# FINANCE COMMITTEE

# AGENDA PACKAGE

**AUGUST 19, 2020**
**2:00 p.m.**
**Dial-in Info 877-668-4493 or 650-479-3208**
**Meeting Number 732 356 015**
**Password 8553**

**Committee Members**

Karen Nelson, Jacksonville Beach – Chairwoman
Jody Young, Bushnell
Barbara Mika, Fort Pierce
Howard McKinnon, Havana
Barbara Quiñones, Homestead
Jack Wetzler, Key West
Larry Mattern, Kissimmee
Jim Williams, Leesburg
Steve Langley, Mount Dora
Dallas Lee, Newberry
Marie Brooks, Ocala
James Braddock, Wauchula

**Meeting Location**
**Florida Municipal Power Agency 8553**
**Commodity Circle Orlando, FL 32819**

**(407) 355-7767**

Linda S. Howard, CPA, CTP
Chief Financial Officer

# MEMORANDUM

TO: FMPA Finance Committee

FROM: Linda S. Howard

DATE: August 11, 2020

SUBJECT: FMPA Finance Committee Meeting
Wednesday, August 19, 2020 at 2:00pm

PLACE: Florida Municipal Power Agency Board Room
8553 Commodity Circle,
Orlando, FL 32819

**DIAL-IN INFORMATION: 877-668-4493 or 650-479-3208, Meeting 732 356 015# PASSWORD 8553**
**(If you have trouble connecting via phone or internet, please call 407-355-7767)**

*Chairperson Karen Nelson, Presiding*

## AGENDA

LSH/pa

One or more participants in the above referenced public meeting may participate by telephone. At the above location there will be a speaker telephone so that any interested person can attend this public meeting and be fully informed of the discussions taking place either in person or by telephone communication. If anyone chooses to appeal any decision that may be made at this public meeting, such person will need a record of the proceedings and should accordingly ensure that a verbatim record of the proceedings is made, which includes the oral statements and evidence upon which such appeal is based. This public meeting may be continued to a date and time certain, which will be announced at the meeting. Any person requiring a special accommodation to participate in this public meeting because of a disability, should contact FMPA at (407) 355-7767 or 1-(888)-774-7606, at least two (2) business days in advance to make appropriate arrangements.

## AGENDA ITEM 1 - CALL TO ORDER, ROLL CALL, DECLARATION OF QUORUM

**Finance Committee Meeting**
**August 19, 2020**

## AGENDA ITEM 2 – RECOGNITION OF GUESTS

**Finance Committee Meeting**
**August 19, 2020**

**AGENDA ITEM 3 – PUBLIC COMMENTS (Individual Public Comments Limited to 3 Minutes)**

**Finance Committee Meeting**
**August 19, 2020**

**AGENDA ITEM 4 – SET AGENDA (By Vote)**

**Finance Committee Meeting**
**August 19, 2020**

## AGENDA ITEM 5 – APPROVAL OF MINUTES

**a. Approval of Minutes – Finance Committee Minutes – Meeting Held May 20, 2020 and Meeting Held June 17, 2020**

**Finance Committee Meeting**
**August 19, 2020**

**CLERKS DULY NOTIFIED………………………………………………………….........May 12,2020**
**AGENDA PACKAGE SENT TO MEMBERS………………………………………...May 12, 2020**

# MINUTES
## FINANCE COMMITTEE MEETING
## WEDNESDAY, MAY 20, 2020
## FLORIDA MUNICIPAL POWER AGENCY
## 8553 COMMODITY CIRCLE
## ORLANDO, FL

