of 17.0 percent for the years ended September 30, 2023 and 2022, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. A 10-year historic schedule is provided in the Required Supplementary Information.

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

Domestic and Global Fixed Income Investments	Average credit rating ¹	2023	2022
Garcia Hamilton			
U.S. government bonds and treasury bills	AA+	12.4	10.7
Mortgage-backed securities	AA+	9.7	5.9
Corporate bonds	A	5.9	7.1
PIMCO Div Inc Bond Fund	BB	8.4	8.6
Met West Total Return Bond Fund	BBB	8.3	8.2
Pacific Funds Floating Rate Income	B	3.9	4.1

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

NOTES TO THE FINANCIAL STATEMENTS

Note E – Fair Value Measurements

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

Investments are recorded at fair value as described above. Real estate investments were stated at the net asset value, with annual valuations performed by independent third-party appraisers for each property in the portfolio, considering monthly events that impact property value. Alternative investments were stated at the net asset value or quoted market price based on the composition of the fund as calculated by the fund advisor. The unfunded commitments related to alternative investments as of September 30, 2023 and 2022 were \$4.3 million and \$10.5 million, respectively.

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

(Dollars in thousands)	2023	2022
Cash equivalents and investments		
Investments by fair value level:		
Level 1		
Debt securities		
U.S. treasury notes	\$ 6,193	\$ 16,331
Mutual funds		
Fixed income	39,468	38,873
U.S. equity	104,933	80,448
International equity	71,282	58,905
Balanced	324	299
U.S. equity	85,641	92,068
Total Level 1	307,841	286,924
Level 2		
U.S. agencies	8,450	2,800
Corporate notes and private placements	2,534	5,959
U.S. equity	15,890	11,390
Total Level 2	26,874	20,149
Total investments by fair value level	334,715	307,073
Other investments and cash equivalents		
measured at the net asset value:		
Alternative investments	64,241	58,439
Mutual funds - real estate	44,335	54,111
Money market	16,358	9,924
Total other investments and cash equivalents		
measured at the net asset value	124,934	122,474
Total cash equivalents and investments	\$ 459,649	\$ 429,547

NOTES TO THE FINANCIAL STATEMENTS

Note F – Federal Income Tax Status

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

Note G – Exempt Party-In-Interest Transactions

Pension Plan investments totaling \$16.4 million and \$9.9 million as of September 30, 2023 and 2022, respectively, were held in money market accounts managed by Wells Fargo Bank, N.A. Wells Fargo Bank, N.A. is the Trustee as defined by the Pension Plan, and therefore, these transactions qualify as exempt party-in-interest transactions.



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REQUIRED SUPPLEMENTARY INFORMATION

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

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

(Dollars in thousands)	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability										
Service cost	\$ 7,779	\$ 7,158	\$ 6,820	\$ 5,814	\$ 5,867	\$ 5,754	\$ 5,748	\$ 5,539	\$ 5,570	\$ 5,935
Interest on the total pension liability	35,531	35,753	35,816	36,079	35,407	34,492	33,535	32,767	32,104	29,891
Benefit changes	—	—	—	—	68	—	408	—	—	15,187
Difference between expected and actual experience	2,399	(600)	(640)	(2,073)	2,106	4,904	3,706	(106)	(2,501)	(2,546)
Assumption changes	—	10,628	10,398	(9,708)	—	—	—	171	29,125	(14,449)
Benefit payments, including refunds of employee contributions	(38,696)	(37,174)	(34,810)	(34,671)	(33,576)	(31,726)	(28,663)	(27,324)	(25,773)	(23,095)
Net change in total pension liability	7,013	15,765	17,584	(4,559)	9,872	13,424	14,734	11,047	38,525	10,923
Total pension liability - beginning of year	537,951	522,186	504,602	509,161	499,289	485,865	471,131	460,084	421,559	410,636
Total pension liability - end of year	\$ 544,964	\$ 537,951	\$ 522,186	\$ 504,602	\$ 509,161	\$ 499,289	\$ 485,865	\$ 471,131	\$ 460,084	\$ 421,559
Plan fiduciary net position										
Contributions - employer	\$ 14,995	\$ 17,678	\$ 19,173	\$ 22,405	\$ 22,491	\$ 22,614	\$ 21,876	\$ 17,803	\$ 18,573	\$ 21,198
Contributions - plan members	242	310	369	423	475	555	660	748	821	882
Total investment income, net of investment expense	52,206	(89,101)	95,240	46,228	17,599	37,039	48,761	29,872	4,783	28,906
Benefit payments, including refunds of employee contributions	(38,696)	(37,174)	(34,810)	(34,671)	(33,576)	(31,726)	(28,663)	(27,324)	(25,773)	(23,095)
Administrative expense	(228)	(254)	(323)	(242)	(240)	(320)	(115)	(36)	(122)	(85)
Net change in plan fiduciary net position	28,519	(108,541)	79,649	34,143	6,749	28,162	42,519	21,063	(1,718)	27,806
Plan fiduciary net position - beginning of year	431,017	539,558	459,909	425,766	419,017	390,855	348,336	327,273	328,991	301,185
Plan fiduciary net position - end of year	\$ 459,536	\$ 431,017	\$ 539,558	\$ 459,909	\$ 425,766	\$ 419,017	\$ 390,855	\$ 348,336	\$ 327,273	\$ 328,991
Net pension liability/(asset) - beginning of year	\$ 106,934	\$ (17,372)	\$ 44,693	\$ 83,395	\$ 80,272	\$ 95,010	\$ 122,795	\$ 132,811	\$ 92,568	\$ 109,451
Net pension liability - end of year	\$ 85,428	\$ 106,934	\$ (17,372)	\$ 44,693	\$ 83,395	\$ 80,272	\$ 95,010	\$ 122,795	\$ 132,811	\$ 92,568
Plan fiduciary net position as a percentage of total pension liability	84 %	80 %	103 %	91 %	84 %	84 %	80 %	74 %	71 %	78 %
Covered payroll	\$ 102,664	\$ 100,135	\$ 100,621	\$ 97,896	\$ 90,907	\$ 86,573	\$ 78,314	\$ 75,405	\$ 72,479	\$ 70,147
Net pension liability/(asset) as a percentage of covered payroll	83 %	107 %	(17)%	46 %	92 %	93 %	121 %	163 %	183 %	132 %

