# Kissimmee Utility Authority

## Kissimmee, FL

## Year End Audited Financial Report FY19

KUA
KISSIMMEE UTILITY AUTHORITY

# FINANCIAL STATEMENTS
# AND
# INDEPENDENT AUDITOR'S REPORT

## KISSIMMEE UTILITY AUTHORITY
## KISSIMMEE, FLORIDA

## YEARS ENDED SEPTEMBER 30, 2019 AND 2018

**FINANCIAL STATEMENTS**
**AND**
**INDEPENDENT AUDITOR'S REPORT**

**KISSIMMEE UTILITY AUTHORITY**
**KISSIMMEE, FLORIDA**

**YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

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Board of Directors
Kissimmee Utility Authority
Kissimmee, Florida

**Report on the Financial Statements**
We have audited the accompanying financial statements of the business-type activities, the major fund and the aggregate remaining fund information of the Kissimmee Utility Authority (the Authority) as of and for the years ended September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Directors
Kissimmee Utility Authority
Kissimmee, Florida

**INDEPENDENT AUDITOR'S REPORT**

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the major fund and the aggregate remaining fund information of the Authority, as of September 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information and the required pension and other postemployment benefit schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 auditing standards generally accepted in the United States of America, 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 January 16, 2020, on our consideration of the Authority'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 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 Authority'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 Authority's internal control over financial reporting and compliance.

Purvis, Gray and Company, LLP

January 16, 2020
Ocala, Florida

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Kissimmee Utility Authority's (the Authority) annual financial report presents the analysis of the Authority's financial performance during the fiscal years that ended on September 30, 2019 and 2018. Please read it in conjunction with the financial statements, which follow this section.

**Financial Highlights – 2019**

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources as September 30, 2019, by $297.9 million (net position). Of this amount, $44.7 million (unrestricted net position) may be used to meet ongoing obligations to customers and creditors.
- The Authority's net position increased by $14 million, or 4.9 percent.
- The Authority's net utility plant increased by $21.8 million, or 10.4 percent.
- During the year, the Authority's operating revenues decreased by 11.3 percent to $189.8 million while operating expenses increased 5.4 percent to $178 million.
- The Authority's total long-term liabilities decreased to approximately $33.2 million. The decrease is related to commercial paper notes of $10 million.
- Liabilities payable from restricted assets decreased by $8.2 million, or 22.5 percent primarily due to decreases in principal becoming current of $8.7 million, advances for construction of $0.5 million, and accrued interest payable of $0.4 million, offset by customer deposits of $1.4 million.
- Deferred inflows of resources increased by $8.1 million or 17.7 percent, primarily due to increase of $11.4 million in rate stabilization and increase in deferred amount other postemployment benefit related of $0.6 million, offset by decrease in deferred amount pension related of $3.9 million.

**Financial Highlights – 2018**

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resource at September 30, 2018, by $284 million (net position). Of this amount, $47.8 million (unrestricted net position) may be used to meet ongoing obligations to customers and creditors.
- The Authority's net position increased by $44.5 million, or 18.6 percent.
- The Authority's net utility plant increased by $17 million, or 8.8 percent.
- During the year, the Authority's operating revenues increased by 14.3 percent to $213.9 million while operating expenses increased 0.1 percent to $168.9 million.
- The Authority's total long-term liabilities decreased to approximately $43.2 million. The decrease is primarily related to principal of approximately $18.7 million becoming current during the fiscal year.
- Liabilities Payable from Restricted Assets increased by $2.7 million, or 8 percent primarily due to increases in principal becoming current of $2.9 million and customer deposits of $1.3 million, offset by advances for construction of $1.1 million.
- Deferred Inflows of Resources decreased by $21.8 million primarily due to $23.2 million in Rate Stabilization offset by $1.2 million in Deferred Amount Pension Related.

**Required Financial Statements**

The Authority maintains its accounts on the accrual basis in accordance with accounting principles generally accepted in the United States. The accounts are substantially in conformity with accounting principles and methods prescribed by the Federal Energy Regulatory Commission (FERC) and other regulatory authorities. The financial statements of the Authority offer short and long-term financial information about its activities.

The Statement of Net Position includes all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Authority's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs.

The other required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides answers to such questions as "where did the cash come from?", "what was cash used for?", and "what was the change in cash balance during the reporting period?".

**Financial Analysis of the Authority**

One of the most important questions asked about the Authority's finances is, "is the Authority better off or worse off as a result of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the Authority's activities in a way that will help answer this question. These two statements report the net position of the Authority, and changes in them. You can think of the Authority's net position – the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources – as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The following analysis focuses on the Authority's Net Position (Table 1) and Statements of Revenues, Expenses, and Changes in Net Position (Table 2) during the three fiscal years.

| | 9/30/2019 | 9/30/2018 | Restated 9/30/2017 |
|---|---|---|---|
| Capital Assets | $ 232,018,093 | $ 210,241,449 | $ 193,235,236 |
| Current and Other Assets | 230,545,212 | 245,761,951 | 257,083,834 |
| Total Assets | 462,563,305 | 456,003,400 | 450,319,070 |
| Deferred Outflows of Resources | 1,158,035 | 1,062,127 | 2,208,775 |
| Total Assets and Deferred Outflows of Resources | 463,721,340 | 457,065,527 | 452,527,845 |
| Long-Term Liabilities | 33,200,000 | 43,200,000 | 62,597,216 |
| Current and Other Liabilities | 78,709,588 | 84,150,054 | 82,868,901 |
| Total Liabilities | 111,909,588 | 127,350,054 | 145,466,117 |
| Deferred Inflows of Resources | 53,864,048 | 45,759,605 | 67,601,765 |
| Total Liabilities and Deferred Inflows of Resources | 165,773,636 | 173,109,659 | 213,067,882 |
| Net Position: | | | |
| Net Investment in Capital Assets | 239,556,753 | 207,458,720 | 184,585,273 |
| Restricted | 13,735,063 | 28,722,524 | 26,136,969 |
| Unrestricted | 44,655,888 | 47,774,625 | 28,737,720 |
| Total Net Position | $ 297,947,704 | $ 283,955,869 | $ 239,459,962 |

**Analysis of 2019 Net Position**

Capital assets increased primarily as a result of an increase in property, plant and equipment of $31 million offset by an increase in accumulated depreciation of $7 million and a decrease in construction in progress of $2.2 million.

Current, restricted and other assets decreased primarily due to decreases in investments of $22.4 million, net investment in capital lease of $7.6 million, customer accounts receivable of $1 million, and pension cost related of $0.7 million, offset by increases in cash and cash equivalents of $15.6 million, and inventory of $1.2 million.

Total deferred outflows of resources increased by $0.1 million due to an increase in deferred amount other postemployment benefit related of $0.6 million, offset by a decrease in deferred amount pension related of $0.5 million.

Total Liabilities decreased by approximately $15.4 million, primarily due to decreases in current portion of revenue bonds of $18.7 million, compensated absences (net of current portion) of $0.8 million, advances for construction of $0.5 million, and accrued interest payable of $0.4 million, offset by increases in net pension liability of $2.7 million, customer deposits of $1.4 million, current portion of other long-term liabilities of $0.6 million, and accounts payable of $0.1 million.

Total Deferred Inflows of Resources increased by $8.1 million due to an increase in rate stabilization funds of $11.4 million and deferred amount other post-employment benefit related of $0.6 million offset by a decrease in deferred amount pension related of $3.9 million.

The first portion of Net Positon reflects the Authority's investment in capital assets (i.e. plant, property and equipment net of accumulated depreciation) less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide electricity and other services to rate payers. It should be noted that the resources needed to repay the related debt must be provided primarily from future operating revenues, since the capital assets themselves cannot be used to liquidate these liabilities. This amount increased primarily as a result of increases in property, plant and equipment of $31 million and decreases in current portion of revenue bonds of $18.7 million, offset by a decrease in net investment in capital lease of $7.6 million, an increase in accumulated depreciation of $7 million, and a decrease in construction in progress of $2.2 million.

An additional portion of the Authority's net position ($13.7 million) represents resources that are subject to external restrictions (i.e. debt covenants) on how they may be used. The remaining balance of unrestricted net position ($44.7 million) may be used to meet the utilities ongoing obligations to rate payers and creditors.

Changes in the Authority's net position can be determined by reviewing the following condensed Statements of Revenues, Expenses, and Changes in Net Position for the year.

**Analysis of 2018 Net Position**

Capital assets increased primarily as a result of an increase in property, plant and equipment of $14.7 million and construction in progress of $8 million, offset by accumulated depreciation of $5.7 million.

Current, restricted and other assets decreased primarily due to decreases in cash and cash equivalents of $19.1 million and net investment in Capital Lease of $7.6 million, offset by an increase in investments of $15 million and customer accounts receivable of $0.7 million.

Total deferred outflows of resources decreased by $1.1 million due to $0.6 million of amortization of loss on refunded debt and $0.6 million in deferred amount pension related.

Total liabilities decreased by approximately $18.1 million, primarily due to decreases in long-term revenue bonds payable of $18.7 million, net pension liability of $3.1 million, and advances for construction of $1.1 million, offset by an increase in current portion of revenue bonds of $2.9 million and customer deposits of $1.3 million.

Total deferred inflows of resources decreased by $21.8 million due to a decrease in rate stabilization funds of $23.2 million offset by deferred amount pension related of $1.2 million and deferred amount other post-employment benefit related of $0.2 million.

The first portion of Net Positon reflects the Authority's investment in capital assets (i.e. plant, property and equipment net of accumulated depreciation) less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide electricity and other services to rate payers. It should be noted that the resources needed to repay the related debt must be provided primarily from future operating revenues, since the capital assets themselves cannot be used to liquidate these liabilities. This amount increased primarily as a result of decreases in revenue bonds payable of $18.7 million and increases in property, plant and equipment of $14.7 million and $8.0 million in construction in progress, offset by decreases in net investment in capital lease of $7.6 million and an increase in accumulated depreciation of $5.7 million.

An additional portion of the Authority's net position ($28.7 million) represents resources that are subject to external restrictions (i.e. debt covenants) on how they may be used. The remaining balance of unrestricted net position ($47.8 million) may be used to meet the utilities ongoing obligations to rate payers and creditors.

Changes in the Authority's net position can be determined by reviewing the following condensed Statements of Revenues, Expenses, and Changes in Net Position for the year:

| | 2019 | 2018 | Restated 2017 |
|---|---|---|---|
| Operating Revenue | | | |
| Metered Sales | $ 183,891,144 | $ 174,412,488 | $ 169,828,474 |
| Lease Revenue | 11,367,050 | 11,367,050 | 11,367,050 |
| Other | 6,267,635 | 6,255,265 | 5,975,972 |
| Rate Stabilization Transfer | (11,082,102) | 23,390,828 | 989,255 |
| Change in Regulatory Asset Pension Related | (728,148) | (1,315,669) | (1,264,412) |
| Change in Regulatory Asset Other Postemployment Benefit Related | 102,118 | (227,481) | 147,090 |
| Total Operating Revenues | 189,817,697 | 213,882,481 | 187,043,429 |
| Operating Expenses | | | |
| Purchased Power | 117,440,333 | 112,214,936 | 111,450,804 |
| Transmission and Distribution | 14,842,085 | 14,413,756 | 15,549,538 |
| Administrative and General | 19,469,887 | 17,266,267 | 17,889,885 |
| Intergovernmental Transfers | 17,921,997 | 17,248,273 | 16,659,313 |
| Depreciation and Amortization | 8,341,333 | 7,797,875 | 7,207,602 |
| Total Operating Expenses | 178,015,635 | 168,941,107 | 168,757,142 |
| Operating Income | 11,802,062 | 44,941,374 | 18,286,287 |
| Total Non-Operating Expenses | 2,189,773 | (445,468) | (1,470,145) |
| Change in Net Position | 13,991,835 | 44,495,906 | 16,816,142 |
| Net Position - Beginning of Year | 283,955,869 | 239,459,963 | 222,643,820 |
| Net Position - End of Year | $ 297,947,704 | $ 283,955,869 | $ 239,459,962 |

**Analysis of 2019 Activity**

Year-to-date mWh sales in fiscal year 2019 were 1,623,736 compared to fiscal year 2018 sales of 1,563,030, or a 3.88 percent increase. Sales to metered customers increased from $174.4 million to $183.9 million, or 5.4 percent. The increase in metered sales revenue resulted from an increase in kWh revenues of $9.3 million, or 4.0 percent and COPA revenues by $0.2 million, or 0.3 percent.

During FY 2003, the Authority Board of Directors approved the issuance of revenue bonds and refunding of outstanding bonds. A Rate Stabilization fund was created which allows current income to be deferred to a future time in order to stabilize rates. In fiscal year 2019, $32.6 million in transfers were drawn from this fund to offset customer fuel charges and $43.7 million in transfers to build-up the fund were made during the year, resulting in an increase of fiscal year 2019 operating revenues by the net amount. Those interested in more detailed information may refer to Note 4 in the Notes to Financial Statements.

Total operating expenses were higher than the previous year by $9.1 million due to higher generation and purchased power expenses of $5.2 million, administrative and general of $2.2 million, transmission and distribution of $0.4 million, intergovernmental transfers of $0.7 million, and depreciation and amortization of $0.5 million.

We are required to record the fair value of our investment portfolio and recognize any corresponding increase or decrease in the fair value of investments in the Statement of Revenue, Expenses, and Changes in Net Position. For fiscal year 2019, our "unrealized gain" (difference between carrying value versus current market value) was $842,000 compared to a loss of $596,000 for fiscal year 2018. Non-operating revenues increased primarily due to investment income of $1.6 million and non-operating expenses decreased primarily due to interest expense of $1.1 million.

**Analysis of 2018 Activity**

Year-to-date mWh sales in fiscal year 2018 were 1,563,030 compared to fiscal year 2017 sales of 1,509,749, or 3.53 percent increase. Sales to metered customers increased from $169.8 million to $174.4 million, or 2.7 percent. The increase in metered sales revenue resulted from an increase in kWh revenues of $9.8 million, or 4.4 percent, offset by a decrease in COPA revenues by $5.2 million, or 10.0 percent.

During FY 2003, the Authority Board of Directors approved the issuance of revenue bonds and refunding of outstanding bonds. A Rate Stabilization fund was created which allows current income to be deferred to a future time in order to stabilize rates. In fiscal year 2018, $32.5 million in transfers were drawn from this fund to offset customer fuel charges and $10.2 million in transfers to build-up the fund were made during the year, resulting in an increase of fiscal year 2018 operating revenues by that amount. Those interested in more detailed information may refer to Note 4 in the Notes to Financial Statements.

Total operating expenses were higher than the previous year by $0.2 million due to higher generation and purchased power expenses of $0.8 million, depreciation and amortization of $0.6 million, and intergovernmental transfers of $0.6 million, offset by decreases in transmission and distribution of $1.1 million and administrative and general of $0.6 million.

We are required to record the fair value of our investment portfolio and recognize any corresponding increase or decrease in the fair value of investments in the Statement of Revenue, Expenses, and Changes in Net Position. For fiscal year 2018, our "unrealized loss" (difference between carrying value versus current market value) was $596,000 compared to a loss of $268,000 for fiscal year 2017. Non-operating expenses decreased primarily due to Interest Expense of $0.5 million and non-operating revenues increased primarily due to Investment Income of $0.5 million.

**Rates**

In December 1974, the City Commission adopted an ordinance permitting the City (and now the Authority) to pass on directly to the customer incremental fuel cost increases on a monthly basis. This Cost of Power Adjustment (COPA) has eliminated the regulatory delay that has been a problem for many other utilities. Additionally, in June 1983, the City Commission modified the COPA Ordinance to allow the System to project the billed COPA to a levelized rate for the fiscal year. The negative or positive COPA account balance was used in calculating projected COPA rate for the next fiscal year. In July 1991, the Board of Directors approved a COPA Resolution that allows automatic monthly adjustments to the COPA rate based on weighted average using the prior month actual, estimated current month, and following month estimated costs. In May 1994, the Board of Directors approved a resolution permitting the Authority to pass on directly to the customer conservation costs on a monthly basis similar to the COPA mechanism. This Energy Conservation Cost Recovery (ECCR) rate is adjusted semiannually to reflect changes in conservation costs. The COPA and ECCR rates have been combined and are presented on the customer's bill as Fuel Adjustment.