| | |
|---|---|
| **PARTICIPANTS PRESENT VIA TELEPHONE** | Karen Nelson, Jacksonville Beach<br>Jody Young, Bushnell<br>Barbara Mika, Fort Pierce<br>Howard McKinnon, Havana<br>Barbara Quinones, Homestead<br>Jack Wetzler, Key West<br>Larry Mattern, Kissimmee<br>Jim Williams, Leesburg<br>Steve Langley, Mount Dora<br>Dallas Lee, Newberry<br>Marie Brooks, Ocala<br>James Braddock, Wauchula |
| **OTHERS PRESENT VIA TELEPHONE** | Craig Dunlap, Dunlap & Associates, Inc.<br>Bob Page, Green Cove Springs<br>Michael Mace, Public Financial Management |
| **STAFF PRESENT** | Jacob Williams, General Manager and CEO<br>Ken Rutter, Chief Operating Officer and COO<br>Jody Finklea, General Counsel and CLO<br>Linda Howard, Chief Financial Officer<br>Carol Chinn, Chief Information Security Officer<br>Mark McCain, AGM of Public Relations and Member Services<br>Sharon Adams, HR Director<br>Rich Popp, Treasurer and Risk Director<br>Danyel Sullivan-Marrero, Controller<br>Jason Wolfe, Financial Planning Rates and Budget Director<br>Denise Fuentes, Financial Analyst<br>Steve Ruppel, Senior Financial Analyst<br>Dan O'Hagan, Asst. Gen. Counsel & Regulatory Compliance Counsel<br>Luis Cruz, IT Manager<br>Isabel Montoya, IT Specialist<br>Liyuan Woerner, Audit Manager<br>Sue Utley, Executive Asst. /Asst. Secy. to the Board<br>Paige Arnett, HR Assistant |

**ITEM 1 – Call to Order, Roll Call and Declaration of Quorum**

Chairperson Karen Nelson, Jacksonville Beach, called the FMPA Finance Committee

Meeting to order by telephone at 1:01pm on Wednesday, May 20, 2020. A speaker telephone was present for public attendance and participation in the Fredrick M. Board Room, at FMPA, 8553 Commodity Circle, Orlando, Florida. The roll was taken, and a quorum was declared with 12 of 12 members present.

**ITEM 2 – RECOGNITION OF GUESTS**

None.

**ITEM 3 – PUBLIC COMMENTS (INDIVIDUAL PUBLIC COMMENTS LIMITED TO 3 MINUTES)**

None.

**ITEM 4 – SET AGENDA (BY VOTE)**

**MOTION:** Howard McKinnon, Havana, moved approval of the agenda with the removal of item 9a. Barbara Quinones, Homestead, seconded the motion. Motion carried 12-0.

**ITEM 5 – APPROVAL OF MINUTES**

a. **Approval of Minutes – Finance Committee Minutes – Meeting Held April 15, 2020**

**MOTION:** Steve Langley, Mount Dora, moved approval of the minutes as presented. Barbara Quinones, Homestead, seconded the motion. Motion carried 12-0.

**ITEM 6 – CHAIRPERSON'S REMARKS**

None.

**ITEM 7– CFO Report**

Linda Howard presented on the following items:

1. FMPA staff is phasing back into working in the office.
2. Annual review of policies with a staggered approach to ensure the review of each policy and obtain compliance sign off from owner (s). Annual review also includes the Corporate Risks (risk inventory).
3. Statutory and Regulatory policy is underway and will be reviewed later in the year.
4. Several questions from Fitch Rating Agency provided and an opportunity to let them know how FMPA and its members were doing utilizing information that was prepared and sent to governing bodies and members.
5. Today, we have the Agency and Small project budgets up for review, as well as, member dues and project allocation methodology.

**ITEM 8 – ACTION ITEMS**

a. **Approval of the FY2021 Agency Fund Budget for Recommendation to the Executive Committee for Approval**

Jason Wolfe asked members if they would like additional details for those who missed the first presentation. Agency budget is projected to come in under budget. The preliminary look at the FY2021 shows continued low costs for the ARP.

Denise Fuentes continued the presentation on the FY2021 Agency Fund Budget. The estimate for the FY2021 budget is lower than the FY2020 budget.

Howard McKinnon asked what the plan was regarding the building. Jacob Williams responded that we want to investigate the value of this site and research other areas to move for efficiency and traffic reasons.

**MOTION:** Howard McKinnon, moved approval of the FY2021 Agency Fund Budget for Recommendation to the Executive Committee for Approval. Larry Mattern, Kissimmee, seconded the motion. Motion carried 12-0.

**b. Approval of the FY2021 Proposed Changes to the Member Dues and Project Allocation Calculations for Recommendation to the Board of Directors for Approval**

Jason Wolfe presented the FY2021 Proposed Changes to the Member Dues and Project Allocation Calculations. The member assessments are charged to any FMPA member that is not participating in a power supply project. FMPA currently has 12 members paying the member assessment and the number will reduce to 8 when the solar projects begin.

James Braddock, Wauchula, asked if there was a possibility to phase the member assessment in and not do it all at once. Howard McKinnon, Havana, agreed to a phased in approach.