Assumption and benefit changes: In 2016, the mortality assumption was changed to continue alignment with the mortality assumption used by the Florida Retirement System, as required under Florida Statutes. In October 2020, an assumption study and experience review for the seven-year period ended September 30, 2019 was completed and changes were reflected in the September 30, 2020 actuarial valuation to salary, retirement, termination and mortality rates assumptions.

The assumed investment return rate and single discount rate was 6.75 percent as of the September 30, 2023 and 2022 valuation. Assumed rates were previously set at 7.00 percent, 7.25 percent, and 7.50 percent in the valuations reports as of September 30, 2021, 2015, and 2014, respectively.

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

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of employer contributions to the Pension Plan and investment returns

The following schedule presents 10-year trend information regarding employer contributions to the Pension Plan and information on the annual money-weighted rate of return, calculated as the internal rate of return on Pension Plan investments, net of Pension Plan investment expense for the years ended September 30:

Contribution year ¹ (Dollars in thousands)	Actuarially determined contribution	Actual contribution	Contribution deficiency / (excess)	Covered payroll (CP) ¹	Contributions as a percentage of CP	Annual money-weighted return on investments
2023	\$ 14,995	\$ 14,995	\$ —	\$ 102,664	14.6 %	12.4 %
2022	\$ 17,678	\$ 17,678	\$ —	\$ 100,135	17.7 %	(17.0)%
2021	\$ 19,173	\$ 19,173	\$ —	\$ 100,621	19.1 %	21.2 %
2020	\$ 22,405	\$ 22,405	\$ —	\$ 97,896	22.9 %	11.0 %
2019	\$ 22,491	\$ 22,491	\$ —	\$ 90,907	24.7 %	4.2 %
2018	\$ 22,614	\$ 22,614	\$ —	\$ 86,573	26.1 %	9.6 %
2017	\$ 21,876	\$ 21,876	\$ —	\$ 78,314	27.9 %	14.2 %
2016	\$ 18,322	\$ 17,803	\$ 519	\$ 75,405	23.6 %	9.2 %
2015	\$ 20,500	\$ 18,573	\$ 1,926	\$ 72,479	25.6 %	1.4 %
2014	\$ 21,184	\$ 21,198	\$ (13)	\$ 70,147	30.2 %	9.6 %

¹ The actuarially determined contribution amounts for the current year were calculated as of October 1, 2021, 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: 4.5 percent to 10.0 percent depending on service, including inflation

Investment rate of return: 7.0 percent based on the October 1, 2021 actuarial report (updated to 6.75 percent as of October 1, 2022 valuation)

Retirement age: Experience-based rates tables

Mortality: PUB-2010 Headcount Weighted General Below Median Employee Mortality Table (for pre-retirement mortality) and PUB-2010 Headcount Weighted General Below Median Healthy Retiree Mortality Table (for postretirement mortality), with separate rates for males and females and ages set back one year for males, with mortality improvements projected to all future years after 2010 using Scale MP-2018.



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Orlando Utilities Commission Defined Benefit Pension Plan and Trust (the Plan), which comprise the statement of plan fiduciary net position as of September 30, 2023, and the related statement of changes in plan fiduciary net position for the year then ended, and the related notes to financial statements, and have issued our report thereon dated August 20, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan’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 Plan’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

August 20, 2024



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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Orlando Utilities Commission Other Post-Employment Benefits Plan (the Plan), as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents (collectively referred to as the "basic financial statements").

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan at September 30, 2023 and 2022, and the respective changes in plan fiduciary net position of the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, schedule of changes in net OPEB liability and related ratios, schedule of employer contributions to the OPEB plan, and schedule of investment returns be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 have also issued our report dated August 20, 2024 on our consideration of the Plan’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan’s internal control over financial reporting and compliance.



August 20, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Report

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

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

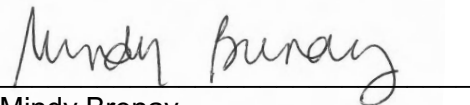
Based on the statements above, it is management's assertion that the financial statements for the Trust do not omit disclosures necessary for a fair representation of the information; nor do they improperly include untrue statements of a material fact or statements of a misleading nature.