The Authority maintains a computerized cost of service study which is updated annually with:

a. Past years' audited amounts to survey the adequacy of each rate and rate structure, and
b. The current years' budgeted amounts to predict the need for a rate change.

Customer rates and rate structures are intended to follow guidelines of the Florida Public Service Commission and, as such, should be "fair, just and reasonable". It is also intended that they are competitive with neighboring utilities and equitable between rate classes.

**Capital Assets and Debt Management**

**Capital Assets**

At the end of fiscal year 2019, the Authority had $327.9 million invested in a broad range of capital assets, primarily electric transmission and distribution systems. This amount represents an increase of $28.8 million, or 9.6 percent over last year. Those interested in more detailed information may refer to Note 5 in the Notes to Financial Statements.

At the end of fiscal year 2018, the Authority had $299.1 million invested in a broad range of capital assets, primarily electric transmission and distribution systems. This amount represents an increase of $22.7 million, or 8.2 percent over last year. Those interested in more detailed information may refer to Note 5 in the Notes to Financial Statements.

**Debt Management**

At the end of the current fiscal year, the Authority had a total debt outstanding of $43.2 million of Commercial Paper.

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Revenue Bonds | $ - | $ 18,725,000 | $ 34,580,000 |
| Commercial Paper | 43,200,000 | 43,200,000 | 43,200,000 |
| Total | $ 43,200,000 | $ 61,925,000 | $ 77,780,000 |

The Authority's total debt decreased by $19.2 million (30.7 percent) during the current fiscal year due to scheduled principal payments. See Note 9 in the Notes to Financial Statements for further details. The Authority maintains an AA- and A1 underlying rating from Fitch and Moody's respectively for outstanding bond issues.

The Authority's total debt decreased by $16.2 million (20.6 percent) from 2017 to 2018 due to scheduled principal payments. The Authority maintained an AA- and A1 underlying rating from Fitch and Moody's respectively for outstanding bond issues.

The Authority attempts to minimize external financing needs through internal generation of capital funds. The purpose of this financial policy is to establish and maintain a debt-to-equity ratio and a coverage ratio that would minimize the impact of future debt issues for transmission plants. The current fiscal policy includes the following guidelines:

1. Bond proceeds will fund transmission projects.
2. Current earnings (cash provided from operations) shall be adequate to fund operating and maintenance expenses, debt service related costs (excluding capitalized interest) and year to year capital needs, generally less than $100,000.
3. The Reserve for Future Capital Outlay funds should be used for all other purposes as approved by the Board of Directors. Maintain a minimum level of $5 million in Reserve for Future Capital Outlay, indexed each year by the increase in kWh sales beginning in fiscal year 1997. If used, reimbursed to a fully funded level within five years. The Board of Directors froze fund growth for fiscal year 2009, but growth resumed in fiscal year 2010 (current minimum level is approximately $9.3 million).
4. Maintain a minimum level of one and one-half months of fixed operating and maintenance expenses (excluding Depreciation, Fuel Costs, and debt service related costs) in unrestricted operating cash and cash equivalents and longer-term invested working capital funds.
5. Maintain a minimum level of 1.25 debt service coverage on outstanding bonds and 1.10 on commercial paper.
6. Maintain a self-insurance fund of approximately $15 million to fund reconstruction expenditures for our transmission and distribution system in the event of weather-related or other disasters that would affect the Authority system.
7. Maintain a minimum of $5 million in the Authority held Rate Stabilization fund capped at a value equal to 25 percent of the largest of any annual KUA operating budget. The FMPA held Rate Stabilization fund will be capped at a value equal to the largest of any two FMPA monthly bills to the Authority.

The principal, premium if any, and interest on all outstanding bonds are payable solely from the net revenues derived by the Authority from the operation of the system. These obligations do not constitute liens upon the system or on any other property of the Authority or the City of Kissimmee, but are a lien only on the Net Revenues and special funds created by the Bond Resolution and in the manner provided therein.

The revenue available for debt service was $43.2 million, $71.1 million, and $40.8 million for fiscal years 2017, 2018, and 2019, respectively. The debt service requirements for fiscal years 2017, 2018, and 2019 were $18.0 million, $20.3 million, and $10.7 million, respectively. Debt service coverage was 2.4x, 3.5x and 3.8x for fiscal years 2017, 2018, and 2019, respectively.

Those interested in more detailed information may refer to Note 9 in the Notes to Financial Statements.

**Economic Factors and Next Year's Budget and Rates**

In July 2019, the KUA growth (increase) in customers and energy sales for fiscal year 2020 was projected to be approximately 2.0 percent and 1.1 percent, respectively, within the service territory. The change in net position was projected to be approximately $9.8 million. The Board of Directors has directed staff to implement a strategy to maintain the Authority's rates in the lower 33 percent of all utilities in the State of Florida. That strategy will include the utilization of rate stabilization funds to lower the fuel and purchase power costs billed to the customers. There is no base rate increase planned for the upcoming year.

**Contacting the Authority's Financial Management**

The financial report is designed to provide the Authority's rate payers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Those interested in more detailed information may refer to notes to financial statements. If you have questions about this report or need additional information, contact the Finance and Administration Department at Kissimmee Utility Authority, 1701 W. Carrol Street, Kissimmee, Florida, 34741.

# FINANCIAL STATEMENTS

**KISSIMMEE UTILITY AUTHORITY**
**STATEMENTS OF NET POSITION**
**SEPTEMBER 30, 2019 AND 2018**

**ASSETS**

| | 2019 | 2018 |
|---|---|---|
| **Current Assets** | | |
| Cash and Cash Equivalents | $ 33,262,300 | 11,450,595 |
| Investments | 23,764,730 | 49,068,348 |
| Interest Receivable | 47,741 | 212,282 |
| Customer Accounts Receivable, Net | 11,244,039 | 12,524,204 |
| Unbilled Customer Receivables | 6,772,038 | 6,726,771 |
| Inventory | 7,907,586 | 6,745,879 |
| Other Current Assets | 951,915 | 948,996 |
| Current Portion of Net Investment in Capital Lease | 7,625,961 | 7,625,961 |
| **Total Current Assets** | 91,576,310 | 95,303,036 |
| **Restricted Assets** | | |
| Cash and Cash Equivalents | 47,420,415 | 53,615,593 |
| Investments | 21,726,640 | 18,773,903 |
| Interest Receivable | 80,573 | 76,155 |
| **Total Restricted Assets** | 69,227,628 | 72,465,651 |
| **Other Assets** | | |
| Regulatory Assets - Net Costs Recoverable in Future Years: | | |
| Pension Cost Related | 22,972,405 | 23,700,553 |
| Other Postemployment Benefit Related | 3,656,170 | 3,554,052 |
| Net Investment in Capital Lease (Net of Current Portion) | 43,112,699 | 50,738,659 |
| **Total Other Assets** | 69,741,274 | 77,993,264 |
| **Capital Assets - Utility Plant** | | |
| Property, Plant and Equipment | 318,822,447 | 287,835,588 |
| Less: Accumulated Depreciation | (95,889,308) | (88,853,881) |
| | 222,933,139 | 198,981,707 |
| Construction in Progress | 9,084,954 | 11,259,742 |
| **Total Capital Assets - Utility Plant** | 232,018,093 | 210,241,449 |
| **Total Assets** | 462,563,305 | 456,003,400 |
| **Deferred Outflows of Resources** | | |
| Deferred Amount Pension Related | 548,570 | 1,062,129 |
| Deferred Amount Other Postemployment Benefit Related | 609,465 | - |
| | 1,158,035 | 1,062,129 |
| **Total Assets and Deferred Outflows of Resources** | $ 463,721,340 | $ 457,065,529 |

See accompanying notes.

## KISSIMMEE UTILITY AUTHORITY
## STATEMENTS OF NET POSITION
## SEPTEMBER 30, 2019 AND 2018

### LIABILITIES AND NET POSITION

| | 2019 | 2018 |
|---|---|---|
| **Liabilities** | | |
| **Current Liabilities** | | |
| Accounts Payable | $ 11,725,807 | $ 11,622,206 |
| Due to Other Governments | 2,613,800 | 2,425,907 |
| Deferred Cost of Power Adjustment | 3,813,965 | 3,881,167 |
| Other Accrued Liabilities | 1,865,111 | 1,870,415 |
| Current Portion of Other Long-Term Liabilities | 2,915,245 | 2,347,023 |
| **Total Current Liabilities** | 22,933,928 | 22,146,718 |
| **Liabilities Payable from Restricted Assets** | | |
| Current Portion of Long-Term Debt | 10,000,000 | 18,725,000 |
| Accrued Interest Payable - Commercial Paper | 124,849 | 573,125 |
| Advances for Construction | 1,574,226 | 2,054,128 |
| Customer Deposits | 16,631,297 | 15,185,013 |
| **Total Liabilities Payable from Restricted Assets** | 28,330,372 | 36,537,266 |
| **Long-Term Liabilities** | | |
| Commercial Paper Notes | 33,200,000 | 43,200,000 |
| **Total Long-Term Liabilities** | 33,200,000 | 43,200,000 |
| **Other Long-Term Liabilities** | | |
| Net Pension Liability | 22,587,219 | 19,932,513 |
| Other Postemployment Benefits | 3,497,534 | 3,350,952 |
| Compensated Absences (Net of Current Portion) | 1,360,535 | 2,182,606 |
| **Total Other Long-Term Liabilities** | 27,445,288 | 25,466,071 |
| **Total Liabilities** | 111,909,588 | 127,350,055 |
| **Deferred Inflows of Resources** | | |
| Deferred Amount Pension Related | 933,754 | 4,830,167 |
| Deferred Amount Other Postemployment Benefit Related | 768,101 | 203,100 |
| Regulatory Credits: | | |
| Self-Insurance | 15,000,000 | 15,000,000 |
| Rate Stabilization | 37,162,193 | 25,726,338 |
| **Total Deferred Inflows of Resources** | 53,864,048 | 45,759,605 |
| **Total Liabilities and Deferred Inflows of Resources** | 165,773,636 | 173,109,660 |
| **Net Position** | | |
| Net Investment in Capital Assets | 239,556,753 | 207,458,720 |
| Restricted | 13,735,063 | 28,722,524 |
| Unrestricted | 44,655,888 | 47,774,625 |
| **Total Net Position** | $ 297,947,704 | $ 283,955,869 |

See accompanying notes.

**KISSIMMEE UTILITY AUTHORITY**
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**
**FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

| | 2019 | 2018 |
|---|---|---|
| **Operating Revenues** | | |
| Metered Sales | $ 183,891,144 | $ 174,412,488 |
| Lease Revenue | 11,367,050 | 11,367,050 |
| Other | 6,267,635 | 6,255,265 |
| Rate Stabilization Transfer | (11,082,102) | 23,390,828 |
| Change in Regulatory Asset Pension Related | (728,148) | (1,315,669) |
| Change in Regulatory Asset Other Postemployment Benefit Related | 102,118 | (227,481) |
| **Total Operating Revenues** | 189,817,697 | 213,882,481 |
| **Operating Expenses** | | |
| Purchased Power | 117,440,333 | 112,214,936 |
| Transmission and Distribution | 14,842,085 | 14,413,756 |
| Administrative and General | 19,469,887 | 17,266,268 |
| Intergovernmental Transfers | 17,921,997 | 17,248,273 |
| Depreciation and Amortization | 8,341,333 | 7,797,875 |
| **Total Operating Expenses** | 178,015,635 | 168,941,108 |
| **Operating Income** | 11,802,062 | 44,941,373 |
| **Non-Operating Revenues (Expenses)** | | |
| Investment Income | 3,160,686 | 1,599,300 |
| Interest and Other Debt Service Expense | (701,451) | (2,044,767) |
| Other Debt Service Expense | (269,462) | - |
| **Total Non-Operating Revenues (Expenses)** | 2,189,773 | (445,467) |
| **Change in Net Position** | 13,991,835 | 44,495,906 |
| **Net Position - Beginning of Year** | 283,955,869 | 239,459,963 |
| **Net Position - End of Year** | $ 297,947,704 | $ 283,955,869 |

See accompanying notes.

**KISSIMMEE UTILITY AUTHORITY**
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

| | 2019 | 2018 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Receipts from Customers and Other Sources | $ 200,669,028 | $ 223,314,663 |
| Payments to Suppliers for Goods and Services | (132,587,849) | (152,335,501) |
| Payments for Employees for Services | (19,742,858) | (23,855,824) |
| Payments for Benefits on Behalf of Employees | (7,651,417) | (8,494,214) |
| **Net Cash Provided by Operating Activities** | 40,686,904 | 38,629,124 |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Acquisition of Capital Assets | (29,777,067) | (28,757,558) |
| Advances for Construction and Advances from Co-Owners | (820,812) | 2,835,727 |
| Principal Paid on Long-Term Debt | (18,725,000) | (15,855,000) |
| Interest Paid on Long-Term Debt | (1,149,727) | (1,871,554) |
| Other Debt Costs | (269,462) | (506,689) |
| **Net Cash (Used in) Capital and Related Financing Activities** | (50,742,068) | (44,155,074) |
| **Cash Flows from Investing Activities** | | |
| Purchase of Investment Securities | (65,154,000) | (46,738,000) |
| Proceeds from Maturities of Investment Securities | 88,622,000 | 31,776,260 |
| Interest on Investments | 2,203,691 | 1,419,198 |
| **Net Cash Provided (Used in) Investing Activities** | 25,671,691 | (13,542,542) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 15,616,527 | (19,068,493) |
| **Cash and Cash Equivalents at Beginning of Year** | 65,066,188 | 84,134,681 |
| **Cash and Cash Equivalents at End of Year** | $ 80,682,715 | $ 65,066,188 |
| **Reconciliation of Cash and Cash Equivalents to Statements of Net Position** | | |
| Current Assets: | | |
| Cash and Cash Equivalents | $ 33,262,300 | $ 11,450,595 |
| Restricted Assets: | | |
| Cash and Cash Equivalents | 47,420,415 | 53,615,593 |
| **Cash and Cash Equivalents at End of Year** | $ 80,682,715 | $ 65,066,188 |

See accompanying notes.

**KISSIMMEE UTILITY AUTHORITY**
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

| | 2019 | 2018 |
|---|---|---|
| **Cash Provided by Operating Activities** | | |
| Operating Income | $ 11,802,062 | $ 44,941,373 |
| Adjustments to Reconcile Operating Income to Net Cash | | |
| Provided by Operating Activities: | | |
| Depreciation | 8,341,333 | 7,797,875 |
| Change in Assets - Decrease (Increase): | | |
| Customer Accounts Receivable, Net | 1,234,898 | (754,009) |
| Other Current Assets | (2,921) | (81,295) |
| Inventory | (1,161,707) | (679,296) |
| Energy Conservation Cost Recovery | - | 43,959 |
| Net Investment in Capital Lease | 7,625,960 | 7,625,960 |
| Change in Liabilities - Increase (Decrease) | | |
| Accounts Payable | 103,600 | 19,156 |
| Due to Other Governments | 187,894 | 46,770 |
| Deferred Cost of Power Adjustment | (67,202) | 1,324,357 |
| Customer Deposits | 1,446,284 | 1,289,751 |
| Other Current Liabilities | - | 86,997 |
| Other Accrued Liabilities | (259,152) | 210,575 |
| Other Long-Term Liabilities | 11,435,855 | (23,243,049) |
| **Net Cash Provided by Operating Activities** | 40,686,904 | 38,629,124 |
| | | |
| **Non-Cash Investing, Capital, and Financing Activities** | | |
| Increase/(Decrease) in Fair Value of Investments | $ 842,320 | $ (595,811) |

See accompanying notes.