Jacob Williams clarified that once a project begins the members stop paying dues.

Proposed changes to the Agency Cost Allocations is to revise the methodology for the FY2021 budget. Proposed Methodology was reviewed and revised since the April meeting. The project allocation costs are no longer equal across projects. The member assessment methodology requires 75% affirmative vote from the Board of Directors.

Discussion ensued and the following motions were approved:

**MOTION 1**: Howard McKinnon, Havana, moved to hold increase in member dues to a maximum of $2,000 in 2021 and then the remainder of increase in 2022. James Braddock, Wauchula, seconded the motion. Motion approved 12-0.

**MOTION 2:** Barbara Quinones, Homestead, moved to approve the FY2021 Agency Allocations for recommendation to the Board of Directors for approval. Jack Wetzler, Key West seconded the motion. Motion carried 12-0.

**c. Review and Approval of FY2021/FY2022 Small Project Budgets (Stanton, Tri-City, Stanton II, St. Lucie, Solar, Solar II, Pooled Loan) for Recommendation to the Board of Directors for Approval**

Jason Wolfe presented the FY2021/FY2022 Small Project Budgets and provided detailed presentations on each small project. Fuel component shows higher costs due to the end of the coal contract. The coal projects are based on actual costs.

The following motions were approved:

**MOTION 1:** Jack Wetzler, Key West, moved the approval of the FY2021/FY2022 Stanton Project Budget for recommendation to the Board of Directors for approval. Barbara quinones, Homestead, seconded the motion. Motion carried 12-0.

**MOTION 2:** Barbara Quinones, Homestead, moved the approval of the FY2021/FY2022 Tri-City Project Budget for recommendation to the Board of Directors for approval. Howard McKinnon, Havana, seconded the motion. Motion carried 12-0.

**MOTION 3:** Jim Williams, Leesburg, moved the approval of the FY2021/FY2022 Stanton II Project Budget for recommendation to the Board of Directors for approval. Jack Wetzler, Key West, seconded the motion. Motion carried 12-0.

**MOTION 4:** Jack Wetzler, Key West, moved the approval of the FY2021/FY2022 St. Lucie Budget for recommendation to the Board of Directors for approval. Larry Mattern, Kissimmee, seconded the motion. Motion carried 12-0.

**MOTION 5:** Jim Williams, Leesburg, moved the approval of the FY2021/FY2022 Solar Project Budget for recommendation to the Board of Directors for approval. James Braddock, Wauchula, seconded the motion. Motion carried 12-0.

**MOTION 6:** Barbara Quinones, Homestead, moved the approval of the FY2021/FY2022 Solar II Project Budget for recommendation to the Board of Directors for approval. Larry Mattern, Kissimmee, seconded the motion. Motion carried 12-0.

**MOTION 7:** Jack Wetzler, Key West, moved the approval of FY2021/FY2022 Pooled Loan Project Budget for recommendation to the Board of Directors for approval. Howard McKinnon, Havana, seconded the motion. Motion carried 12-0.

**d. Approval of Risk Management Policies and Compliance Reports**

Liyuan Woerner presented on the Risk Management Policies and Compliance Reports. The four policies were the Fuel Portfolio Management Policy, Origination Transaction Policy, Credit Policy and the FMPA Risk Management Policy. No changes were recommended.

**MOTION:** Howard McKinnon, Havana, moved to approve the Risk Management Policies and Compliance Reports for recommendation to the Board of Directors. Jody Young, Bushnell, seconded the motion. Motion carried 12-0.

**e. Review and Approval of FMPA's Corporate Risk Inventory Assessment**

Rich Popp presented on FMPA's Corporate Risk Inventory Assessment. The highest-ranking risk in the agency is in the generation area, related to the operation of the coal plants.

**MOTION:** Larry Mattern, Kissimmee, moved the approval of the 2020 FMPA's Corporate Risk Inventory Assessment. Howard McKinnon, Havana, seconded the motion. Motion carried 12-0.

**ITEM 9 – INFORMATION ITEMS**

a. **Environmental Report**

Moved to remove from the agenda.

**ITEM 10 – REPORTS**

**a. Risk Policies**

**b. Compliance Reports**

**c. Environmental Report**

The reports were provided for information only. There was no further discussion.

**ITEM 11 – COMMENTS**

None.