Clint Bullock
General Manager &
Chief Executive Officer



Christopher P. McCullion
Chief Financial Officer



Mindy Brenay
Chief Financial Officer - Ex Officio



Wade Durham
Director of Accounting & Budget

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of Financial Statements

The following discussion and analysis of the OPEB Plan's financial performance provides an overview of the financial activities and changes in plan fiduciary net position for the years ended September 30, 2023, 2022 and 2021. This discussion and analysis should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Basic Financial Statements and Required Supplementary Information

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

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

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

Condensed Statements of Plan Fiduciary Net Position

(Dollars in thousands)	As of September 30,		
	2023	2022	2021
Assets			
Investments	\$ 152,358	\$ 138,267	\$ 175,345
Receivables	217	876	622
Total assets	<u>152,575</u>	<u>139,143</u>	<u>175,967</u>
Liabilities	75	812	691
Plan fiduciary net position	<u>\$ 152,500</u>	<u>\$ 138,331</u>	<u>\$ 175,276</u>

Condensed Statements of Changes in Plan Fiduciary Net Position

(Dollars in thousands)	Years ended September 30,		
	2023	2022	2021
Additions			
Net increase/(decrease) in fair value of investments	\$ 16,733	\$ (33,980)	\$ 28,164
Interest, dividends and other income, net of investment expense	3,747	2,636	3,150
Contributions	969	1,133	1,185
Total additions	<u>21,449</u>	<u>(30,211)</u>	<u>32,499</u>
Deductions			
Benefit payments, including refunds of plan member contributions	7,280	6,731	6,291
Administrative expenses	—	3	17
Total deductions	<u>7,280</u>	<u>6,734</u>	<u>6,308</u>
Net increase/(decrease) in plan fiduciary net position	14,169	(36,945)	26,190
Plan fiduciary net position - beginning of year	138,331	175,276	149,086
Plan fiduciary net position - end of year	<u>\$ 152,500</u>	<u>\$ 138,331</u>	<u>\$ 175,276</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

2023 Compared to 2022

Fiduciary Net Position

Investments: In 2023, the OPEB Plan experienced an increase in investments of \$14.1 million, or 10.2 percent, as a result of a strong total investment return of 15.0 percent offset by the payment of benefit commitments. This compares to a net decrease of \$37.1 million in the prior year, inclusive of annual benefit payments, as a result of an overall market decline.

Changes in Fiduciary Net Position

Net increase in fair value of investments: Investment gains were \$16.7 million in 2023 compared to investment losses of \$34.0 million in 2022 as a result of overall market gains. International and domestic equity funds experienced the largest change in performance with annual gains of 24.0 percent and 21.7 percent, respectively, compared with prior year losses of 33.2 percent and 21.5 percent, respectively.

Interest, dividends and other income, net of investment expense: Interest, dividends and other income yield were 2.5 percent of the average investment valuation in 2023, increasing from 1.7 percent in 2022.

Contributions: Actuarially determined contributions were calculated as of October 1, 2021. In 2017, OUC began advance funding its portion of future contributions in conjunction with the implementation of the Other Post-Employment accounting guidance. As such, the employer contributions for years 2023 and 2022 were limited to \$1.0 million and \$1.1 million, respectively, primarily reflecting current period implicit subsidy costs. Retiree premium payments for the years 2023 and 2022 were \$2.2 million and \$2.3 million, respectively.

Benefit payments, including refunds of plan member contributions: In 2023, benefit payments remained consistent with a slight increase of \$0.5 million compared to 2022.

Net increase in plan fiduciary net position: A \$14.2 million increase in plan fiduciary net position was recognized in 2023 due to overall market valuation gains. Based on the OPEB Plan's current funding policy, the OPEB Plan's net position remains on target to finance all projected future benefit payments of current plan members.

2022 Compared to 2021

Fiduciary Net Position

Investments: In 2022, the OPEB Plan experienced a decrease in investments of \$37.1 million, or 21.1 percent, as a result of an overall market decline and annual benefit payments. This compares to a net increase of \$25.9 million increase in the prior year inclusive of annual benefit payments. Additionally, in accordance with the asset allocation study and investment policy guidelines, the allocation of investments in the alternative portfolio were increased in 2022 with the intent to stabilize and enhance achieving the target investment return.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Fiduciary Net Position

Net decrease in fair value of investments: Investment losses were \$34.0 million in 2022 compared to investment gains of \$28.2 million in 2021 as a result of overall declining market conditions. Investments in the domestic and international equity investment classifications experienced losses of 21.5 percent and 33.2 percent respectively, compared with prior year investment returns of 32.9 and 26.3 percent.

Interest, dividends and other income, net of investment expense: Interest, dividends and other income yield was 1.7 percent of the average investment valuation in 2022, decreasing slightly from 1.9 percent in 2021. Consistent with the investment policy and oversight of the OUC OPEB Board of Trustees (the Trustees), the portfolio is designed to focus on long-term capital appreciation with a lesser focus on interest and dividend growth.