**KISSIMMEE UTILITY AUTHORITY**
**STATEMENTS OF FIDUCIARY NET POSITION**
**PENSION TRUST FUND**
**SEPTEMBER 30, 2019 AND 2018**

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| **Receivables** | | |
| Interest | $ 87,418 | $ 109,605 |
| Dividends | 48,365 | 50,157 |
| **Total Receivables** | 135,783 | 159,762 |
| **Investments at Fair Value** | | |
| Real Estate | 10,068,622 | 9,443,156 |
| Fixed Income Securities | 14,646,790 | 12,463,430 |
| Fixed Income Mutual Funds | 2,413,655 | 3,048,294 |
| Domestic Stocks | 37,469,196 | 47,358,574 |
| Pooled Equity Fund - International | 15,494,113 | 17,388,453 |
| Pooled Equity Fund - Domestic | 9,841,599 | - |
| Foreign Equity Fund | 6,326,248 | 4,156,762 |
| Temporary Investment Fund | 1,823,360 | 2,400,512 |
| **Total Investments at Fair Value** | 98,083,583 | 96,259,181 |
| **Total Assets** | 98,219,366 | 96,418,943 |
| **Liabilities** | | |
| Accounts Payable - Administrative Charges | 74,912 | 95,518 |
| **Total Liabilities** | 74,912 | 95,518 |
| **Fiduciary Net Position** | $ 98,144,454 | $ 96,323,425 |

See accompanying notes.

**KISSIMMEE UTILITY AUTHORITY**
**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**
**PENSION TRUST FUND**
**SEPTEMBER 30, 2019 AND 2018**

| | 2019 | 2018 |
|---|---|---|
| **Additions** | | |
| **Contributions** | | |
| Employer | $ 4,742,955 | $ 4,334,806 |
| Employee | 404,640 | 312,657 |
| **Total Contributions** | 5,147,595 | 4,647,463 |
| **Investment Income** | | |
| Net Appreciation in Fair Value of Investments | 2,012,830 | 7,666,711 |
| Interest | 520,241 | 761,422 |
| Dividends | 1,546,769 | 1,267,234 |
| Lawsuit/Class Action Proceeds and Other | 41,398 | 4,502 |
| Other | 204,329 | 6,801 |
| **Total Investment Income** | 4,325,567 | 9,706,670 |
| Less: Investment Expenses | 587,103 | 497,677 |
| **Net Investment Income** | 3,738,464 | 9,208,993 |
| **Total Additions** | 8,886,059 | 13,856,456 |
| **Reductions** | | |
| Benefits: | | |
| Age and Service | 5,282,687 | 4,733,498 |
| DROP | 1,659,549 | 1,162,835 |
| Refund of Contributions | 56,414 | 4,167 |
| Professional and Adm. Expenses | 66,380 | 62,672 |
| **Total Reductions** | 7,065,030 | 5,963,172 |
| **Net Increase (Decrease)** | 1,821,029 | 7,893,284 |
| **Fiduciary Net Position** | | |
| Beginning of Year | 96,323,425 | 88,430,141 |
| End of Year | $ 98,144,454 | $ 96,323,425 |

See accompanying notes.

**NOTES TO FINANCIAL STATEMENTS**
**KISSIMMEE UTILITY AUTHORITY**
**YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

## Note 1 - <u>Summary of Significant Accounting Policies</u>

### Entity Definition

The Authority is a municipal electric utility authority created effective October 1, 1985, by the City of Kissimmee (COK) Ordinance No. 1285 adopted on February 19, 1985, and ratified by the voters on March 26, 1985. The Authority serves customers in Kissimmee and the surrounding area. The Authority Board (the Board) has 6 members. The Mayor of the COK is a non-voting Ex-Officio member. The 5 voting members are recommended by the Board and appointed by the City Commission. The Authority has exclusive jurisdiction, control, and management of the electric utility.

The accompanying financial statements present the financial position, changes in financial position and cash flows of the Kissimmee Utility Authority (the Authority). The reporting entity for the Authority includes all functions in which the Authority exercises financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either: (a) the ability to impose will by the primary government, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. As a result of applying the above reporting entity criteria, no other component units exist in which the Authority has any financial accountability which would require inclusion in the Authority's financial statements.

### Regulation

According to existing laws of the State of Florida, the five voting members of the Authority act as the regulatory authority for the establishment of electric rates. The Florida Public Service Commission (FPSC) has authority to regulate the electric "rate structures" of municipal utilities in Florida. It is believed that "rate structures" are clearly distinguishable from the total amount of revenues which a particular utility may receive from rates, and that distinction has thus far been carefully made by the FPSC. In addition, the *Florida Energy Efficiency and Conservation Act* has given the FPSC exclusive authority to approve the construction of new power plants under the *Florida Electrical Power Plant Siting Act*. The FPSC also exercises jurisdiction under the *National Energy Act*, including electric use conservation programs.

Operations of the Authority are subject to environmental regulations by federal, state, and local authorities and to zoning regulations by local authorities. Federal and state standards and procedures that govern control of the environment can change. These changes can arise from continuing legislative, regulatory, and judicial action respecting the standards and procedures. Therefore, there is no assurance that the units in operation, under construction, or contemplated will always remain subject to the regulations currently in effect or will always be in compliance with future regulations. An inability to comply with environmental standards or deadlines could result in reduced operating levels or complete shutdown of individual electric generating units not in compliance. Furthermore, compliance with environmental standards or deadlines may substantially increase capital and operating costs.

### Description of Funds Reported

- An Enterprise Fund operated by the Authority accounts for the electric utility.

- A Pension Trust Fund accounts for the activities of the employees' retirement system which accumulates resources for pension benefit payments to qualified retiring employees. They are excluded from the enterprise fund financial statements because they are fiduciary in nature and do not represent resources available to the Authority for operations. Separate pension financial statements are not issued.

**Basis of Accounting**

The Authority maintains its accounts on the accrual basis in accordance with accounting principles generally accepted in the United States. The accounts are substantially in conformity with accounting principles and methods prescribed by the Federal Energy Regulatory Commission and other regulatory authorities. The accounting and reporting policies of the Authority conform to the accounting rules prescribed by the Governmental Accounting Standards Board (GASB).

**Budget**

The Authority is required by charter to adopt an annual budget (budget). The budget is adopted on a basis consistent with generally accepted accounting principles.

The Authority follows these procedures in establishing the budget:

- The President and General Manager submits to the Board of Directors a proposed operating budget for the ensuing fiscal year. The operating budget includes proposed uses and the sources of funds to finance them.

- Staff discusses and presents a preliminary budget to the Board of Directors at a special meeting which is open to the public.

- A public hearing is subsequently advertised and conducted to obtain ratepayer comments. Once approved by the Board of Directors, the budget becomes the basis for operations for the ensuing fiscal year.

The President and General Manager is authorized to approve all budget transfers and all interdepartmental transfers are reported to the Board of Directors quarterly. Budget amendments which increase the adopted budget are approved by the Board of Directors. Operating budgets lapse at year-end. Capital projects are budgeted for the project life rather than for the current fiscal year. The unexpended portion of project budgets does not lapse until conclusion of the project.

**Reclassifications**

Certain amounts presented for the prior year have been reclassified in order to be consistent with the current year's presentation.

**Cash and Cash Equivalents**

Cash and cash equivalents include short-term, highly liquid investments that are both readily convertible to known amounts of cash and whose original maturity is three months or less. These consist of the Florida State Board of Administration (the SBA) Pool and the carrying amount of the Authority's deposits with financial institutions.

**Investments**

Investments are recorded at fair value. Fair value is determined based on quoted market prices. The Fund A of the Local Government Investment Pool operated by the SBA is recorded at amortized cost which approximates market value. The Authority reports the balance of investments in the SBA of approximately $66,502,000 at its pooled share price, which approximates market value. The net change to the investments carrying value is included in investment income. The Authority's investments are not insured.

**Customer Accounts Receivable**

Customer accounts receivable consist of uncollateralized amounts billed to commercial and residential customers for electric service provided throughout the Authority service territory consisting primarily of Osceola County. The Authority bills customers monthly on a cycle basis based upon metered usage, recognizing revenue in the period in which it was earned net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is calculated based upon the Authority's historical experience with collections and current energy market conditions. The total allowance amounts are $839,837 and $535,424 for the years ended September 30, 2019 and 2018, respectively. Bad debt expense for estimated uncollectible accounts was recorded as a reduction of Operating revenues in the Statements of Revenues, Expenses, and Changes in Net Position.

The Authority acts as billing agent, on behalf of the State and other local governments which are included in Customer Accounts Receivable but not reflected in the Statements of Revenues, Expenses, and Changes in Net Position. All receivables are anticipated to be collected within an operating cycle and are reported as current assets.

**Unbilled Customer Receivables**

Unbilled customer receivables represent base electric service provided to customers but not billed until after the end of the fiscal year based upon the billing cycles established by the Authority.

**Inventory**

Inventory consists of materials and supplies associated with construction and maintenance of the Authority's electric system and is stated at weighted average cost.

**Other Current Assets**

Other current assets consist primarily of prepaid expenses and other accounts receivable. The Authority has one potential receivable that is not reflected in assets for the years ended September 30, 2019 and 2018, respectively.

The Authority incurred $1.8 million in costs related to Hurricane Irma which occurred in September 2017. Certain approved costs are 75% eligible for public assistance from the Federal Emergency Management Agency (FEMA) and 12.5% eligible for public assistance from the State of Florida. FEMA and the Authority are in the process of determining the approved claim amount and filing the appropriate documentation for Hurricane Irma. As a result, a receivable related to this claim has not been recorded at this time.

**Deferred Outflows of Resources**
A *deferred outflow of resources* is a consumption of net assets by the government that is applicable to a future reporting period. The following accounts are reflected as a deferred outflow of resources on the Statement of Net Position:

- Deferred amount pension related - Certain costs associated with pension plans for governments, municipalities, body politics, etc. are reported as deferred outflows pursuant to GASB Statement No. 68.
- Deferred amount other postemployment benefit related - Certain costs associated with medical, dental, and vision plans for governments, municipalities, body politics, etc. are reported as deferred outflows pursuant to GASB Statement No. 75.

**Capital Assets**
Property, plant and equipment are stated at cost when purchased or constructed. Depreciation is provided using the straight-line method. The estimated useful lives of the various classes of depreciable property, plant and equipment are as follows:

| | |
|---|---|
| Production | 28 years |
| Transmission | 32 to 50 years |
| Distribution | 25 to 37 years |
| General | 8 to 39 years |

The cost of maintenance and repairs, including renewal of minor items of property less than $5,000, is charged to operating expense as incurred. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of units replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

**Capital Contributions**
The Authority receives funds from developers for electric line extensions. These funds are recorded as reductions to gross plant. Unspent developer contributions are reported as Advances for Construction.

**Cost of Power Adjustment**
Cost of power adjustment represents the Authority's cost of power revenues collected, but for which costs have not been incurred or costs that have been incurred, but for which cost of power revenues have not been collected.

**Unamortized Gains or Losses of Refunded Debt**
Unamortized gains or losses on refunded debt are amortized to income (expense) over the life of the new debt consistent with the methods used for setting rates. Unamortized gains and losses on bond refunding have been netted for financial statement purposes, and are reflected as a deferred outflow of resources on the Statement of Net Position.

**Compensated Absences**
The Authority accrues a liability for employees' rights to receive compensation for future absences when certain conditions are met. The Authority has not normally, nor is it legally required to, accumulate expendable available financial resources to liquidate this obligation. Accordingly, the liability for compensated absences is included in Other Long-Term Liabilities in the accompanying Statements of Net Position.

**Net Position**

Equity is classified as net position and displayed in three components:

■ Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any long-term debt that is attributable to the acquisition, construction, or improvement of those capital assets.

■ Restricted – Consists of net position with constraints placed on its use by revenue bond resolution or other external agreement.

■ Unrestricted – All other net position that does not meet the definition of "restricted" or "investment in capital assets, net of related debt".

**Operating Revenues and Expenses**

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. The principal operating revenue of the Authority is charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The Authority accrues base revenue for services rendered but unbilled to provide a closer matching of revenues and expenses.

**Deferred Inflows of Resources**

A *deferred inflow of resources* is an acquisition of net assets by the government that is applicable to a future reporting period. The following accounts are reflected as a deferred inflow of resources on the Statement of Net Position:

■ Regulatory Credits:

- Rate Stabilization Accounts - A retail Rate Stabilization account (regulatory credit) was created by the Authority bond resolution which allows current income to be deferred to a future time in order to stabilize rates. This gives the Authority the ability to defer revenues in years when excess revenues (over minimum bond requirements) exist to build up the Rate Stabilization account. The deferred revenues would be recognized in future years. This fund is classified as restricted (See Note 4). Further, the Board of Directors has directed staff to implement a strategy to maintain the Authority's rates in the lower 33% of all utilities in the State of Florida. That strategy will include the utilization of rate stabilization funds to lower the fuel and purchase power costs billed to the customers.

  A bulk system Rate Stabilization account (regulatory credit) was created which allows current Cost of Power Revenue to be utilized at a future time in order to stabilize rates related to fuel and purchase power pursuant to an agreement with the wholesale power provider. This fund is classified as restricted (See Note 4).

- Self-Insurance (regulatory credit) - The Authority has established a Self-Insurance reserve as part of its Risk Management (See Note 11).

- Deferred amount pension related - Certain amounts received associated with pension plans for governments, municipalities, body politics, etc. are reported as deferred inflows of resources pursuant to GASB Statement No. 68.

- Deferred amount other postemployment benefits related - Certain amounts received associated with medical, dental, and vision plans for governments, municipalities, body politics, etc. are reported as deferred inflows of resources pursuant to GASB Statement No. 75.

**Regulatory Assets – Net Costs Recoverable in Future Years**
Future pension costs related to GASB Statement No. 68 implementation have been deferred in accordance with GASB Statement No. 62 and will be recognized in future years as the plan is funded based on actuarial requirements. Other postemployment benefits cost related: Future costs related to GASB Statement No. 75 implementation have been deferred in accordance with GASB Statement No. 62 and will be recognized in future years as the plan is funded based on actuarial requirements.

**Payments to and from the City of Kissimmee**
The Authority is required to pay to the COK 11.06 mills/kWh of retail sales. This payment is treated as an operating expense in the Statements of Revenues, Expenses, and Changes in Net Position. The total amount transferred to the COK was approximately $17,921,997 and $17,248,273 for the years ended September 30, 2019 and 2018, respectively. The amount owed to the COK was approximately $1,961,600 and $1,950,800 for the years ended September 30, 2019 and 2018, respectively.

The Authority performs certain customer related services for the COK for which the COK paid the Authority approximately $356,300 and $335,000 for the years ended September 30, 2019 and 2018, respectively. The amount owed by the COK to the Authority was approximately $29,820 and $28,000 at September 30, 2019 and 2018, respectively.

**Implementation of GASB Statement No. 83**
During the fiscal year ended September 30, 2019, GASB Statement No. 83, *Certain Asset Retirement Obligations* became effective. This Statement establishes criteria for determining the timing and pattern of the recognition of a liability and a corresponding deferred outflow of resources for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The Authority performed a review of its other plant operations and the FMPA TARP Agreement and determined that the AROs items were extremely minor and not recorded accordingly.

**Note 2 - <u>Cash, Cash Equivalents, Investments, and Interest Receivable</u>**

**Enterprise Fund**
Florida Statutes, the Authority Charter and the Authority Investment Policy authorize the investment of excess funds in time deposits or savings accounts of financial institutions approved by the State Treasurer, obligations of United States Government agencies, certain instruments guaranteed by the U.S. Government agencies, certain instruments guaranteed by the U.S. Government, the State Board of Administration (SBA) Pool, bankers' acceptances, and commercial paper. Revenue Bond Covenants also restrict the type and maturities of investments in the required trust funds (see Note 9).

Investments must be in the Authority's name and represented by bank safekeeping receipts which enumerate the various securities held. ARP Working Capital deposit, and Rate Stabilization – Bulk System. These funds are held by the Florida Municipal Power Agency (FMPA) and are contractually obligated to be paid on behalf of the Authority.

The Statutes also require depositories of public funds to provide collateral each month at least equal to 50 percent of the average daily balance of all public deposits in excess of deposit insurance. Any loss not covered by the pledged securities and deposit insurance would be assessed by the State Treasurer and paid by other qualified public depositories.