Jack Wetzler, Key West, commended the staff for their presentations. Chairperson Karen Nelson, Jacksonville Beach agreed and thanked everyone for their attendance.

**ITEM 12 – ADJOURNMENT**

There being no further business the meeting was adjourned at 3:00 pm.

Approved: _____________ Date____________ KN/pa

**CLERKS DULY NOTIFIED………………………………………………………..........May 27,2020**
**AGENDA PACKAGE SENT TO MEMBERS………………………………………...May 27, 2020**

**MINUTES**
**FINANCE COMMITTEE MEETING**
**WEDNESDAY, JUNE 3, 2020**
**FLORIDA MUNICIPAL POWER AGENCY**
**8553 COMMODITY CIRCLE**
**ORLANDO, FL**

| | |
|---|---|
| **PARTICIPANTS PRESENT VIA TELEPHONE** | Karen Nelson, Jacksonville Beach<br>Jody Young, Bushnell<br>Barbara Mika, Fort Pierce<br>Barbara Quinones, Homestead<br>Larry Mattern, Kissimmee<br>Jim Williams, Leesburg<br>Steve Langley, Mount Dora<br>Marie Brooks, Ocala |
| **PARTICIPANTS ABSENT VIA TELPEHONE** | Howard McKinnon, Havana<br>Jack Wetzler, Key West<br>Dallas Lee, Newberry<br>James Braddock, Wauchula |
| **OTHERS PRESENT VIA TELEPHONE** | Craig Dunlap, Dunlap & Associates, Inc. |
| **STAFF PRESENT** | Jacob Williams, General Manager and CEO<br>Ken Rutter, Chief Operating Officer and COO<br>Jody Finklea, General Counsel and CLO<br>Linda Howard, Chief Financial Officer<br>Mark McCain, AGM of Public Relations and Member Services<br>Sharon Adams, HR Director<br>Rich Popp, Treasurer and Risk Director<br>Jason Wolfe, Financial Planning Rates and Budget Director<br>Denise Fuentes, Financial Analyst<br>Steve Ruppel, Senior Financial Analyst<br>Ed Nunez, Assistant Treasurer – Debt<br>Isabel Montoya, IT Specialist<br>Liyuan Woerner, Audit Manager<br>Sue Utley, Executive Asst. /Asst. Secy. to the Board<br>Paige Arnett, HR Assistant |

**ITEM 1 – Call to Order, Roll Call and Declaration of Quorum**

Chairperson Karen Nelson, Jacksonville Beach, called the FMPA Finance Committee Meeting to order by telephone at 1:30 pm on Wednesday, June 3, 2020. A speaker telephone was present for public attendance and participation in the Fredrick M. Board Room, at FMPA, 8553 Commodity Circle, Orlando, Florida. The roll was taken, and a quorum was declared with 8 of 12 members present.

## ITEM 2 – RECOGNITION OF GUESTS

None.

## ITEM 3 – PUBLIC COMMENTS (INDIVIDUAL PUBLIC COMMENTS LIMITED TO 3 MINUTES)

None.

## ITEM 4 – SET AGENDA (BY VOTE)

**MOTION:** Larry Mattern, Kissimmee, moved approval of the agenda as presented. Jim Williams, Leesburg, seconded the motion. Motion carried 8-0.

## ITEM 5 – ACTION ITEMS

### a. Review and Approval of the ARP FY2021 Budget/FY2022 Plan

Jason Wolfe presented the ARP FY2021 Budget/FY2022 Plan and thanked the team for their hard work on the budget during a unique time. The FY2021 budget reflects $17M in savings and $3/Mwh cost benefit to participants.

**MOTION:** Jim Williams, Leesburg, moved approval of the ARP FY2021 Budget/FY2022 Plan for Recommendation to the Executive Committee for Approval. Barbara Mika, Fort Pierce, seconded the motion. Motion carried 8-0.

## ITEM 6 – COMMENTS

Linda Howard reminded the Finance Committee of the upcoming meeting on June 17, 2020. This meeting may be cancelled. Notice will be sent either way.

Jacob Williams thanked the finance team for their work on preparing the budget and delivering on time, while working remotely.

Chairperson Karen Nelson, Jacksonville Beach, also thanked the finance team for their work on the budget.

## ITEM 7 – ADJOURNMENT

There being no further business the meeting was adjourned at 1:39 pm.