Contributions: Actuarially determined contributions were calculated as of October 1, 2020. The employer contribution for years 2022 and 2021 were \$1.1 million and \$1.2 million, respectively, a decrease of \$0.1 million primarily due to favorable retiree medical claims experience including an average cost decrease of 0.5 percent for pre-medicare retirees and 3.3 percent for medicare retirees.

Benefit payments, including refunds of plan member contributions: In 2022 and 2021, benefit payments were \$6.7 million and \$6.3 million, respectively, a slight increase of \$0.4 million.

Net decrease in plan fiduciary net position: A \$36.9 million decrease in plan fiduciary net position was recognized in 2022 due to overall market valuation losses. Based on the OPEB Plan's current funding policy, the OPEB Plan's net position remains on target to finance all projected future benefit payments of current plan members.

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

There were no new state regulations, plan or actuarial assumption changes, except for market valuation changes subsequent to the reporting period, that would materially affect the OPEB Plan's financial condition as of the date of this report.



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STATEMENTS OF PLAN FIDUCIARY NET POSITION

Dollars in thousands	As of September 30	
	2023	2022
Assets		
Investments		
Cash and cash equivalents	\$ 1,910	\$ 722
U.S. equity funds	73,885	68,655
Fixed income funds	21,649	20,785
International equity funds	23,703	19,122
Real estate funds	4,543	5,675
Alternative investments	21,929	18,936
Balanced mutual fund investments	4,739	4,372
Total investments	<u>152,358</u>	<u>138,267</u>
Receivables		
Benefits receivable	82	—
Pending investment sales	56	804
Net interest and dividends receivable	79	72
Total receivables	<u>217</u>	<u>876</u>
Total assets	<u>152,575</u>	<u>139,143</u>
Liabilities		
Benefits payable	—	226
Pending investment purchases	67	576
Investment advisory fees payable	8	10
Total liabilities	<u>75</u>	<u>812</u>
Plan fiduciary net position	<u>\$ 152,500</u>	<u>\$ 138,331</u>

See Notes to the Financial Statements for additional information.

STATEMENTS OF CHANGES IN PLAN FIDUCIARY NET POSITION

Dollars in thousands	Years ended September 30	
	2023	2022
Additions		
Employer Contributions	\$ 969	\$ 1,133
Investment income, net of investment expense		
Net increase/(decrease) in fair value of investments	16,733	(33,980)
Interest, dividends and other income	4,523	3,578
Investment expense	(776)	(942)
Total investment income/(loss), net of investment expense	20,480	(31,344)
Total additions	21,449	(30,211)
Deductions		
Benefit payments, including refunds of plan member contributions	7,280	6,731
Administrative expenses	—	3
Total deductions	7,280	6,734
Net increase/(decrease) in plan fiduciary net position	14,169	(36,945)
Plan fiduciary net position - beginning of year	138,331	175,276
Plan fiduciary net position - end of year	\$ 152,500	\$ 138,331

See Notes to the Financial Statements for additional information.

NOTES TO THE FINANCIAL STATEMENTS

Note A – Plan Description

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

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

Administration: The OPEB Plan is administered by OUC in accordance with the terms of the OPEB Plan. As such, OUC has the authority to make changes subject to Board approval. OPEB Plan assets are segregated from OUC's assets and are separately managed by the OUC OPEB Board of Trustees (the Trustees). The Trustees, comprised of four active employees and three retired employees, are appointed by the Board. In 2023, there was a vacancy due to the retirement of an active employee.

Funding policy: In 2023 and 2022, contributions to the Trust were based upon actuarial computations provided in the valuation reports, dated October 1, 2021 and 2020, respectively. In 2023 and 2022, the Trust reimbursed OUC for actual benefits paid through operations, net of employee paid medical premiums.

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

	2023	2022
Active cash balance plan members	1,166	1,109
Active traditional plan members	55	69
Inactive plan members (or their beneficiaries) currently receiving benefits	922	896
Total	2,143	2,074

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

NOTES TO THE FINANCIAL STATEMENTS

Note A – Plan Description (continued)

- **Employees participating in the traditional defined benefit pension plan:** Health and medical benefits provided in association with this pension plan follow the requirements of the pension plan which was closed on December 31, 1997. Health and medical benefits associated with this benefit offering are substantially subsidized for the retiree and 50.0 percent subsidized for Medicare eligible dependents. No subsidy is available for pre-Medicare eligible dependent coverage. All employees hired prior to January 1, 1998 were eligible to participate in the traditional defined benefit offering unless they elected to participate in the defined contribution pension plan. The number of participants as of October 1, 2023 included 783 inactive plan members (retired participants and beneficiaries) receiving benefits and 55 active plan members. The number of participants as of October 1, 2022 included 795 inactive plan members (retired participants and beneficiaries) receiving benefits and 69 active plan members.
- **Employees participating in the hybrid plan:** Effective May 2011, participants in the cash balance pension offering earn health and medical benefits through the funding of a notional health reimbursement account (HRA) retroactive to the last date of continuous employment. Annually, an employee earns a HRA contribution, plus interest credits, which is actuarially funded through a notional account. The annual interest rate earned on these accounts is established in conjunction with the cash balance defined benefit pension offering and provides a minimum annual earnings rate of 4.0 percent. Upon retirement, the funds become available to the retiree and their dependents to cover eligible medical costs including medical premiums. Eligibility requirements for this benefit are the earlier of age 62 and five years of credited service or 30 years of credited service, regardless of age. As of October 1, 2023, the number of participants included 1,166 active plan members and 139 inactive plan members (retired participants). As of October 1, 2022, the number of participants included 1,109 active plan members and 101 inactive plan members (retired participants).