The components of the Authority's total cash, cash equivalents, and investments at their respective carrying amounts as shown in the accompanying Statements of Net Position at September 30, 2019 and 2018 are as follows:

| | 2019 | 2018 |
|---|---|---|
| Current: | | |
| Cash and Cash Equivalents | $ 33,262,300 | $ 11,450,595 |
| Investments | 23,764,730 | 49,068,348 |
| Total Current | 57,027,030 | 60,518,943 |
| Restricted: | | |
| Cash and Cash Equivalents | 47,420,415 | 53,615,593 |
| Investments | 21,726,640 | 18,773,903 |
| Total Restricted | 69,147,055 | 72,389,496 |
| Total: | | |
| Cash and Cash Equivalents | 80,682,715 | 65,066,188 |
| Investments | 45,491,370 | 67,842,251 |
| **Total** | $ 126,174,085 | $ 132,908,439 |

The Authority's total cash, cash equivalents, and investments as of September 30, 2019 and 2018 are summarized as follows:

| | 2019 | 2018 |
|---|---|---|
| Investments | $ 45,491,582 | $ 67,842,251 |
| Florida State Board of Administration | 66,502,113 | 56,387,925 |
| Cash and Investments Held at FMPA | 5,125,672 | 4,772,063 |
| Bank Carrying Value | 9,021,088 | 3,896,776 |
| Petty Cash | 33,630 | 9,424 |
| **Total** | $ 126,174,085 | $ 132,908,439 |

Investments are recorded at fair value. The effect of adjusting the investments to market value at September 30, 2019 and 2018 was a change to the investments carrying value of $842,320 and ($595,811), respectively.

The balance in the SBA was $66,502,113 and $56,387,925 at September 30, 2019 and 2018, respectively. All investments are delivered to the SBA's custody bank and held for the SBA's account according to their instructions. The Authority's SBA funds are invested in the SBA's Local Government Surplus Funds Investment Pool Trust Fund.

At September 30, 2019 and 2018, the carrying value of the Authority's deposits with financial institutions was $9,021,088 and $3,896,776, respectively, and the bank balance was $8,112,566 and $1,547,082, respectively. All bank balances are fully insured in accordance with Florida Statute 280, which established the multiple financial institution collateral pool.

**Deposit and Investment Risk Disclosures**

When practical, the Authority will attempt to match its investments with anticipated cash flow requirements. Maturity lengths may be adjusted based on the opportunities presented by the then current yield curve. Investment in securities in which the maturity dates result in a duration that exceeds the maximum duration allowed for the security class is not permitted. The Authority's investment policy limits duration and percent of portfolio limitations (based on par values) by investment class for 2019 and 2018 are as follows:

| Investment Class – 2019 | Duration | Portfolio % |
|---|---|---|
| U.S. Government Securities | 8.25 Years | 100% |
| U.S. Federal Agencies | 8.25 Years | 25% |
| U.S. Federal Instrumentalities | 4.75 Years | 90% |
| Corporate Bonds | 4.75 Years | 15% |
| State and Local Government Taxable and Tax-Exempt Debt | 3.00 Years | 15% |
| Mortgage-Backed Securities (MBS) | 2.50 Years | 15% |
| Certificate of Deposit | 365 Days | 15% |
| Commercial Paper | 270 Days | 15% |
| Bankers' Acceptance | 180 Days | 15% |
| Fixed Income Treasury Mutual Funds | Daily Liquidity | 100% |
| Fixed Income Mutual Funds | Daily Liquidity | 10% |
| Florida Local Government Surplus Trust Fund (SBA) | Daily Liquidity | 60% |

| Investment Class – 2018 | Duration | Portfolio % |
|---|---|---|
| U.S. Government Securities | 8.25 Years | 100% |
| U.S. Federal Agencies | 8.25 Years | 25% |
| U.S. Federal Instrumentalities | 4.75 Years | 90% |
| Corporate Bonds | 4.75 Years | 15% |
| State and Local Government Taxable and Tax-Exempt Debt | 3.00 Years | 15% |
| Mortgage-Backed Securities (MBS) | 2.50 Years | 15% |
| Certificate of Deposit | 365 Days | 15% |
| Commercial Paper | 270 Days | 15% |
| Bankers' Acceptance | 180 Days | 15% |
| Fixed Income Treasury Mutual Funds | Daily Liquidity | 100% |
| Fixed Income Mutual Funds | Daily Liquidity | 10% |
| Florida Local Government Surplus Trust Fund (SBA) | Daily Liquidity | 60% |

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the market value of an investment in debt securities. Generally, the longer the time to maturity or duration, the greater the exposure to interest rate risk. The Authority's investment policy restricts investments by duration in an effort to limit its exposure to market value losses arising from rising interest rates. These investment restrictions have been detailed above. As of September 30, 2019, the portfolio had duration of .167 and a weighted average life of 0.19. As of September 30, 2018, the portfolio had duration of .844 and a weighted average life of .930.

Duration is a measure of fixed income's cash flows using present values, weighted for cash flows as a percentage of the investments full price. Analytical software commonly includes duration functions. Macaulay Duration (named after its developer) is the basic calculation developed for portfolio of bonds assembled to fund a fixed liability. Modified Duration, based on Macaulay Duration, estimates the sensitivity of a bond's price to interest rate changes. Effective Duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investment as callable bonds, prepayments, and variable-rate debt. Since the Authority assumes that callable bonds will be called due to the falling interest rate environment, Effective Duration will be used.

As of September 30, 2019 and 2018, the Authority had the following investments in its portfolio:

| | 2019 | | 2018 | | |
|---|---|---|---|---|---|
| **Investment** | **Fair Value** | **Effective Duration** | **Fair Value** | **Effective Duration** | |
| Federal Instrumentalities - Coupon | $ 4,980,461 | 0.525 | $ 14,612,512 | 1.211 | 1 |
| Federal Instrumentalities - Discount | 25,164,925 | 0.103 | 2,948,130 | 0.689 | |
| Corporate Bonds | 5,846,429 | 0.631 | 11,834,174 | 0.572 | |
| Municipal Bonds | 1,542,162 | 2.912 | 1,479,765 | 3.772 | |
| U.S. Government Securities | 7,957,393 | 0.849 | 36,984,770 | 2.006 | |
| | 45,491,370 | | 67,859,351 | | |
| Florida Local Government Trust Fund (SBA) - FMPA Custody | 1,390,609 | 0.233 | 1,037,000 | 0.197 | |
| Florida Local Government Trust Fund (SBA) | 66,502,113 | 0.233 | 56,387,925 | 0.197 | |
| | $ 113,384,092 | | $ 125,284,276 | | |
| Investments Total | 45,491,370 | | 68,896,351 | | |
| Cash and Cash Equivalents (SBA) | 67,892,722 | | 56,387,925 | | |
| | $ 113,384,092 | | $ 125,284,276 | | |

*1. Weighted Average Maturity Presented for Fixed Income Mutual Funds.*

### Credit Risk

Credit risk is the risk that a debt issuer will not fulfill its obligations. The Authority's policy is to limit its investments in commercial paper and corporate bonds by rating to mitigate this risk. At purchase, commercial paper must have a minimum rating of A1 by Standard & Poor's, F1 by Fitch and P1 by Moody's. A minimum of two of the rating agencies must rate the commercial paper. As a practical matter, the Authority only invests in commercial paper rated as A1+/P1. Corporate bonds are limited at purchase to ratings of AA by Standard & Poor's, AA by Fitch, and Aa by Moody's. Additionally, the investment policy limits Fixed Income Mutual Funds ratings as AAA by Standard & Poor's, AAA by Fitch, and Aaa by Moody's. As of September 30, 2019, fixed income mutual funds held by the Authority were rated AAA-mf/AAAm. Federal instrumentalities held by the Authority were rated AA+ and Aaa by S&P and Moody's respectively. Corporate bonds held by the Authority consists of bonds rated from AA+/Aa1 to AAA/AAA by S&P and Moody's respectively.

### Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2019, the Authority did not have any material investments held by our counterparty which were in a name other than the Authority.

### Cash and Investments Held by FMPA

The ARP Working Capital and the Rate Stabilization – Bulk System investments were held as cash deposits and cash equivalents. As of September 30, 2019 and 2018, FMPA held the following investments in its portfolio:

| Investment | 2019 Fair Value | 2019 Effective Duration | 2018 Fair Value | 2018 Effective Duration |
|---|---|---|---|---|
| ARP Working Capital | $ 3,735,063 | 0.233 | $ 3,735,063 | 0.197 |
| Rate Stabilization - Bulk System (SBA) | 1,390,609 | 0.233 | 1,037,000 | 0.197 |
| | $ 5,125,672 | | $ 4,772,063 | |

### Credit Risk

Investments represented by the Rate Stabilization Fund – Bulk System were composed of AAAm/AAA-mf rated mutual funds.

The Authority had the following recurring fair value measurements as of September 30, 2019 and 2018:

**Fair Value Heirarchy September 30, 2019**

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | 9/30/2019 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Investments by Fair Value Level** | | | | |
| Corporate Bonds | $ 5,846,429 | $ - | $ 5,846,429 | $ - |
| Federal Agency Securities | 19,937,606 | - | 19,937,606 | - |
| Treasury Securities | 18,165,173 | 18,165,173 | - | - |
| Municipal Bonds | 1,542,162 | - | 1,542,162 | - |
| **Total Investments by Fair Value Level** | 45,491,370 | $ 18,165,173 | $ 27,326,197 | $ - |
| **Investments Exempt from Fair Value Hierarchy Disclosures** | | | | |
| Florida Prime (Florida State Board of Administration - SBA) - FMPA Custody | 1,390,609 | | | |
| Florida Prime (Florida State Board of Administration - SBA) | 66,502,113 | | | |
| **Total Investments Exempt from Fair Value Hierarchy Disclosures** | 67,892,722 | | | |
| **Total Investments Measured at Fair Value** | $ 113,384,092 | | | |
| Investments Total | 45,491,370 | | | |
| Cash and Cash Equivalents (SBA) | 67,892,722 | | | |
| | $ 113,384,092 | | | |

| Fair Value Heirarchy September 30, 2018 | | | | |
|---|---|---|---|---|
| | | Fair Value Measurements Using | | |
| | 9/30/2018 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Investments by Fair Value Level** | | | | |
| Corporate Bonds | $ 11,834,174 | $ - | $ 11,834,174 | $ - |
| Federal Agency Securities | 17,560,672 | - | 17,560,672 | - |
| Treasury Securities | 36,984,770 | 36,984,770 | - | - |
| Municipal Bonds | 1,479,765 | - | 1,479,765 | - |
| **Total Investments by Fair Value Level** | 67,859,381 | $ 36,984,770 | $ 30,874,611 | $ - |
| **Investments Exempt from Fair Value Hierarchy Disclosures** | | | | |
| Florida Prime (Florida State Board of Administration - SBA) - FMPA Custody | 1,037,000 | | | |
| Florida Prime (Florida State Board of Administration - SBA) | 56,387,925 | | | |
| **Total Investments Exempt from Fair Value Hierarchy Disclosures** | 57,424,925 | | | |
| **Total InVestments Measured at Fair Value** | $ 125,284,306 | | | |
| Investments Total | 68,896,351 | | | |
| Cash and Cash Equivalents (SBA) | 56,387,925 | | | |
| | $ 125,284,276 | | | |

The Authority categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are unadjusted quoted prices in an active market for identical assets or liabilities that the reporting entity has the ability to access at the measurement date; Level 2 inputs are inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly on the measurement date; Level 3 inputs are unobservable inputs for the asset or liability used to measure fair value that rely on the reporting entity's reasonably available information concerning the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk.

## Pension Trust Fund

### Valuation of Investments

Investments in common stocks and bonds traded on a national securities exchange are valued at the last reported sales price on the last business day of the year; securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the mean between the last reported bid and asked prices; investments in securities not having an established market value are valued at market value as determined by the Board of Trustees. The market value of an investment is the amount that the Kissimmee Utility Authority Employees' Retirement Plan (Plan) could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller, other than in a forced or liquidation sale. Purchases and sales of investments are recorded on a trade date basis.

Investment income is recognized on the accrual basis as earned. Unrealized appreciation in fair value of investments includes the difference between cost and fair value of investments held. The net realized and unrealized investment appreciation or depreciation for the year is reflected in the Statements of Changes in Net Position.

### Investments

Investments that are not evidenced by securities that exist in physical or book-entry form include investments in open-ended mutual or pooled investment funds.

The Plan's investments are uninsured and unregistered and are held in a custodial account in the Plan's name. The Plan has no instrument that, in whole or part, is accounted for as a derivative instrument under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* during the current Plan year.

The Plan held the following fixed investments as of September 30, 2019 and 2018:

| Investment Type | Percent of Total Fund | Fair Value 9/30/2019 | Overall Credit Rating (S&P and Moody's) | Average Effective Duration (Years) |
|---|---|---|---|---|
| Integrity Bond Fund | 14.91% | $ 14,646,789 | AA | 3.60 |
| Vanguard TIPS (VAIPX) | 0.12% | 118,251 | AAA | 7.80 |
| PIMCO Diversified Income Fund | 2.34% | 2,295,405 | BB | 5.00 |
| | | 2,413,656 | | |
| **Total** | | $ 17,060,445 | | |

| Investment Type | Percent of Total Fund | Fair Value 9/30/2018 | Overall Credit Rating (S&P and Moody's) | Average Effective Duration (Years) |
|---|---|---|---|---|
| Integrity Bond Fund | 12.39% | $ 11,946,216 | AA | 4.50 |
| Vanguard TIPS (VAIPX) | 0.99% | 953,239 | AAA | 7.43 |
| PIMCO Diversified Income Fund | 2.17% | 2,095,055 | BBB+ | 4.98 |
| | | 3,048,294 | | |
| **Total** | | $ 14,994,510 | | |

### Credit Risk

Fixed income investments shall have a weighted average minimum rating of "A" or equivalent as rated by a major credit rating service and the value of bonds issued by any single corporation shall not exceed 5% of the total fund. Fixed income investments with a minimum rating below "A" as reported by a major credit rating service shall be limited to 10% of the market value of the total Plan assets. No more than 3% of the Plan's assets, at the time of purchase shall be invested in any one issuing company with a debt rated less than "A" by a major rating service.

### Interest Rate Risk and Duration

Through its investment policies, the Plan manages its exposure to market value losses arising from increasing interest rates. In this regard, the Plan adopted the Merrill Lynch Government Corporate Bond Index (MLGC) benchmark. The Plan further limited the effective duration of its fixed investment portfolio to between 50% and 150% of the duration of the MLGC duration.

**Custodial Credit Risk**

The Plan requires all securities to be held by a third party custodian in the name of the Plan. Securities transactions between a broker-dealer and the custodian involving the purchase or sale of securities must be made on a delivery vs. payment basis to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. The investments in mutual funds are considered unclassified pursuant to the custodial risk categories of GASB Statement No. 3, because they are not evidenced by securities that exist in physical or book entry form.