Approved: _____________ Date____________ KN/pa

## AGENDA ITEM 6 – CHAIRPERSON'S REMARKS

**Finance Committee Meeting**
**August 19, 2020**

## AGENDA ITEM 7 – CFO REPORT

**Finance Committee Meeting**
**August 19, 2020**

## AGENDA ITEM 8 – ACTION ITEMS

a. **Approval of Policy Structure Changes**

**Finance Committee Meeting**
**August 19, 2020**

# 8a- Approval of Policy Structure Changes

## Finance Committee

August 19, 2020

# Current Policy Process Flow

**Risk Inventory**

Umbrella/Framework

↓

**Risk Policies**

| | |
|---|---|
| Currently have 15 policies | FC/BOD/EC approval |

↓

**Procedures**

| | |
|---|---|
| Staff operating procedures | Management review |

↓

**Internal Audit reviews**

| | |
|---|---|
| Operational audits | Specific policy reviews |

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# Recommended Changes to the Risk Policy Format

Keep the umbrella risk management policy in place

Eliminate those existing policies that are procedural in nature, and add pertinent, risk mitigating functions to the risk management umbrella policy

Streamline the number of individual policies to only include those that

- Delineate staff/spending authorization levels
- Set tolerance levels in high risk areas

Emphasize compensating controls

- Internal Audit review
- Management oversight
- Knowledgeable staff
- Written procedures

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# Recommend Deleting These Policies: Statutory & Regulatory, Records Management

**Umbrella Risk Policy**
- Include annual reporting requirements within this policy

**Knowledgeable staff**
- Experience
- Job description includes functions listed in policy

**Annual Risk Inventory**
- Rank our highest risk
- Every major area is reviewed at some level

**Other compensating controls**
- Internal Audit review available
- Management oversight
- Established procedures
- External oversight
  - NERC, FERC, Florida Statutes, external auditors, etc.

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# QUESTIONS

## AGENDA ITEM 8 – ACTION ITEMS

**b. Approval of Wells Fargo Line of Credit**

**Finance Committee Meeting**
**August 19, 2020**

# 8b – Approval of Wells Fargo Line of Credit Extension

Finance Committee

August 19, 2020

# Two Lines of Credit Provide $100 Million ARP of Liquidity

## *LOC Covers Unplanned Costs Giving Rating Agencies Comfort*

- Sources of Liquidity
  - 60 Days O&M — Demand/Energy/Transmission Expenses
  - R&R Fund — Capital Projects
  - General Reserve — Insurance Reserve
  - Debt Service Reserve — Principal and Interest
  - Lines of Credit — Available source of funding for O&M expenses

# Two Lines of Credits Expiring in 2020

*Extend for One Year Due to LIBOR Termination*

- **JP Morgan LOC**
  - $75 Million of capacity
  - Expires: June 14, 2021
- **Wells Fargo LOC**
  - $25 Million of capacity
  - Expires: November 1, 2020
  - No amount outstanding
  - Last 12 months cost $87,986 or 35 bps

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# Moody's Criteria For Liquidity

*Almost as Important as Asset Quality & Competitiveness*

EXHIBIT 1

US Municipal Joint Action Agencies Sector Take-or-Pay Scorecard Overview

| Factor | Factor Weighting | Sub-factor | Sub-factor Weighting |
|---|---|---|---|
| Participant Credit Quality and Cost Recovery Framework | 45% | --* | 45% |
| Asset Quality | 15% | --* | 15% |
| Competitiveness | 15% | --* | 15% |
| Financial Strength and Liquidity | 25% | Adjusted Days Liquidity on Hand | 10% |
| | | Adjusted Debt Ratio | 5% |
| | | Fixed Obligation Charge Coverage Ratio | 10% |
| Total | 100% | | 100% |

FACTOR

All-Requirement Agencies: Financial Strength and Liquidity (25%)

| Sub-factor | Sub-factor Weight | Aaa | Aa | A | Baa | Ba | B |
|---|---|---|---|---|---|---|---|
| Adjusted Days Liquidity on Hand (days) | 10% | ≥ 250 | 150 - 250 | 90 - 150 | 30 - 90 | 15 - 30 | < 15 |
| Adjusted Debt Ratio (%) | 5% | < 50% | 50% - 70% | 70% - 100% | 100% - 150% | 150% - 200% | ≥ 200% |
| Fixed Obligation Charge Coverage Ratio (x) | 10% | ≥ 2.0 | 1.4x - 2.0x | 1.2x - 1.4x | 1.1x - 1.2x | 1.0x - 1.1x | < 1.0 |