In 2023, the methodology to determine the HRA contribution was modified to incorporate the use of the published CPI-W inflation measure with a catch-up adjustment applied at the time of implementation contributing to a change in benefits terms in the amount of \$3.8 million. The HRA contribution was \$987 in 2023 and \$650 in 2022.

Life Insurance: This benefit is available to all retirees. As of October 1, 2023, 1,221 active plan members and 779 inactive plan members (retirees) were considered eligible for this benefit. As of October 1, 2022, 1,178 active plan members and 767 inactive plan members (retirees) were considered eligible.

Utilities Discount: Employees hired prior to October 1, 1985, are eligible for an electric and water bill discount. This benefit is available to the retiree and spouse for the term of their lives provided the residency requirements are satisfied and they remain current on their monthly billing obligations. As of October 1, 2023, 5 active plan members and 136 inactive plan members (retirees and their beneficiaries) received this benefit. As of October 1, 2022, 7 active plan members and 140 inactive plan members (retirees and their beneficiaries) received this benefit.

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

NOTES TO THE FINANCIAL STATEMENTS

Note B – Summary of Significant Accounting Policies

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

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. For OPEB Plan years ended September 30, 2023 and 2022, management used estimates of the actuarial calculation of the required employer contribution and fair valuation of real estate and alternative assets in the preparation of OPEB Plan financial statements.

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

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

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

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

Expenses: Administrative expenses of the OPEB Plan were paid by the Trust. In 2023 and 2022, the Trust reimbursed OUC for actual benefits paid through operations.

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

(Dollars in thousands)	2023		2022	
Total OPEB liability				
Service cost	\$	1,097	\$	889
Interest on the total OPEB liability		8,113		7,579
Change in benefits terms		3,826		—
Difference between expected and actual experience		(87)		(2,476)
Assumption changes		6,317		12,716
Benefit payments, including refunds		(7,280)		(6,731)
Net change in total OPEB liability		11,986		11,977
Total OPEB liability - beginning of year		122,731		110,754
Total OPEB liability - end of year	\$	134,717	\$	122,731
Plan fiduciary net position				
Contributions - employer	\$	969	\$	1,133
Investment income/(loss), net of investment expense		20,480		(31,344)
Benefit payments, including refunds		(7,280)		(6,731)
Administrative expense		—		(3)
Net increase/(decrease) in plan fiduciary net position		14,169		(36,945)
Plan fiduciary net position - beginning of year		138,331		175,276
Plan fiduciary net position - end of year	\$	152,500	\$	138,331
Net OPEB asset - beginning of year	\$	(15,600)	\$	(64,522)
Net OPEB asset - end of year	\$	(17,783)	\$	(15,600)
Plan fiduciary net position as a percentage of total OPEB liability		113.2 %		112.7 %
Covered payroll	\$	102,954	\$	100,061

The measurements of the Total OPEB Liability (TOL) were determined by Gabriel, Roeder, Smith & Company, an independent actuary, in accordance with the American Academy of Actuaries interpretations as of September 30, 2023 and 2022. Actuarial assumption changes and continued funding of the actuarially determined contribution resulted in a net OPEB asset for the OPEB Plan years ended September 30, 2023 and 2022.

NOTES TO THE FINANCIAL STATEMENTS

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

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

	2023	2022
Plan benefit assumptions		
Hybrid Plan interest credit rate	6.0% based on actual interest rate granted for 2024 and 5.0% per year for active members and 3.5% per year for terminated vested members, thereafter	4.0% based on actual interest rate granted for 2023 and 5.0% per year for active members and 3.5% per year for terminated vested members, thereafter
Hybrid Plan medical contribution rate (CPI-W)	3% per year	3% per year
Actuarial assumptions		
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent of pay	Level percent of pay
Asset valuation method	20.0% of the difference between expected actuarial value, based on assumed return, and market value is recognized each year with 10.0% corridor around market value	20.0% of the difference between expected actuarial value, based on assumed return, and market value is recognized each year with 10.0% corridor around market value
Healthcare cost trend rate	Based on Getzen Model, with trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.04%	Based on Getzen Model, with trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 4.00%
Inflation	2.5% per year	2.25% per year
Investment rate of return	6.75%	6.75%
Salary increases	4.50% to 10.00% per year, depending on age and group	4.50% to 10.00% per year, depending on age and group
Mortality	PUB-2010 Headcount Weighted General Below Median Employee Mortality Table (for pre-retirement mortality) and PUB-2010 Headcount Weighted General Below Median Healthy Retiree Mortality Table (for post-retirement mortality), with separate rates for males and females and ages set back one year for males, with mortality improvements projected to all future years after 2000 using Scale MP-2018	PUB-2010 Headcount Weighted General Below Median Employee Mortality Table (for pre-retirement mortality) and PUB-2010 Headcount Weighted General Below Median Healthy Retiree Mortality Table (for post-retirement mortality), with separate rates for males and females and ages set back one year for males, with mortality improvements projected to all future years after 2000 using Scale MP-2018

Experience is reviewed by the actuaries for consistency with assumptions, and changes made as needed. The most recent experience study was completed in October 2020 and examined actual demographic experience during the seven-year period from October 1, 2012 through September 30, 2019. Based on the results of this experience study, assumption changes were implemented effective September 30, 2020.