The Plan's investments at fair value as of September 30, 2019 and 2018, are summarized as follows:

| Investments | 2019 Fair Value | 2018 Fair Value |
|---|---|---|
| Fixed Income Securities | $ 14,646,790 | $ 12,463,430 |
| Domestic Stocks | 37,469,196 | 47,358,574 |
| Fixed Income Mutual Funds | 2,413,655 | 3,048,294 |
| Pooled Equity Funds – International | 15,494,113 | 17,388,453 |
| Pooled Equity Funds – Domestic | 9,841,599 | - |
| Foreign Equity | 6,326,248 | 4,156,762 |
| Real Estate Fund | 10,068,622 | 9,443,156 |
| Temporary Investment Funds | 1,959,143 | 2,560,274 |
| **Total** | $ 98,219,366 | $ 96,418,943 |

The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plan had the following recurring fair value measurements as of September 30, 2019 and 2018:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | 9/30/2019 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Investments by Fair Value Level** | | | | |
| Cash and Cash Equivalents: | | | | |
| Regions Trust Cash Sweep | $ 1,959,143 | $ - | $ 1,959,143 | $ - |
| Total Cash and Cash Equivalents | 1,959,143 | - | 1,959,143 | - |
| Debt Securities: | | | | |
| U.S. Treasury Securities | 4,710,638 | 4,710,638 | - | - |
| Mortgage-Backed Securities | 3,628,954 | - | 3,628,954 | - |
| Collateralized Mortgage Obligations | 117,296 | - | 117,296 | - |
| Asset-Backed Securities | 1,416,905 | - | 1,416,905 | - |
| Corporate Bonds | 4,772,997 | - | 4,772,997 | - |
| Total Debt Securities | 14,646,790 | 4,710,638 | 9,936,152 | - |
| Equity Securities: | | | | |
| Common Stock | 47,310,795 | 47,310,795 | - | - |
| Foreign Stock | 6,326,247 | 6,326,247 | - | - |
| Total Equity Securities | 53,637,042 | 53,637,042 | - | - |
| Mutual Funds: | | | | |
| Fixed Income | 2,413,656 | - | 2,413,656 | - |
| Equity | 15,494,113 | - | 15,494,113 | - |
| Real Estate Funds | 10,068,622 | - | - | 10,068,622 |
| Total Mutual Funds | 27,976,391 | - | 17,907,769 | 10,068,622 |
| **Total Investments by Fair Value Level/ Measured at Fair Value** | $ 98,219,366 | $ 58,347,680 | $ 29,803,064 | $ 10,068,622 |

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | **9/30/2018** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **Investments by Fair Value Level** | | | | |
| Cash and Cash Equivalents: | | | | |
| Regions Trust Cash Sweep | $ 2,560,273 | $ - | $ 2,560,273 | $ - |
| Total Cash and Cash Equivalents | 2,560,273 | - | 2,560,273 | - |
| Debt Securities: | | | | |
| U.S. Treasury Securities | 1,820,352 | 1,820,352 | - | - |
| Mortgage-Backed Securities | 3,222,708 | - | 3,222,708 | - |
| Collateralized Mortgage Obligations | 142,005 | - | 142,005 | - |
| Asset-Backed Securities | 888,544 | - | 888,544 | - |
| Municipal Obligations | 297,894 | - | 297,894 | - |
| Corporate Bonds | 5,574,713 | - | 5,574,713 | - |
| Total Debt Securities | 11,946,216 | 1,820,352 | 10,125,864 | - |
| Equity Securities: | | | | |
| Common Stock | 47,875,789 | 47,875,789 | - | - |
| Foreign Stock | 4,156,762 | 4,156,762 | - | - |
| Total Equity Securities | 52,032,551 | 52,032,551 | - | - |
| Mutual Funds: | | | | |
| Fixed Income | 3,048,294 | - | 3,048,294 | - |
| Equity | 17,388,453 | - | 17,388,453 | - |
| Real Estate Funds | 9,443,156 | - | - | 9,443,156 |
| Total Mutual Funds | 29,879,903 | - | 20,436,747 | 9,443,156 |
| **Total Investments by Fair Value Level/ Measured at Fair Value** | $ 96,418,943 | $ 53,852,903 | $ 33,122,884 | $ 9,443,156 |

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using a multi-factor model. The models generate an Evaluated Adjustment Factor which adjusts securities for post-closing market movements. Mortgage-backed and collateralized mortgage obligations classified in Level 2 are valued using discounted cash flow techniques. A matrix based on coverage ratios and interest shortfalls is used to establish a benchmark level for determining tranche evaluations.

Real Estate Funds reported under Level 3, Significant Unobservable Inputs, are reported at fair market value. PRIME is a core, fully-specified, open-ended commingled real estate investment fund diversified by property type and location designed to provide a stable, income-driven rate of return over the long-term with potential for growth of income and appreciation. PRIME has a rigorous appraisal process. Every asset is independently appraised quarterly. Third-party appraisal firms are engaged by PRIME's independently controlled Board of Directors. Real estate valuations are inherently uncertain given the uniqueness of real property, the need to project rental income with such projections being inherently unreliable, and the absence of frequent trading. The Fund makes no assurances regarding the price at which an asset may be sold and cautions investor that sales may occur at prices materially lower or higher than the latest appraised value for such asset. The fair value has been determined using the NAV per share of the Plan's ownership interest. Increases or decreases in the NAV arise from PRIME's marking of its debt to market in accordance with *Accounting Standards Codification* 825-10-25.

**Note 3 - Current Cash and Investments**

Certain internal designations of current cash, investments, and interest receivable are made in the financial records during the fiscal year to identify a portion of cash, cash equivalents, investments and interest receivable intended to be used for specific purposes in a future period. Current cash and cash equivalents, investments and interest receivable at September 30, 2019 and 2018, included the following internal designations:

| | 2019 | 2018 |
|---|---|---|
| **Current Assets** | | |
| Undesignated | $ 4,959,710 | $ 2,640,854 |
| Designated | 52,115,061 | 57,026,266 |
| **Total** | $ 57,074,771 | $ 59,667,120 |

**Note 4 - Restricted Assets**

Restrictions are made in accordance with bond resolutions, contracts, and developers, the Florida Municipal Power Agency (FMPA), agreements with customers, and in accordance with Nuclear Regulatory Commission (NRC) rules and regulations. Restricted assets, which consist of cash, cash equivalents, investments, and interest receivable at September 30, 2019 and 2018, included the following:

| | 2019 | 2018 |
|---|---|---|
| **Restricted Assets** | | |
| Debt Service Reserve | $ - | $ 777,650 |
| Sinking Fund | 10,124,849 | 19,298,125 |
| Restricted Reserve Fund | - | 4,189,336 |
| Renewal, Replacement, and Improvement | - | 1,500,000 |
| Advances for Construction | 1,574,227 | 2,054,128 |
| Customer Deposits | 16,631,297 | 15,185,010 |
| ARP Working Capital | 3,735,063 | 3,735,063 |
| Rate Stabilization – Retail | 35,771,371 | 24,689,271 |
| Rate Stabilization – Bulk System | 1,390,821 | 1,037,068 |
| **Total** | $ 69,227,628 | $ 72,465,651 |

Shown in the accompanying Statements of Net Position as:

| | 2019 | 2018 |
|---|---|---|
| Cash and Cash Equivalents | $ 47,420,415 | $ 53,615,593 |
| Investments | 21,726,640 | 18,773,903 |
| Interest Receivable | 80,573 | 76,155 |
| **Total** | $ 69,227,628 | $ 72,465,651 |

**Note 5 - Capital Assets**

Utility plant activity for the years ended September 30, 2019 and 2018 was as follows:

| | 9/30/2018 Balance | Additions | Deletions and Reclassifications | 9/30/2019 Balance |
|---|---|---|---|---|
| **Utility Plant** | | | | |
| Land | $ 18,078,439 | $ - | $ - | $ 18,078,439 |
| Trasmission Plant | 45,844,097 | 202,881 | (430,753) | 45,616,225 |
| Distribution Plant | 177,368,994 | 27,320,913 | 1,732,402 | 206,422,309 |
| General | 46,544,058 | 2,174,380 | (12,964) | 48,705,474 |
| **Subtotal** | 287,835,588 | 29,698,174 | 1,288,685 | 318,822,447 |
| **Less Accumulated Depreciation** | | | | |
| Transmission Plant | (24,892,723) | (1,163,188) | - | (26,055,911) |
| Distribution Plant | (40,181,486) | (5,647,746) | 1,284,747 | (44,544,485) |
| General | (23,779,672) | (1,530,400) | 21,160 | (25,288,912) |
| **Subtotal** | (88,853,881) | (8,341,334) | 1,305,907 | (95,889,308) |
| CWIP | 11,259,742 | 31,309,652 | (33,484,440) | 9,084,954 |
| **Total Capital Assts - Utility Plant** | $ 210,241,449 | $ 52,666,492 | $ (30,889,848) | $ 232,018,093 |

| | 9/30/2017 Balance | Additions | Deletions and Reclassifications | 9/30/2018 Balance |
|---|---|---|---|---|
| **Utility Plant** | | | | |
| Land | $ 18,078,439 | $ - | $ - | $ 18,078,439 |
| Transmission Plant | 44,958,398 | 1,116,242 | (230,543) | 45,844,097 |
| Distribution Plant | 164,591,649 | 13,000,599 | (223,254) | 177,368,994 |
| General | 45,502,084 | 1,822,068 | (780,094) | 46,544,058 |
| **Subtotal** | 273,130,570 | 15,938,909 | (1,233,891) | 287,835,588 |
| **Less Accumulated Depreciation** | | | | |
| Transmission Plant | (23,936,025) | (1,187,242) | 230,544 | (24,892,723) |
| Distribution Plant | (36,107,781) | (5,138,886) | 1,065,181 | (40,181,486) |
| General | (23,088,019) | (1,471,747) | 780,094 | (23,779,672) |
| **Subtotal** | (83,131,825) | (7,797,875) | 2,075,819 | (88,853,881) |
| CWIP | 3,236,491 | 28,863,855 | (20,840,604) | 11,259,742 |
| **Total Capital Assts - Utility Plant** | $ 193,235,236 | $ 37,004,889 | $ (19,998,676) | $ 210,241,449 |

Depreciation expense for Utility Plant totaled approximately $8,341,000 and $7,797,000 for years ended September 30, 2019 and 2018, respectively.

The capital contribution of plant costs was approximately $3,031,000 and $3,953,000 for years ended September 30, 2019 and 2018, respectively. These funds are recorded as reductions to gross plant.

## Note 6 - Construction Project Interest Cost

The Authority capitalizes interest on construction projects financed with revenue bonds. The amount capitalized is the interest cost of the debt less any interest earned on investment of debt proceeds until the assets are placed in service. Total interest expense was approximately $701,000 and $1,538,000, which is net of capitalized interest expense of approximately $0 and $0, for fiscal years 2019 and 2018, respectively.

## Note 7 - Net Investment in Capital Lease

The Authority negotiated with FMPA All-Requirements Power Supply Project (ARP) the Revised, Amended, and Restated Capacity and Energy Sales Contract (TARP Contract) effective October 1, 2008, under which FMPA-ARP will pay the Authority a fixed capacity credit that will not vary for the Authority owned generating assets over various periods of time that are tied to the useful life of such the Authority assets. The total amount of fixed capacity credits that will be paid to the Authority from FY 2009 through FY 2028 will be approximately $342 million. In return for this fixed rate of return, not tied to market variations, the Authority ceded to FMPA operational control of these assets and waived its right to exercise its contract rate of delivery associated with the Authority's Cane Island Units 1, 2, and 3, Stanton Energy Center Units 1 and A, and Indian River Units A and B. The Authority also passed responsibility for the operation, maintenance, and capital costs of these generation assets to FMPA, see Note 8. The Authority retained its proportionate share of risk and liability for these generation assets. The Authority also retained responsibility for its ownership share of Cane Island land and common transmission facilities and a proportionate share of decommissioning costs or benefits of the generation assets.

The agreement was amended on July 1, 2019, to provide additional payments with a present value of $10.7 million. Under the revised and amended contract, the Authority receives agreed upon fixed payments over preset periods.

The following lists the components of the net investment in capital lease as of September 30:

| | 2019 | 2018 |
|---|---|---|
| Total Minimum Lease Payments to be Received | $ 139,734,798 | $ 145,361,343 |
| Less: Unearned Lease Revenue | (88,996,138) | (86,996,723) |
| **Net Investment in Capital Lease** | $ 50,738,660 | $ 58,364,620 |
| Shown in the Accompanying Statements of Net Position as: | | |
| Current Assets – Current Portion | $ 7,625,961 | $ 7,625,961 |
| Other Assets – Long-Term Portion | 43,112,699 | 50,738,659 |
| **Total** | $ 50,738,660 | $ 58,364,620 |

| Fiscal Year | Minimum Lease Payments to be Received | Unearned Lease Revenue |
|---|---|---|
| 2020 | $ 18,993,011 | $ 11,367,050 |
| 2021 | 17,254,751 | 11,170,234 |
| 2022 | 17,303,526 | 11,219,009 |
| 2023 | 17,353,764 | 11,269,247 |
| 2024 | 17,405,509 | 11,320,992 |
| 2025-2028 | 51,424,233 | 32,649,602 |
| **Total** | $ 139,734,794 | $ 88,996,134 |

## Note 8 - Power Supply Agreements

### Florida Municipal Power Agency All-Requirements Power Supply Project (ARP)

The Authority purchases power exclusively from Florida Municipal Power Agency (FMPA) through the State-wide bulk power system. The Authority has an All-Requirements Power Supply Project Contract (effective 10/1/2002) with FMPA which requires FMPA to sell and deliver to the Authority and the Authority to purchase from FMPA all electric power that the Authority requires in excess of the amount the Authority receives from its power entitlement in St. Lucie 2. The contract shall remain in effect until October 1, 2050, and is subject to automatic five-year extensions each fifth anniversary unless either party notifies the other in writing at least two years prior to such automatic extension date of its decision not to extend the contract. The Authority pays for electric power under the contract at the rates set forth in the applicable rate schedule of FMPA, which FMPA may revise from time to time. The contract provides the option for the Authority to leave the FMPA after notice and making the remaining project participants whole. This is generally understood to mean paying off its portion of the project's long-term debt.

Effective October 1, 2008, the Authority leased, as discussed in Note 7, its ownership share of the generating assets associated with the Authority's Cane Island Units 1, 2, and 3, Stanton Energy Center Units 1 and A, and Indian River Units A and B. In addition, the Authority entered into a Consolidated Operating and Joint Ownership Contract with the FMPA whereby the Authority provides operation and maintenance services for Cane Island and Gulfstream Interconnection facilities and FMPA reimburses the expenditures.

**Power Supply Entitlements**

Stanton Energy Center (SEC): The Authority is a member of FMPA's Stanton and Stanton II projects whereby the Authority has a total power entitlement of 1.8072% in SEC 1, approximately 8 MW and 7.6628% in SEC 2, approximately 33 MW. These resources are dedicated to the ARP. The participation costs are paid by the ARP.

The following is an excluded resource under the ARP agreement:

- St. Lucie Nuclear Power Plant: The Authority is a member of FMPA's St. Lucie project whereby the Authority has a total power entitlement of 0.8282%, approximately 8 MW in the St. Lucie nuclear power plant. The Authority is billed for its share of the participation costs which are included in purchased power.

**Note 9 - Long-Term Liabilities**

Long-Term Liabilities for the years ended September 30, 2019 and 2018, were as follows:

| | 9/30/2018 | Additions | Reductions | 9/30/2019 Balance | Amounts Due Within One Year | Long-Term |
|---|---|---|---|---|---|---|
| Debt: | | | | | | |
| Revenue Bonds Payable | $ 18,725,000 | $ - | $ (18,725,000) | $ - | $ - | $ - |
| Commercial Paper | 43,200,000 | - | - | 43,200,000 | 10,000,000 | 33,200,000 |
| Total Debt | $ 61,925,000 | $ - | $ (18,725,000) | $ 43,200,000 | $ 10,000,000 | $ 33,200,000 |
| Unamortized Bond Premium | $ - | $ - | $ - | $ - | | |
| Other Liabilities: | | | | | | |
| Compensated Absences | $ 4,529,629 | $ 2,576,486 | $ (2,830,335) | $ 4,275,780 | $ 2,915,245 | $ 1,360,535 |
| Total Other Liabilities | $ 4,529,629 | $ 2,576,486 | $ (2,830,335) | $ 4,275,780 | $ 2,915,245 | $ 1,360,535 |

| | 9/30/2017 | Additions | Reductions | 9/30/2018 Balance | Amounts Due Within One Year | Long-Term |
|---|---|---|---|---|---|---|
| Debt: | | | | | | |
| Revenue Bonds Payable | $ 34,580,000 | $ - | $ (15,855,000) | $ 18,725,000 | $ 18,725,000 | $ - |
| Commercial Paper | 43,200,000 | - | - | 43,200,000 | - | 43,200,000 |
| Total Debt | $ 77,780,000 | $ - | $ (15,855,000) | $ 61,925,000 | $ 18,725,000 | $ 43,200,000 |
| Unamortized Bond Premium | $ 672,216 | $ - | $ (672,216) | $ - | | |
| Other Liabilities: | | | | | | |
| Compensated Absences | $ 4,319,054 | $ 2,467,328 | $ (2,256,753) | $ 4,529,629 | $ 2,347,023 | $ 2,182,606 |
| Total Other Liabilities | $ 4,319,054 | $ 2,467,328 | $ (2,256,753) | $ 4,529,629 | $ 2,347,023 | $ 2,182,606 |

**Bond Resolutions**

The Revenue Bond resolutions provide for both Senior and Subordinate rate covenants. These covenants are established to ensure, among other things, that rates, fees and charges will be sufficient to provide revenues in each fiscal year for the funding of operations and maintenance expenses, debt service, new funds established by resolution and all other charges or liens whatsoever payable of revenues during the year.

Listed below are the pertinent elements of the resolutions. These elements relate to both the senior and the subordinate resolutions except as noted in Section 3 below. All amounts required, relating to subordinate debt, shall be subordinate to amounts required for senior debt. The Authority has met all provisions of the following bond covenants.

1. Establishment and maintenance of various funds:
   - Revenue Fund records all operating revenues and expenses of the system;
   - Sinking Fund records principal and interest requirements;
   - Bond Amortization Fund records funds held for the retirement of term bonds;
   - Reserve Fund records funds held in reserve for the maximum annual debt service requirements;
   - Renewal, Replacement & Improvement Fund is to be used only for making improvements, extensions and replacements to the system;
   - Construction Fund records the cost of major additions to the system financed by revenue bonds; and
   - Rate Stabilization - Retail Fund records funds to be used to the extent provided in the current Annual Budget or to be transferred, as appropriate, to any other fund or account under the resolutions.

2. Restrictions on the use of cash from operations in order of priority:
   - Deposits are made to the Revenue Fund to meet current operations according to the Budget;
   - Deposits to the Sinking Fund Account are required to equal one-sixth (1/6) of the interest coming due on the next semi-annual interest payment date and one-twelfth (1/12) of the principal coming due on the next principal payment date;
   - Deposits to the Bond Amortization Fund are required to equal one-twelfth (1/12) of the amortization installment coming due on the next annual payment date;
   - Deposits to the Reserve Fund are to be made when required to maintain the Fund at the Reserve Requirement (maximum annual debt service); and

- Deposits to the Renewal, Replacement and Improvement Fund are required each month in an amount equal to one-twelfth (1/12) of the adopted budget for that fund. The total annual deposit may not be less than 5% of the gross revenues for the preceding fiscal year after deducting 100% of the fuel expense and the energy component of purchased power expenses incurred in such preceding fiscal year. However, no such monthly deposit shall be required when the amount in such fund shall at least equal $1,500,000.

3. Rate Covenant:
   - The Authority will at all times establish, fix, prescribe and collect rates and charges for the services and facilities furnished by the system which, together with other income, are reasonably expected to yield annual Net Revenues in each fiscal year at least equal to 110% of the bond service requirement in the bond year which ends one day after such fiscal year.

4. Early redemption:
   - The bond resolution provides for early redemption of certain of the outstanding bonds at a call rate of 100% to 101% of the bond's face value, dependent upon the call date.

5. Investment restrictions:
   - Funds of the Sinking Fund, Bond Amortization Fund, Reserve Fund and Renewal, Replacement & Improvement Fund are required to be continuously secured in the same manner as municipal deposits of funds are required to be secured by the laws of the State of Florida; and
   - Monies on deposit in the Sinking Fund and the Bond Amortization Fund shall be invested only in direct obligations of, or obligations on which the principal and interest are guaranteed by the United States of America and which do not permit redemption prior to maturity at the option of the Authority. Monies on deposit in the Revenue Fund, Reserve Fund and Renewal, Replacement & Improvement Fund may be invested as described above as well as in the following: obligations rating an "A" or better from Moody's Investors Service, Inc., bank time deposits represented by certificates of deposit and bankers acceptances, commercial paper, which has the highest investment grade rating, and shares of investment companies, which invest principally in United States government securities.

Long-term debt outstanding at September 30, 2019 and 2018 consisted of the following serial and term bonds, and outstanding Commercial Paper Notes:

| Description | Final Maturity | Original Amount | 2019 | 2018 |
|---|---|---|---|---|
| Refunding Revenue Bonds | | | | |
| Subordinate Series 2003 | | | | |
| 5.00% - 5.25% - 4/1; 10/1 | 10/1/2018 | $ 60,700,000 | $ - | $ 18,725,000 |
| **Subtotal** | | | - | 18,725,000 |
| Commercial Paper Program | | | | |
| Series B, Variable Interest | | 35,000,000 | 35,000,000 | 35,000,000 |
| Commercial Paper Program | | | | |
| Series B, Second Installment | | | | |
| Variable Interest | | 8,200,000 | 8,200,000 | 8,200,000 |
| **Subtotal** | | | 43,200,000 | 43,200,000 |
| **Total** | | | $ 43,200,000 | $ 61,925,000 |

**Commercial Paper Notes**

The Authority authorized the issuance of the Commercial Paper Notes pursuant to Resolution No. 00-04, adopted by the Board on October 25, 2000. The Notes were issued in three series, 2000A, 2000B, and 2000B second installment for $35,000,000, $35,000,000 and $8,200,000, respectively to: (a) finance the cost of the Cane Island Project (including repayment of amounts previously borrowed to provide financing therefore); (b) Stanton Energy Center Unit A; and (c) pay the costs of issuance of the Commercial Paper Notes. The aggregate principal amount of all Commercial Paper Notes outstanding at any one time shall not exceed the lesser of $100,000,000 or the amount of the Available Commitment under the Purchase Agreement (the current Available Commitment is $43,200,000). During the year ended September 30, 2019, interest rates on the Commercial Paper ranged from 1.32% to 1.82% and averaged 1.62%.

As of September 30, 2005, $35,000,000 of the Series A was refunded. On October 13, 2005, $32,000,000 was refunded and the remaining $3,000,000 was refunded on November 16, 2005. The Series B in the amount of $43,200,000 are outstanding. $10,000,000 reflected as short-term and $33,200,000 reflected as Long-Term Liabilities on the Statements of Net Position.

The Notes are secured by the Commercial Paper Purchase Agreement between the Authority and JP Morgan Chase Bank. In the Purchase Agreement, the Bank has agreed, subject to certain conditions, to purchase Commercial Paper Notes which have not been sold by the Dealers so that monies will be available in the Commercial Paper Notes Payment Fund to pay the maturing principal of outstanding Notes. The obligation of the Bank under the Purchase Agreement provides only for payment of maturing principal of the Notes; the Authority is obligated to make provision for payment of interest on maturing Commercial Paper Notes from Subordinate Revenues.

The amount of the Bank's obligation under the Purchase Agreement is limited to $43.2 million, reduced by the amount of any outstanding Notes previously purchased by the Bank and subject to adjustment upward upon request of the Authority and consent of the Bank or downward upon unilateral request by the Authority, in either case in $1 million increments.

The duration of the Bank's obligation under the Commercial Paper Purchase Agreement is for two years, beginning on August 7, 2018, and terminating on August 6, 2020. The Authority must request such an extension at least 60 days prior to the expiration of the Purchase Agreement (unless the Bank consents to a later request), and the Bank must notify the Issuing and Paying Agent within 30 days of receipt of the request whether the Bank consents to such extension and must deliver a written acknowledgement of the extension within 15 days of its consent to the Issuing and Paying Agent. The Authority has received an offer from JP Morgan Chase Bank for a multi-period renewal. Accordingly, commercial paper is classified as long-term.

In the event that Bank Notes owned by the Bank are outstanding on the expiration date, August 6, 2020, the Bank agrees to accept amortization of the principal thereof and payment of the interest thereon as indicated. The Bank agrees that it shall continue to hold such Bank Notes for the Term Out Period, an additional period up to three years. This will occur provided that all Bank Notes shall bear interest at the Term Out Rate during the Term Out Period, payable in arrears, on the last day of each calendar month;

and provided further that the Authority shall redeem the Bank Notes, by paying to the Bank the principal amount of the Bank Notes, in six (6) equal principal amounts on a semi-annual basis, on each sixth Interest Payment Date together with accrued interest, commencing on the sixth interest payment date after the expiration date. The Term Out Rate is a Base Rate plus two percent (2.00%) calculated on the basis of a 360 day year and actual days elapsed. The Base Rate means for any day, the higher of (a) the Prime Rate plus one and one half percent (1.50%), (b) the Federal Funds Rate plus two percent (2.00%), or (c) eight and one half percent (8.50%) per annum.

**Note 10 - Commitments and Contingent Liabilities**

**Purchase Commitments**

The Authority has made certain commitments in connection with its continuing capital improvements program. The Authority estimates that capital expenditures for its ongoing business during 2020 will be approximately $54,061,000. An additional $97,318,000 of capital expenditures are estimated for years 2021 through 2024.

The Authority has purchase agreements with utilities whereby the Authority must pay capacity demand fees whether or not electricity or fuel is received from these utilities. The utilities involved and the approximate charges of the purchase agreements to be paid in Fiscal Year 2020 are as follows:

| | Date | Commitment |
|---|---|---|
| Orlando Utilities Commission (OUC) | | |
| SEC 1, Indian River, SEC A | NONE | $ 1,865,653 |
| FMPA (St. Lucie, SEC 1, SEC 2) | NONE | 5,528,515 |
| **Total** | | $ 7,394,168 |

**Claims**

The Authority is involved in litigation arising during the normal course of its business. In the opinion of management, the resolution of these matters will not have a material effect on the financial position of the Authority.

On December 20, 2018, a class action lawsuit (naming three residents of east Orange County as class representatives) was filed against OUC and several local developers alleging that the coal-burning power plants at the Stanton Energy Center have contaminated their properties and caused a local spike in rare cancers. The Authority owns a minority interest in OUC's Stanton Unit 1 and is a participant in FMPA's Stanton and All-Requirements Power Supply Projects in Stanton Units 1 and 2. On December 14, 2018, the Authority received a letter from the law firm representing the three putative class representatives, which states that the letter is "NOTICE PURSUANT TO FLORIDA STATUTE § 768.28" and that "this letter notifies you of our intent to file suit against the Authority for property contamination and related damages..." The Authority does not believe these claims have merit and will collaborate with the other owners in defending vigorously against this threat.

The Authority is subject to general liability claims throughout the year. The range of loss is such that an estimate cannot be made. These claims are well within our insurance limits. The Authority has established a Self-Insurance fund to cover any claims that exceed our insurance deductibles and/or limits, which is reflected as a deferred inflow of resources on the Statement of Net Position.

**Note 11 - Risk Management**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has established a Self-Insurance reserve to account for and finance its uninsured risks of loss for the transmission and distribution system as well as other uninsured losses. The reserve balance is $15,000,000 and $15,000,000 for the years ended September 30, 2019 and 2018, respectively. The Self-Insurance reserve is the Authority's best estimate based upon available information and is decreased by claims paid each year.

The Authority purchases commercial insurance for all other risks of loss, including general liability, excess liability, workers compensation, property insurance, employee health, life, and accident insurance. Settled claims have not exceeded the commercial coverage insurance in any of the past five fiscal years.

**Note 12 - Restricted Component of Net Position**

Restricted net position is comprised of the following at September 30, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Debt Service: | | |
| Sinking Funds | $ 10,000,000 | $ 19,298,126 |
| Other: | | |
| ARP Working Funds | 3,735,063 | 3,735,063 |
| Restricted Reserve Fund | - | 4,189,335 |
| Asset Renewal Replacement Fund | - | 1,500,000 |
| **Total Restricted Assets** | $ 13,735,063 | $ 28,722,524 |

**Note 13 - Other Postemployment Benefits**

The Authority provides medical, dental and life insurance benefits to current employees and eligible retirees and their families. These benefit provisions have been established by and may be amended by the Authority's Board of Directors. Retirees participating in the plans offered by the Authority are required to contribute 100% of the active premiums. The plan is not funded through a trust. The Authority does not contribute any funds on behalf of the retirees. Separate other postemployment benefits financial statements are not issued.

The annual other postemployment benefit (OPEB) cost is calculated based on the actuarial valuation performed as of October 1, 2018 and a Measurement Date of September 30, 2019. The following table shows the key components of the Authority's OPEB valuation for the reporting at September 30, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Total OPEB Liability as of the Measurement Date | $ 3,497,534 | $ 3,350,952 |
| OPEB Expense for the Fiscal Year Ending September 30 | 261,677 | 224,876 |
| Covered Employee Payroll | 19,618,158 | 18,582,494 |
| | | |
| The Authority's Total OPEB Liability as a Percentage of Covered Payroll | 17.83% | 18.03% |

At October 1, 2018, the Plan's participants consisted of:

| | |
|---|---|
| Covered Spouses | 6 |
| Retirees, Beneficiaries, and Disabled Members | 94 |
| Active Plan Members | 253 |
| **Total** | 353 |

The Total OPEB Liability was determined by an actuarial valuation as of October 1, 2018, using the following actuarial assumptions:

| | |
|---|---|
| Inflation Rate | 2.50% |
| Salary Increase Rate(s) | Varies by Service |
| Discount Rate | 3.58% |
| Initial Trend Rate | 8.00% |
| Ultimate Trend Rate | 4.00% |
| Years to Ultimate | 56 |

**Discount Rate**

All future benefit payments were discounted using a high-quality municipal bond rate of 3.58%. The high-quality municipal bond rate was based on the measurement date of the S&P Municipal Bond 20 Year High Grade Rate Index as published by S&P Dow Jones Indices. The S&P Municipal 20 Year High Grade Rate Index consists of bonds in the S&P Municipal Bond Index with a maturity of 20 years. Eligible bonds must be rated at least AA by Standard and Poor's Ratings Services, Aa2 by Moody's or AA by Fitch. If there are multiple ratings, the lowest rating is used.

**Changes in Total OPEB Liability**

| | Increases and (Decreases) In Total OPEB Liability |
|---|---|
| **Reporting Period Ending September 30, 2018** | $ 3,350,952 |
| Changes for the Year: | |
| Service Cost | 107,883 |
| Interest | 170,601 |
| Differences between Expected and Actual Experience | 696,531 |
| Changes of Assumptions | (678,874) |
| Changes of Benefit Terms | - |
| Contributions – Employer | - |
| Benefit Payments | (149,559) |
| Other Changes | - |
| Net Changes | 146,582 |
| **Reporting Period Ending September 30, 2019** | $ 3,497,534 |

| | Increases and (Decreases) In Total OPEB Liability |
|---|---|
| **Reporting Period Ending September 30, 2017** | $ 3,431,343 |
| Changes for the Year: | |
| Service Cost | 116,414 |
| Interest | 127,476 |
| Differences between Expected and Actual Experience | - |
| Changes of Assumptions | (232,114) |
| Changes of Benefit Terms | - |
| Contributions – Employer | - |
| Benefit Payments | (92,167) |
| Other Changes | - |
| Net Changes | (80,391) |
| **Reporting Period Ending September 30, 2018** | $ 3,350,952 |

Changes in assumptions reflect a change in the discount rate from 4.18% for the reporting period ending September 30, 2018, to 3.58% for the reporting period ending September 30, 2019.

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the Total OPEB Liability, as well as what Total OPEB Liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate for the year ended September 30, 2019:

| | 1% Decrease 2.58% | Current Discount Rate 3.58% | 1% Increase 4.58% |
|---|---|---|---|
| Total OPEB Liability (Asset) | $ 3,942,982 | $ 3,497,534 | $ 3,129,567 |

| | 1% Decrease 3.00% - 7.00% | Healthcare Cost Trend Rates 4.00% - 8.00% | 1% Increase 5.00% - 9.00% |
|---|---|---|---|
| Total OPEB Liability (Asset) | $ 3,306,605 | $ 3,497,534 | $ 3,718,180 |

The following presents the Total OPEB Liability, as well as what Total OPEB Liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate for the year ended September 30, 2018:

| | 1% Decrease 3.18% | Current Discount Rate 4.18% | 1% Increase 5.18% |
|---|---|---|---|
| Total OPEB Liability (Asset) | $ 3,800,887 | $ 3,350,952 | $ 2,977,964 |

| | 1% Decrease 3.00% - 7.50% | Healthcare Cost Trend Rates 4.00% - 8.50% | 1% Increase 5.00% - 9.50% |
|---|---|---|---|
| Total OPEB Liability (Asset) | $ 3,090,515 | $ 3,350,952 | $ 3,665,258 |

For the year ended September 30, 2019, the Authority will recognize OPEB Expense of $261,677.