The discount rate used to measure the TOL was 6.75 percent for the OPEB Plan years ended September 30, 2023 and 2022. The projection of cash flows used to determine the discount rate assumed that future employer contributions will be made at rates equal to the actuarially determined contribution rates. Based on these assumptions, the OPEB Plan fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the TOL.

NOTES TO THE FINANCIAL STATEMENTS

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

The projected long-term real rates of return on OPEB Plan investments, valued as of September 30, 2023 and 2022, were determined using a long-term nominal building block method, which considers historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions. These best-estimate ranges, net of assumed long-term inflation and investment expenses, are combined to produce the long-term expected rate of return. A proxy representation was used for the Trust's alternative assets target allocation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of September 30, 2023 and 2022 are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
U.S. equity	48.0%	7.5%
International equity	15.0%	8.5%
Domestic bonds	7.0%	2.5%
International bonds	5.0%	3.5%
Real estate	5.0%	4.5%
Alternative assets	20.0%	6.2%
Total	100.0%	

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

(Dollars in thousands)	2023	2022
1.0 percent decrease	\$ (3,965)	\$ (2,513)
Current discount rate	\$ (17,783)	\$ (15,600)
1.0 percent increase	\$ (29,565)	\$ (26,697)

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

(Dollars in thousands)	2023	2022
1.0 percent decrease	\$ (29,984)	\$ (27,397)
Current assumption	\$ (17,783)	\$ (15,600)
1.0 percent increase	\$ (3,468)	\$ (1,700)

NOTES TO THE FINANCIAL STATEMENTS

Note D – Investments

The Trust maintains a portion of its cash, cash equivalents and investments in interest-bearing qualified public depository accounts with institutions insured by the Federal Deposit Insurance Corporation. Cash, cash equivalents and investments were managed by the Trustees with advisory services provided by the Trust's investment advisor. Investing activity is modeled to achieve the actuarial target return and in alignment with the Trustee approved Investment Policy.

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

- **Interest rate risk:** The investment policy limits holdings of the Trust based on investment type and credit strength and entrusts the Trustees and the Trust's investment advisor to execute transactions in accordance with the "prudent person" rule requiring the evaluation of current market conditions to ensure overall interest rate risks that might adversely affect the portfolio value are mitigated.
- **Custodial credit risk:** This is the risk that in the event of the failure of a depository financial institution or counterparty to a transaction, the Trust's deposits may not be returned or the Trust will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of another party. This risk is mitigated as all investment assets are maintained in the name of the Trust and not in the possession or title of a third party.
- **Credit and concentration risk:** These risks are mitigated by providing specific guidance as to the weighting and integrity of the deposit and investment instruments other than those investments in mutual funds, collective trusts, limited partnerships or other alternative investment vehicle, U.S. Treasury obligations, U.S. Agency obligations, and accounts insured by the Federal Deposit Insurance Corporation, as well as the execution of these transactions by the Trustees in accordance with the "prudent person" rule. At September 30, 2023 and 2022 there were no individually-held investments that made up more than 5.0 percent of the Trust's portfolio.
- **Foreign and digital currency risk:** This is the risk of loss associated with changes in foreign exchange or digital rates which could adversely affect investment valuations. The Trust does not hold any investments denominated in a foreign or digital currency, although it is exposed to foreign currency risk through its U.S. dollar-denominated international equity mutual funds and collective trusts, including those in private limited partnerships.
- **Liquidity risk:** This is the risk that securities within the OPEB Plan cannot be sold quickly enough to meet future obligations. This risk is mitigated by limiting the amount of real estate and alternative assets held in commingled funds, private limited partnerships, or private equity structures, to 15.0 percent each. All other securities within the OPEB Plan must be traded on a national exchange or be in an open ended mutual fund or commingled fund structure. These funds typically have daily liquidity and always have no lock up provisions that would prevent the OPEB Plan from selling them as needed.

NOTES TO THE FINANCIAL STATEMENTS

Note D – Investments (continued)

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

		2023 - 2022
Domestic Equity Securities	Russell 3000	38%-58%
Foreign Equity Securities	MSCI-ACWxUS	10%-20%
Bank Loans	S&P / LSTA Leveraged Loan	0%-5%
Cash & Cash Equivalents		0%-10%
Global Fixed Income	Barclays Global Aggregate ex US	0%-5%
Real Estate	NCREIF ODCE Eq-Wt	5%-10%
Domestic Fixed Income	Barclays US Aggregate Bond	2%-22%
Alternative Assets	Strategy Index	0%-25%

Rate of return: The annual money-weighted rate of return on OPEB Plan investments, net of OPEB Plan investment expense resulted in a gain of 15.0 percent and a loss of 18.1 percent for the years ended September 30, 2023 and 2022, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. A historic schedule is provided in the Required Supplementary Information.

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

Investment	Average credit rating ¹	2023	2022
Garcia Hamilton			
Corporate bonds	A	5.9	7.1
U.S. government bonds and treasury bills	AA+	12.0	10.7
Mortgage-backed securities	AA+	3.6	6.0
PIMCO Div Inc Bond Fund	BB	8.4	8.6
Met West Total Return Bond Fund	BBB	8.3	8.2
Pacific Funds Floating Rate Income	B	3.9	4.1

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

NOTES TO THE FINANCIAL STATEMENTS

Note E – Fair Value Measurements

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

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

- **Real estate investments** were stated at the net asset value, with annual valuations performed by independent third-party appraisers for each property in the portfolio, considering monthly events that impact property value.
- **Alternative investments** were stated at the net asset value or quoted market price based on the composition of the fund as calculated by the fund advisor. The unfunded commitments related to alternative investments as of September 30, 2023 and 2022 were \$7.3 million and \$9.0 million, respectively.

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

(Dollars in thousands)	2023	2022
Cash equivalents and investments by fair value level:		
Level 1		
Debt securities		
U.S. treasury notes	\$ 3,652	\$ 5,806
Mutual funds		
Fixed income	12,618	11,933
U.S. equity	48,823	43,699
International equity	23,703	19,122
Balanced	4,739	4,372
U.S. equity	21,051	22,064
Total Level 1	114,586	106,996
Level 2		
U.S. agencies	4,092	999
Corporate notes and private placements	1,287	2,047
U.S. equity	4,011	2,892
Total Level 2	9,390	5,938
Total investments by fair value level	123,976	112,934
Other investments and cash equivalents measured at the net asset value:		
Alternative investments	21,929	18,936
Mutual funds - real estate	4,543	5,675
Money market	1,910	722
Total other investments and cash equivalents measured at the net asset value	28,382	25,333
Total cash equivalents and investments	\$ 152,358	\$ 138,267

NOTES TO THE FINANCIAL STATEMENTS

Note F – Federal Income Tax Status

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

Note G – Exempt Party-In-Interest Transactions

OPEB Plan investments totaling \$1.9 million and \$0.7 million as of September 30, 2023 and 2022, respectively, were held and managed by Wells Fargo Bank, N.A. in money market accounts. Wells Fargo Bank, N.A. is the Trustee as defined by the OPEB Trust Agreement, and therefore, these transactions qualify as exempt party-in-interest transactions.

REQUIRED SUPPLEMENTARY INFORMATION

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

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

(Dollars in thousands)	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total OPEB liability									
Service cost	\$ 1,097	\$ 889	\$ 1,039	\$ 1,174	\$ 1,186	\$ 1,308	\$ 1,331	\$ 1,346	\$ 1,480
Interest on the total OPEB liability	8,113	7,579	8,620	9,936	9,906	10,385	10,434	11,882	12,134
Change in Benefits Terms	3,826	—	—	(438)	—	—	—	—	—
Difference between expected and actual experience	(87)	(2,476)	(5,592)	2,899	(2,192)	(2,987)	(3,285)	(23,969)	3,536
Assumption changes	6,317	12,716	(8,028)	(24,688)	(1,029)	(7,658)	(2,093)	(2,670)	(452)
Benefit payments, including refunds of plan member contributions	(7,280)	(6,731)	(6,291)	(7,511)	(7,371)	(7,702)	(6,374)	(8,063)	(9,067)
Net change in total OPEB liability	11,986	11,977	(10,252)	(18,628)	500	(6,654)	13	(21,474)	7,631
Total OPEB liability - beginning of year	122,731	110,754	121,006	139,634	139,134	145,788	145,775	167,249	159,619
Total OPEB liability - end of year	\$ 134,717	\$ 122,731	\$ 110,754	\$ 121,006	\$ 139,634	\$ 139,134	\$ 145,788	\$ 145,775	\$ 167,250
Plan fiduciary net position									
Contributions - employer	\$ 969	\$ 1,133	\$ 1,185	\$ 3,682	\$ 7,022	\$ 9,068	\$ 13,384	\$ 12,628	\$ 14,117
Net investment income	20,480	(31,344)	31,313	14,953	5,399	10,956	13,420	9,621	(1,195)
Benefit payments, including refunds of plan member contributions	(7,280)	(6,731)	(6,291)	(7,511)	(7,371)	(7,702)	(6,374)	(8,063)	(9,067)
Administrative expense	—	(3)	(17)	(17)	(17)	(18)	(18)	(18)	(32)
Net change in plan fiduciary net position	14,169	(36,945)	26,190	11,107	5,033	12,304	20,412	14,169	3,823
Plan fiduciary net position - beginning of year	138,331	175,276	149,086	137,979	132,946	120,642	100,230	86,061	82,238
Plan fiduciary net position - end of year	\$ 152,500	\$ 138,331	\$ 175,276	\$ 149,086	\$ 137,979	\$ 132,946	\$ 120,642	\$ 100,230	\$ 86,061
Net OPEB liability - beginning of year	\$ (15,600)	\$ (64,522)	\$ (28,080)	\$ 1,655	\$ 6,188	\$ 25,146	\$ 45,545	\$ 81,189	\$ 77,381
Net OPEB liability/(asset) - end of year	\$ (17,783)	\$ (15,600)	\$ (64,522)	\$ (28,080)	\$ 1,655	\$ 6,188	\$ 25,146	\$ 45,545	\$ 81,189
Plan fiduciary net position as a percentage of total OPEB liability	113.2 %	112.7 %	158.3 %	123.2 %	98.8 %	95.6 %	82.8 %	68.8 %	51.5 %
Covered payroll	\$ 102,954	\$ 100,061	\$ 100,721	\$ 98,058	\$ 91,035	\$ 86,892	\$ 78,447	\$ 71,856	\$ 72,990
Net OPEB liability/(asset) as a percentage of covered payroll	(17.3)%	(15.6)%	(64.1)%	(28.6)%	1.8 %	7.1 %	32.1 %	63.4 %	111.2 %