On September 30, 2019, the Authority reported Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB from the following sources:

| | Deferred Outflows (Inflows) of Resources |
|---|---|
| Differences between Expected and Actual Experience | $ 609,465 |
| Changes of Assumptions | (768,101) |
| **Total** | $ (158,636) |

Amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB will be recognized in OPEB Expense as follows:

| Year Ending September 30 | |
|---|---|
| 2020 | $ (26,807) |
| 2021 | (26,807) |
| 2022 | (26,807) |
| 2023 | (26,807) |
| 2024 | (26,807) |
| Thereafter | (24,601) |
| **Total** | $ (158,636) |

**Note 14 - Pension Plan**

**Plan Description**

The Kissimmee Utility Authority Employees' Retirement Plan (the Plan) is a single employer defined benefit pension plan. The Plan provides for pension, death, and disability benefits. Participation in the Plan is required as a condition of employment for all full-time employees except for the Authority Board of Directors and the President & General Manager. The Plan is subject to the provisions of Chapter 112 of the State of Florida Statutes and the oversight of the Florida Division of Retirement. The Plan is governed by a five member pension board of trustees which consists of two members elected by the membership, two appointed by the Authority's President & General Manager, and one member is appointed by the other four members. The Plan was established by an Authority Resolution and any changes are made through the adoption of the Authority Resolution. The Authority is obligated to fund all Plan costs based upon actuarial valuations. The Authority is also authorized to establish benefit levels and the Plan's Board of Trustees approves the actuarial assumptions used in the determination of the contribution levels.

At October 1, 2018 and 2017, the Plan's participants consisted of:

| | 2019 | 2018 |
|---|---|---|
| Actives | 245 | 236 |
| Service Retirees | 171 | 157 |
| DROP Retires | 15 | 20 |
| Beneficiaries | 40 | 38 |
| Disability Retirees | 5 | 6 |
| Terminated Vested | 66 | 67 |
| **Total** | 542 | 524 |

**Pension Benefits**

Under the Plan, a participant's normal retirement date shall be as follows:

1) Tier 1 Participants: the attainment of age sixty-two (62) and the completion of ten (10) years of credited service;
2) Tier 2 Participants: the attainment of the age which when added to the years of credited service, equals eighty (80) years and the completion of ten (10) years of credited service; and
3) Tier 3 Participants: the attainment of age sixty-two (62) and the completion of ten (10) years of credited service.

Participants are entitled to annual pension benefits in accordance with the above schedule or an early retirement at age 55 with a benefit reduced by two percent for each year prior to normal retirement. A participant's normal retirement benefit shall be calculated in accordance with the following schedule:

1) Tier 1 Participants: two and six-tenths percent (2.6%) of average final compensation for each year of credited service;
2) Tier 2 Participants: two and six-tenths percent (2.6%) of average final compensation for each year of credited service; and
3) Tier 3 Participants: three percent (3.0%) of average final compensation for each year of credited service.

In addition to the formula benefit, early and normal retirees receive a supplemental benefit of $300 per month to age 65 and $25 per month thereafter.

The monthly retirement benefit shall not exceed 100 percent of the participant's average final compensation. A participant who terminates prior to five (5) continuous years of service forfeits the right to receive all benefits he/she has accumulated. However, he/she retains the right of a refund of all personal contributions made to the Plan.

Vesting in a Participant's accrued benefit based on their contributions begins at 25 percent at five (5) years of credited service and increases 15 percent per year as follows:

| Credited Service (Years) | Percent Vested |
|---|---|
| 5 | 25% |
| 6 | 40% |
| 7 | 55% |
| 8 | 70% |
| 9 | 85% |
| 10 | 100% |

**Deferred Retirement Option Plan (DROP)**
The Plan adopted a DROP benefit on November 17, 1999. Any Plan participant who is eligible to receive a normal retirement pension may elect to participate in a deferred retirement option plan (DROP) while continuing his/her active employment. Upon participation in the DROP, the participant becomes a retiree for all Plan purposes so that he/she ceases to accrue any further benefits under the Plan. Normal retirement payments that would have been payable to the participant as a result of retirement are accumulated and invested in the DROP to be distributed to the participant upon his/her termination of employment. Interest is earned by the participant's election of either: (1) 6.5% per annum, compounded monthly, or (2) actual net rate of investment return (total return net of commissions, management fees, and transaction costs) for the fiscal quarter. Accounts updated quarterly. Participation in the DROP ceases for a Plan participant after 96 months.

**Death Benefits**
For any deceased employee who had been an actively employed participant eligible for early or normal retirement, the manner of benefit payable shall be at least equal to the annuity of ten years calculated as of the date of death. The benefit payable in the event of death while in service on or prior to normal retirement date is the greater of the value of a participant's accrued benefit accrued to the date of death or the smaller of 24 times a participant's average final monthly compensation at the date of death or 100 times a participant's monthly retirement income assuming retirement occurred on the date of death.

**Disability Benefits**
A participant that has two or more years credited service and becomes totally and permanently disabled to the extent that they are unable to engage in any reasonable occupation is entitled to a disability benefit. If granted, the pension benefit will be 2.6 percent of final average compensation multiplied by years of credited service, not to exceed thirty years of credited service, but in any event, the minimum benefit shall be 25 percent of average final compensation. Disability pension will be reduced by any workers' compensation and/or social security disability benefits such that the total does not exceed 100 percent of the disability pension benefit.

**Cost of Living Increases (COLA)**
Prior to 2013, the Authority was required to the review every three years the status of all retirees who were receiving payments from the Plan for the purpose of considering an ad hoc increase in benefits. In determining the adjustment, if any, the Authority considered the actuarial soundness of the Plan as determined by the most recent actuarial valuation, the prevailing rate of inflation as reflected in the Consumer Price Index, and the recommendations of the Plan's Board of Trustees. The requirement to review the appropriateness of an ad hoc COLA every three years was removed from the authorizing resolution by the Authority in February 2013. Any future ad hoc COLA's would be based on the recommendation of the Plan's Board of Trustees and current market conditions.

**Basis of Accounting**
The accrual basis of accounting is used by the Plan. The Authority contributions to the Plan, as calculated by the Plan's Actuary, are recognized as revenue when due and the Authority has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the Plan.

**Custody of Assets**
Custodial and certain investment services are provided to the Plan under contracts with a custodian having trust powers in the State of Florida. The Plan's investment policies are governed by investment objectives of the Authority and the Florida State Statutes. The Authority has outlined the investment guidelines in a Resolution. The Plan's Board of Trustees develops and adopts a written Investment Policy Statement (IPS) setting forth the goals and objectives of investments. The IPS is intended to complement the investment guidelines provided for in state statutes and the Authority resolution. Each investment manager has an applicable addendum to the Investment Policy that further compliments the objectives and guidelines contained in the IPS. The Plan's Board of Trustees reviews the IPS on an annual basis to determine whether any changes are necessary. Compliance with the IPS parameters is reviewed on a quarterly basis.

**Authorized Plan Investments**
The obligations of the Plan are long-term and the investment policy is geared toward performance and return over a numbers of years. The general investment objective is to obtain a reasonable total rate of return defined as interest and dividend income plus realized and unrealized capital gains or losses commensurate with a prudent investor rule and Chapter 112 of the Florida Statutes.

Permissible investments include obligations of the U.S. Treasury and U.S. agencies, high capitalization common or preferred stocks, pooled equity funds, high quality bonds or notes and fixed income funds. In addition, the Plan requires assets be invested with no more than 70 percent in stocks and convertible securities measured at cost.

In addition, the Plan limits investment in common stock (equity investments) as follows:

a. No more than 5 percent at cost of an investment manager's portfolio may be invested in the common or capital stock of any single corporation.
b. The Plan's investment in the common stock of any single foreign corporation shall not exceed 25 percent of the Plan's total value.

The following was the Plan's adopted asset allocation policy as of September 30, 2019 and 2018 (same for both years):

| Asset Class | Target Allocation | Range | Benchmark Index |
|---|---|---|---|
| Domestic Equity | 50% | 45% - 55% | Russell 3000 |
| International Equity | 15% | 10% - 20% | MSCI-ACW-x U.S. |
| Broad Market Fixed Income | 20% | 15% - 35% | BA/ML Domestic Matter 1-10 Yr). "A" Rated and Above |
| Treasury Inflation Protected Securities (TIPS) * | 5% | 0% - 7% | Barclays TIPS |
| Real Estate | 5% | 0% - 15% | ODCE |
| Alternatives * | 5% | 0% - 15% | TBD |
| | 100% | | |

* Portfolio allocation and Total Fund Benchmark will default to "Broad Market Fixed Income" if these portfolios are not funded. Targets and ranges above are based on market value of total Plan Assets.

The annual money-weighted rate of return on plan investments, net of plan investment expense, was 3.82% and 10.24% for the years ended September 30, 2019 and 2018. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expenses and inflation) are developed for each major asset class. For 2019, the inflation rate assumption of the investment advisor was 2.50%. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2019 and 2018, are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return 2019 |
|---|---|
| All Cap Value Equity | 7.5% |
| Broad Growth Equity | 7.5% |
| Foreign Equity Securities | 8.5% |
| Broad Market Fixed Income | 2.5% |
| Global Fixed Income | 3.5% |
| Real Estate | 4.5% |

| Asset Class | Long-Term Expected Real Rate of Return 2018 |
|---|---|
| All Cap Value Equity | 7.5% |
| Broad Growth Equity | 7.5% |
| Foreign Equity Securities | 8.5% |
| Broad Market Fixed Income | 2.5% |
| Global Fixed Income | 3.5% |
| Real Estate | 4.5% |

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that the Authority's contribution will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The following is the long-term expected rate of return for September 30, 2019 and 2018:

| 2019 | 1% Decrease 6.75% | Current Discount Rate 7.75% | 1% Increase 8.75% |
|---|---|---|---|
| The Authority's Net Pension Liability | $ 36,646,110 | $ 22,587,219 | $ 10,799,937 |

| 2018 | 1% Decrease 6.75% | Current Discount Rate 7.75% | 1% Increase 8.75% |
|---|---|---|---|
| The Authority's Net Pension Liability | $ 33,438,158 | $ 19,932,513 | $ 8,608,557 |

## Net Pension Liability

The total pension liability was determined by an actuarial valuation as of October 1, 2018 updated to September 30, 2019, using the following actuarial assumptions applied to all measurement periods:

| | 2019 | 2018 |
|---|---|---|
| Inflation | 2.50% | 2.50% |
| Salary Increases | 6.00% | 6.00% |
| Investment Rate of Return | 7.75% | 7.75% |
| Discount Rate | 7.75% | 7.75% |

The measurement date is September 30, 2019. The measurement period for the pension expense and the reporting is October 1, 2018 to September 30, 2019.

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
| **Balance at September 30, 2018** | $ 116,255,937 | $ 96,323,424 | $ 19,932,513 |
| Changes for a Year: | | | |
| Service Cost | 2,394,385 | - | 2,394,385 |
| Interest | 8,923,763 | - | 8,923,763 |
| Differences between Expected and Actual Experience | 64,729 | - | 64,729 |
| Changes of Assumptions | - | - | - |
| Changes of Benefit Terms | 71 | - | 71 |
| Contributions - Employer | - | 4,742,955 | (4,742,955) |
| Contributions - Employee | - | 322,012 | (322,012) |
| Contributions - Buy Back | 82,628 | 82,628 | - |
| Net Investment Income | - | 3,729,746 | (3,729,746) |
| Benefit Payments, Including Funds of Employee Contributions | (7,010,133) | (7,010,133) | - |
| Administrative Expenses | - | (66,471) | 66,471 |
| Net Changes | 4,455,443 | 1,800,737 | 2,654,706 |
| **Balance at September 30, 2019** | $ 120,711,380 | $ 98,124,161 | $ 22,587,219 |

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
| **Balance at September 30, 2017** | $ 111,441,455 | $ 88,430,141 | $ 23,011,314 |
| Changes for a Year: | | | |
| Service Cost | 2,236,364 | - | 2,236,364 |
| Interest | 8,581,641 | - | 8,581,641 |
| Differences between Expected and Actual Experience | (117,613) | - | (117,613) |
| Changes of Assumptions | - | - | - |
| Changes of Benefit Terms | - | - | - |
| Contributions - Employer | - | 4,334,806 | (4,334,806) |
| Contributions - Employee | - | 304,627 | (304,627) |
| Contributions - Buy Back | 8,030 | 8,030 | - |
| Net Investment Income | - | 9,204,443 | (9,204,443) |
| Benefit Payments, Including Funds of Employee Contributions | (5,893,940) | (5,893,940) | - |
| Administrative Expenses | - | (64,683) | 64,683 |
| Net Changes | 4,814,482 | 7,893,284 | (3,078,802) |
| **Balance at September 30, 2018** | $ 116,255,937 | $ 96,323,425 | $ 19,932,513 |

The major components of the net pension liability of the Authority on September 30, 2019 and 2018, were as follows:

| | 2019 | 2018 |
|---|---|---|
| Total Pension Liability | $ 120,711,380 | $ 116,255,937 |
| Plan Fiduciary Net Position * | (98,124,161) | (96,323,424) |
| **The Authority's Liability** | $ 22,587,219 | $ 19,932,513 |
| | | |
| Plan Fiduciary Net Position as a % of Total Pension Liability | 81.29% | 82.85% |

* The accompanying Plan Net Position differs from the Actuarial Plan Position for immaterial timing differences.

For the year ended September 30, 2019 and 2018, the Authority will recognize a pension expense of $4,014,807 and $3,070,582. On September 30, 2019 and 2018, the Authority reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between Expected and Actual Experiences | $ 548,570 | $ 70,569 | $ 839,967 | $ 331,506 |
| Changes of Assumptions | - | 41 | 222,162 | 82 |
| Net Difference between Projected and Actual Earnings on Plan Investments | - | 863,144 | - | 4,498,579 |
| **Total** | $ 548,570 | $ 933,754 | $ 1,062,129 | $ 4,830,167 |

Amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions will be recognized in Pension Expense as follows:

| | 2019 | 2018 |
|---|---|---|
| **Year Ending September 30:** | | |
| 2019 | $ - | $ (402,614) |
| 2020 | (781,212) | (1,526,272) |
| 2021 | (590,186) | (1,335,246) |
| 2022 | 241,154 | (503,906) |
| 2023 | 745,060 | - |
| 2024 | - | - |
| Thereafter | - | - |
| **Total** | $ (385,184) | $ (3,768,038) |

The other significant assumptions are based upon the most recent actuarial experience study dated July 13, 2015, for the period 2008-2014.

**Designations**
A portion of the Plan's net position is designated for benefits that accrue in relation to the DROP accounts. Allocations to the DROP plan accounts for the year ended September 30, 2019, are $2,019,778 as determined in the most recent notification of DROP balances as prepared by the Plan's actuary.

**Actuarial Cost Method**
The Plan uses the Entry Age Normal Actuarial Cost Method for funding purposes. This method allocates future normal costs based on the earnings of each employee participant. Entry age is the employee's age nearest his birthday on October first following his employment. The unfunded actuarial accrued liability is not separately identified and is not, therefore, amortized under this actuarial method. Information about funded status and funding progress was prepared using the Entry Age Actuarial Cost Method and is intended to serve as a surrogate for the funded status and funding progress of the Plan.

**Funding Policy**
The Authority is obligated to fund all Plan costs based upon actuarial valuations in accordance with plan responsibilities. The Authority is authorized to establish benefit levels and to approve the actuarial assumptions used in the determination of contribution levels. The Authority's contribution rate for the years ended September 30, 2019, 2018, and 2017, respectively, was 23.89%, 23.22%, and 28.35% of total annual payroll. The Plan had been a non-contributory Plan since 1986 and was changed to a tiered plan in April 2004. Employees currently have the option of contributing to the Plan. The employee contribution rate for the years ended September 30, 2019, 2018, and 2017, respectively, was 1.61%, 1.64%, and 1.59%., of total annual payroll. The employee contribution rates are actuarially determined and are reevaluated every three years.

The Authority used regulatory accounting to implement GASB Statement No. 68.

**Note 15 - Other Deferred Compensation Plans**

The Authority established deferred compensation plans other than the retirement pension plan for the benefit of its employees. Section 457 plans pursuant to Federal Internal Revenue Code (IRC) are available for employees to voluntarily defer a portion of their wages. The Authority established an IRC section 401(a) plan for employees prior to October 1, 1985 to voluntarily defer a portion of their wages. This plan is not available to anyone hired by the Authority on or after October 1, 1985. The Authority's former President and General Manager solely participates in a separate IRC section 401(a) plan in lieu of participation in the retirement pension plan. All other contributions to these plans come from participating employees.

Required supplementary information follows the notes the financial statements.