Assumption and benefit changes: Each year, changes in assumptions include claim costs and premium amounts for the self insurance health plan, premiums for the fully insured Medicare Advantage plan, longer-term medical trend rates and the annual trend for dental costs. Demographic assumptions were developed from an experience study performed in October 2020 covering the period from October 2012 through September, 2019 and changes were implemented effective September 30, 2020. This study was previously updated in August 2015 for the six-year period ended September 30, 2014 and changes was implemented effective September 30, 2015.

The assumed investment return rate and single discount rate was 6.75 percent as of the September 30, 2023 and 2022 valuation. Assumed rates were previously set at 7.00 percent, 7.25 percent, and 7.50 percent in the valuations reports as of September 30, 2021, 2015, and 2014, respectively.

In 2023, a benefit change was implemented modifying the methodology to determine the HRA contribution to incorporate the use of the published CPI-W inflation measure with a catch-up adjustment applied at the time of implementation. In 2020, OPEB Plan benefit changes included removal of the premium POS option and revisions in certain limits for the utility discount benefit.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of employer contributions to the OPEB Plan and investment returns

The following schedule presents 10-year trend information regarding employer contributions to the OPEB Plan and information on the annual money-weighted rate of return, calculated as the internal rate of return on OPEB Plan investments, net of OPEB Plan investment expense, for the years ended September 30:

Contribution year ¹ (Dollars in thousands)	Actuarially determined contribution	Actual contribution	Contribution deficiency/ (excess)	Covered payroll (CP) ¹	Actual contribution as a % of CP	Annual money- weighted rate of return on investments
2023	\$ 969	\$ 969	\$ —	\$ 102,954	0.9 %	15.0 %
2022	\$ 1,133	\$ 1,133	\$ —	\$ 100,061	1.1 %	(18.1)%
2021	\$ 1,185	\$ 1,185	\$ —	\$ 100,721	1.2 %	21.4 %
2020	\$ 3,682	\$ 3,682	\$ —	\$ 98,058	3.8 %	10.9 %
2019	\$ 7,022	\$ 7,022	\$ —	\$ 91,035	7.7 %	4.0 %
2018	\$ 9,068	\$ 9,068	\$ —	\$ 86,892	10.4 %	9.0 %
2017	\$ 13,384	\$ 13,384	\$ —	\$ 78,447	17.1 %	13.2 %
2016	\$ 12,628	\$ 12,628	\$ —	\$ 71,856	17.6 %	11.0 %
2015	\$ 14,117	\$ 14,117	\$ —	\$ 72,990	19.3 %	(1.4)%
2014	\$ 13,558	\$ 13,558	\$ —	\$ 72,990	18.6 %	10.2 %

¹ The actuarially determined contribution amounts for the current year were calculated as of October 1, 2021 using the following assumptions:

Actuarial cost method: Entry Age Normal

Amortization method: Level Percentage of Payroll, Closed

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

Inflation: 2.25 percent per year

Salary increases: 4.5 percent to 10.0 percent depending on service, including inflation

Investment rate of return: 7.00 percent based on the October 1, 2021 valuation report (updated to 6.75 percent as of October 1, 2022 valuation)

Retirement age: Experience-based rates tables

Mortality: PUB-2010 Headcount Weighted General Below Median Employee Mortality Table (for pre-retirement mortality) and PUB-2010 Headcount Weighted General Below Median Healthy Retiree Mortality Table (for postretirement mortality), with separate rates for males and females and ages set back one year for males, with mortality improvements projected to all future years after 2010 using Scale MP-2018.

Assumption study: Demographic experience was reviewed through an experience study of the OPEB Plan completed in October 2020. This experience study examined actual demographic experience during the seven-year period from October 1, 2012 through September 30, 2019. Based on this experience study, changes to the salary increase rates, retirement rates, and termination rates were adopted effective September 30, 2020.



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

Plan Trustees and Participants

Orlando Utilities Commission Other Post-Employment Benefits Plan and Trust

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Orlando Utilities Commission Other Post-Employment Benefits Plan and Trust (the Plan), which comprise the statement of plan fiduciary net position as of September 30, 2023, and the related statement of changes in plan fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 20, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan’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 Plan’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

August 20, 2024



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