# REQUIRED SUPPLEMENTARY INFORMATION

**KISSIMMEE UTILITY AUTHORITY**
**COMPONENTS OF OPEB**
**FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

**Schedule of Changes in the Sponsor's Net OPEB Liability and Related Ratios**

| | | | | |
|---|---|---|---|---|
| Reporting Period Ending | 9/30/2019 | | 9/30/2018 | |
| Measurement Date | 9/30/2019 | | 9/30/2018 | |
| **Total OPEB Liability** | | | | |
| Service Cost | $ | 107,883 | $ | 116,414 |
| Interest | | 170,601 | | 127,476 |
| Changes of Benefit Terms | | - | | - |
| Differences Between Expected and Actual Experience | | 696,531 | | - |
| Changes of Assumptions | | (678,874) | | (232,114) |
| Benefit Payments | | (149,559) | | (92,167) |
| **Net Change in Total OPEB Liability** | | 146,582 | | (80,391) |
| **Total OPEB Liability - Beginning** | | 3,350,952 | | 3,431,343 |
| **Total OPEB Liability - Ending** | $ | 3,497,534 | $ | 3,350,952 |
| Covered Employee Payroll | $ | 19,618,158 | $ | 18,582,494 |
| Sponsor's Total OPEB Liability as a Percentage of Covered Employee Payroll | 17.83% | | 18.03% | |

*Changes in Assumptions:* Changes of assumptions and other inputs reflects the effects of changes in the discount rate each period. The following are the discount rates used in each period:

| | |
|---|---|
| FY 2019 | 3.58% |
| FY 2018 | 4.18% |

## KISSIMMEE UTILITY AUTHORITY
## SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
## EMPLOYEES' RETIREMENT PLAN
## LAST 10 YEARS

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| **Total Pension Liability** | | | | | | |
| Service Cost | $ 2,394,385 | $ 2,236,364 | $ 2,153,285 | $ 2,108,098 | $ 1,946,740 | $ 1,923,754 |
| Interest | 8,923,763 | 8,581,641 | 8,139,836 | 7,701,067 | 7,539,096 | 7,120,003 |
| Changes of Benefit Terms | 71 | - | - | 251 | - | - |
| Difference between Expected & Actual Experience | 64,729 | (117,613) | 768,026 | 947,882 | (1,187,068) | - |
| Changes of Assumptions | - | - | - | (204) | 1,110,810 | - |
| Contributions - Buy Back | 82,628 | 8,030 | 8,030 | 8,605 | 60,468 | - |
| Benefit Payments, Including Refunds of Employee Contributions | (7,010,133) | (5,893,940) | (5,009,170) | (5,289,022) | (3,714,459) | (3,941,703) |
| **Net Change in Total Pension Liability** | 4,455,443 | 4,814,482 | 6,060,007 | 5,476,677 | 5,755,587 | 5,102,054 |
| **Total Pension Liability - Beginning** | 116,255,937 | 111,441,455 | 105,381,448 | 99,904,771 | 94,149,184 | 89,047,130 |
| **Total Pension Liability - Ending (a)** | 120,711,380 | 116,255,937 | 111,441,455 | 105,381,448 | 99,904,771 | 94,149,184 |
| **Plan Fiduciary Net Position** | | | | | | |
| Contributions - Employer | 4,742,955 | 4,334,806 | 5,068,576 | 5,203,612 | 4,735,674 | 3,618,757 |
| Contributions - Employee | 322,012 | 304,627 | 297,597 | 164,006 | 111,814 | 123,663 |
| Contributions - Buy Back | 82,628 | 8,030 | 8,030 | 8,605 | 60,468 | - |
| Net Investment Income | 3,729,746 | 9,204,443 | 10,919,810 | 7,318,037 | (138,816) | 6,750,566 |
| Benefit Payments including Refunds of Employee Contributions | (7,010,133) | (5,893,940) | (5,009,170) | (5,289,022) | (3,714,459) | (3,941,703) |
| Administrative Expense | (66,471) | (64,683) | (56,217) | (68,197) | (80,276) | (62,711) |
| **Net Change in Plan Fiduciary Net Position** | 1,800,737 | 7,893,283 | 11,228,626 | 7,337,041 | 974,405 | 6,488,572 |
| **Plan Fiduciary Net Position - Beginning** | 96,323,424 | 88,430,141 | 77,201,514 | 69,864,473 | 68,890,068 | 62,401,496 |
| **Plan Fiduciary Net Position - Ending (b)** | 98,124,161 | 96,323,424 | 88,430,140 | 77,201,514 | 69,864,473 | 68,890,068 |
| **Net Pension Liability - Ending (a) - (b)** | $ 22,587,219 | $ 19,932,513 | $ 23,011,315 | $ 28,179,934 | $ 30,040,298 | $ 25,259,116 |
| **Plan Fiduciary Net Position as a % of the Total Pension Liability** | 81.29% | 82.85% | 79.35% | 73.26% | 69.93% | 73.17% |
| **Covered Employee Payroll*** | $ 19,851,056 | $ 18,665,630 | $ 17,875,560 | $ 18,144,502 | $ 17,981,517 | $ 16,198,556 |
| **Net Pension Liability as a % of covered Employee Payroll** | 113.78% | 106.79% | 128.73% | 155.31% | 167.06% | 155.93% |

**Notes to Schedule:**

*The Covered Employee Payroll numbers shown are in compliance with GASB Statement No. 82, except for the September 30, 2015 measurement period, which includes DROP payroll.

*Changes in Benefit Terms:*

For measurement date 09/30/2019, amounts reported as changes of benefit terms resulted from the Board Resolution No. 19-01, the following changes were made:

1. The plan was amended to add an opt-out provision for new employees who are hired as the Authority President and General Manager.
2. The member contribution rates for Tier 2 and Tier 3 were reviewed as described in the letter dated August 5, 2019.
   The member contribution rate for Tier 2 was increased from the current 2.88% rate to 3.20%.
   No change applied for Tier 3

For measurement date 09/30/2016, amounts reported as changes of benefit terms were resulted from, effective June 18, 2016, an increase in the Member Contribution Rate for Tier 2 and Tier 3 participants as follows:

Tier 2: Increase Contribution Rate from 0.70% to 2.88%.
Tier 3: Increase Contribution Rate from 2.60% to 4.90%.

*Changes of Assumptions:*

For measurement date 09/30/2016, the inflation assumption was lowered from 3.0% to 2.5%, matching the long-term inflation assumption utilized by the Plan's investment consultant.

# KISSIMMEE UTILITY AUTHORITY
# SCHEDULE OF CONTRIBUTIONS
# EMPLOYEES' RETIREMENT PLAN
# LAST 10 YEARS

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| Actuarially Determined Contributions | $ 4,728,521 | $ 4,604,811 | $ 4,558,268 | $ 4,817,365 | $ 4,735,674 | $ 3,618,757 |
| Contributions in Relation to the Actuarially Determined Contributions | 4,742,955 | 4,334,806 | 5,068,576 | 5,203,612 | 4,735,674 | 3,618,757 |
| Contribution Deficiency (Excess) | $ (14,434) | $ 270,005 | $ (510,308) | $ (386,247) | $ - | $ - |
| Covered Employee Payroll * | $ 19,851,056 | $ 18,665,630 | $ 17,875,560 | $ 18,144,502 | $ 17,981,517 | $ 16,198,556 |
| Contributions as % of Covered Employee Payroll | 23.89% | 23.22% | 28.35% | 28.68% | 26.34% | 22.34% |

**Notes to Schedule:**

* The Covered Employee Payroll numbers shown are in compliance with GASB Statement No. 82, except for September 30, 2015 measurement period, which included DROP payroll.

Valuation Date: October 1, 2018

Actuarially determined contribution rates are calculated as of October 1, one year prior to the end of the fiscal year in which contributions are reported.

**Methods and Assumptions Used to Determine Contributions Rates:**

Mortality Rate: Healthy Active Lives: Mortality Table - RP2000 Generational with Scale BB, with collar and annuitant adjustments as follows:
- Males - 50% Annuitant White Collar, 50% Annuitant Blue Collar
- Females - 100% Annuitant White Collar

Healthy Inactive Lives:
- Males - RP2000 Generational, 50% Annuitant White Collar, 50% Annuitant Blue Collar, Scale BB
- Females - RP2000 Generational, 100% Annuitant White Collar, Scale BB

Disabled Lives: Mortality Table - RP2000 without projections, with the following adjustments:
- Males - 100% Disabled Male with four year setback
- Females - 100% Disabled Female with two year set forward

The assumed rates of mortality are mandated by Chapter 2015-157 Laws of Florida. This law mandates the use of the assumption used in either of the two most recent valuations of the Florida Retirement System (FRS). The above rates are those outlined in Milliman's July 1, 2016 FRS valuation report for other than special risk employees. We feel this assumption sufficiently accommodates future mortality.

Interest Rate: 7.75% per year compounded annually, net of investment related expenses. This is supported by the target asset class allocation of the trust and the expected long-term return by asset class.

Retirement Age: Age 62 and the completion of 10 year of service (date when age plus service equals 80 for Tier 2 Members). This is based on the results of an experience study for the period 2008-2014

Early Retirement: Commencing with the earliest Early Retirement Age (55 with 10 years of Credited Service). Members are assumed to retire with an immediate subsidized benefit at the rate of 10% per year. This is based on the results of an experience study for the period 2008-2014.

Salary Increases: 6.0% per year for the first ten years of Credited Service, reducing to 3.5% per year for Credited Service greater than ten years. This is based on the results of an experience study for the period 2008-2014.

Disability Rates: See table below. These disability rates are consistent with other non-special-risk Florida public pension plans.

| Age | % Becoming Disabled During the Year |
|---|---|
| 20 | 0.03% |
| 30 | 0.04% |
| 40 | 0.07% |
| 50 | 0.18% |
| 60 | 0.90% |

**KISSIMMEE UTILITY AUTHORITY**
**SCHEDULE OF CONTRIBUTIONS**
**EMPLOYEES' RETIREMENT PLAN**
**LAST 10 YEARS**

Termination Rates: This is based on the results of an experience study for the period 2008 – 2014.

| Tier | Normal Retirement Date (Age/Service) | Benefit Accrual Rate | Credited Service | Termination Probability |
|---|---|---|---|---|
| 1 | 62/10 | 2.60% | Less than 10 years | 8.5% |
| | | | 10-14 years | 7.0% |
| | | | 15-19 years | 2.0% |
| | | | 20 or more years | 0.0% |
| 2 | Age Plus Svc. Equals 80 | 2.60% | Less than 10 years | 5.5% |
| | | | 10 or more years | 3.0% |
| 3 | 62/10 | 3.00% | Less than 10 years | 5.5% |
| | | | 10 or more years | 3.0% |

This is based on the results of an experience study for the period 2008 – 2014.

Payroll Growth: None for amortization of the Unfunded Actuarial Accrued Liability. This assumption cannot exceed the ten-year average growth, in compliance with Part VII of Chapter 112, Florida Statutes.

Funding Method: Entry Age Normal Actuarial Cost Method

Inflation Assumption: 2.5% for Internal Revenue Code 415 and 401(a)(17) benefit limits. This is consistent with long-term inflation expected by the Plan's Investment Consultant.

Asset Valuation: Each year, the prior Actuarial Value of Assets is brought forward utilizing the historical geometric 4-year average Market Value return. It is possible that over time this technique will produce an insignificant bias above or below Market Value.

# KISSIMMEE UTILITY AUTHORITY
## COMPONENTS OF PENSION EXPENSE
## FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

| | Net Pension Liability | Deferred Inflows | Deferred Outflows | Pension Expense |
|---|---|---|---|---|
| **Beginning Balance as of October 1, 2017** | $ 23,011,315 | $ 5,910,199 | $ 3,905,292 | $ 25,016,222 |
| Total Pension Liability Factors: | | | | |
| Service Cost | 2,236,364 | - | - | 2,236,364 |
| Interest | 8,581,641 | - | - | 8,581,641 |
| Changes in Benefit Terms | - | - | - | - |
| Contributions - Buy Back | 8,030 | - | - | 8,030 |
| Differences between Expected and Actual Experience with Regard to Economic or Demographic Assumptions | (117,613) | 117,613 | - | - |
| Current Year Amortization of Experience Difference | - | (260,935) | (343,181) | 82,246 |
| Change in Assumptions about Future Economic or Demographic Factors or Other Inputs | - | - | - | - |
| Current Year Amortization of Changes in Assumptions | - | (41) | (222,162) | 222,121 |
| Benefit Payments | (5,893,940) | - | - | (5,893,940) |
| Net Change | 4,814,482 | (143,363) | (565,343) | 5,236,462 |
| Plan Fiduciary Net Position: | | | | |
| Contributions - Employer | 4,334,806 | - | - | 4,334,806 |
| Contributions - Employee | 304,627 | - | - | 304,627 |
| Contributions - Buy Back | 8,030 | - | - | 8,030 |
| Net Investment Income | 6,802,529 | - | - | 6,802,529 |
| Differences between Projected and Actual Earnings on Pension Plan Investments | 2,401,914 | 2,401,914 | - | 4,803,828 |
| Current Year Amortization | - | (2,199,673) | (1,138,910) | (1,060,763) |
| Benefit Payments | (5,893,940) | - | - | (5,893,940) |
| Administrative Expenses | (64,682) | - | - | (64,682) |
| Investment Income Netted | - | (1,138,910) | (1,138,910) | - |
| Net Change | 7,893,284 | (936,669) | (2,277,820) | 9,234,435 |
| **Ending Balance as of September 30, 2018** | $ 19,932,513 | $ 4,830,167 | $ 1,062,129 | $ 23,700,551 |

| | Net Pension Liability | Deferred Inflows | Deferred Outflows | Pension Expense |
|---|---|---|---|---|
| **Beginning Balance as of October 1, 2018** | $ 19,932,513 | $ 4,830,167 | $ 1,062,129 | $ 23,700,551 |
| Total Pension Liability Factors: | | | | |
| Service Cost | 2,394,385 | - | - | 2,394,385 |
| Interest | 8,923,763 | - | - | 8,923,763 |
| Changes in Benefit Terms | 71 | - | - | 71 |
| Contributions - Buy Back | 82,628 | - | - | 82,628 |
| Differences between Expected and Actual Experience with Regard to Economic or Demographic Assumptions | 64,729 | - | 64,729 | - |
| Current Year Amortization of Experience Difference | - | (260,937) | (356,126) | 95,189 |
| Change in Assumptions about Future Economic or Demographic Factors or Other Inputs | - | - | - | - |
| Current Year Amortization of Changes in Assumptions | - | (41) | (222,162) | 222,121 |
| Benefit Payments | (7,010,133) | - | - | (7,010,133) |
| Net Change | 4,455,443 | (260,978) | (513,559) | 4,708,024 |
| Plan Fiduciary Net Position: | | | | |
| Contributions - Employer | 4,742,955 | - | - | 4,742,955 |
| Contributions - Employee | 322,012 | - | - | 322,012 |
| Contributions - Buy Back | 82,628 | - | - | 82,628 |
| Net Investment Income | 7,390,316 | - | - | 7,390,316 |
| Differences between Projected and Actual Earnings on Pension Plan Investments | (3,660,570) | - | 3,660,570 | (7,321,140) |
| Current Year Amortization | - | (1,845,889) | (1,871,024) | 25,135 |
| Benefit Payments, Including Refund of Employee Contributions | (7,010,133) | - | - | (7,010,133) |
| Administrative Expenses | (66,471) | - | - | (66,471) |
| Investment Income Netted | - | (1,789,546) | (1,789,546) | - |
| Net Change | 1,800,737 | (3,635,435) | - | (1,834,698) |
| **Ending Balance as of September 30, 2019** | $ 22,587,219 | $ 933,754 | $ 548,570 | $ 22,972,403 |

## KISSIMMEE UTILITY AUTHORITY
## SCHEDULE OF INVESTMENT RETURNS

| Fiscal Year-End | Annual Money-Weighted Rate of Return Net of Investment Expense |
|---|---|
| September 30, 2019 | 3.82% |
| September 30, 2018 | 10.24% |
| September 30, 2017 | 13.68% |
| September 30, 2016 | 10.13% |
| September 30, 2015 | -0.20% |
| September 30, 2014 | 10.52% |