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# Lines of Credit Provide ~100 Day of Operating Cash

*Cash Is King In Times of Uncertainty*

- Liquidity is 10% of Moody's Rating
- "A" Rated "ARP" Agencies have 90-150 days of Cash on hand
- FMPA ARP targets 160 days with LOCs
  - O&M Balance = 60 days of cash
  - LOC Available = 100 days of cash

# Expected Wells Fargo Extension Changes

*Demand for LOCs Are Very High Right Now*

- Pricing is very volatile now and can change up until closing.
  - Expect a 25%-30% price increase.
- Material Adverse Clause
  - Language on the Stanton Energy Center lawsuit filed against OUC
- Early Opt-In Election with respect to LIBOR Index Rate
  - Working with Wells Fargo for agreeable terms.
- All other Terms and Conditions will be the same

FMPA MUNICIPAL POWER

# Recommended Action

- Move approval of extending the Line of Credit with Wells Fargo for $25 million with concurrence of the debt finance team

## AGENDA ITEM 8 – ACTION ITEMS

**c. Approval of Investment Risk Management Policy Changes**

**Finance Committee Meeting**
**August 19, 2020**

# 8c – Approval of Investment Risk Management Policy Changes

Finance Committee

August 19, 2020

# Investment Risk Management Policy

*Major Areas Covered*

- Investment Objectives:
  - Safety
  - Liquidity
  - Return
- Investments limited by
  - Type
  - Length
  - Credit Rating

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# Investment Policy Changes

*Improved Clarity And Updated For New Projects*

- Operating and Maintenance Account length of investment
  - Remove depends on cash-flow needs
  - Replace with duration limit of 1.00 on the O&M funds.
    - Duration is a calculation of how long the weighted average of investments will mature
- Corporate Bonds and Notes
  - Credit Rating was stated as “A”
  - Change Credit Rating to “A” without regards to any gradation of that rating by a numerical, symbol or other such modifier, by all rating agencies.
- Included Pooled Loan and Solar Projects

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# Discussion

# Recommended Motion

Move approval of Investment Policy changes and move to the Board of Directors and Executive Committee.

# FLORIDA MUNICIPAL POWER AGENCY
# RISK MANAGEMENT POLICY - APPENDIX C

# INVESTMENT RISK MANAGEMENT POLICY

## TABLE OF CONTENTS

# INVESTMENT RISK MANAGEMENT POLICY
# FOR FLORIDA MUNICIPAL POWER AGENCY

This Investment Risk Management Policy (the "Policy") and any effective subordinate procedures establish the governance, framework and the controls under which Florida Municipal Power Agency (FMPA) may engage in activities to identify, measure and minimize future business risk resulting from the investment and management of FMPA's financial assets. This Policy is Appendix C of the FMPA Risk Management Policy.

## 1.0 Policy Statement

The Executive Committee (EC) and Board of Directors (BOD) of FMPA recognize that FMPA is exposed to various risks in the normal course of business activities. There may be times when FMPA will determine that certain risks are above the preferred risk tolerance level of FMPA and its members. FMPA is hereby authorized to put mechanisms into place, such as those more fully described in Sections 3.0 and 4.0 of this Policy, which will control, transfer, or mitigate these risks to avert an adverse effect on FMPA's ability to invest funds of the Agency and its Projects in a manner that will balance investment return with principal security, such that FMPA will meet the daily and long term cash flow demands of the Agency and its Projects.

It is the Policy of the EC and BOD that:

- ❖ The investment program shall conform to all federal, state, and local legal requirements.
- ❖ Authority is delegated to the Chief Financial Officer (CFO) to create procedures to administer this Policy.
- ❖ The preservation of capital is the foremost objective of the risk-considered investment practice strategies.
- ❖ Investments using derivatives are prohibited unless specifically approved by the EC or BOD.
- ❖ The CFO shall establish benchmarks against which portfolio performance shall be compared regularly.

- ❖ Authority is delegated to the CFO to establish a system of written internal controls to regulate investment activities.
- ❖ The Treasurer and Risk Director shall provide investment reports for each regular meeting of the EC and BOD.
- ❖ Deviations from this Policy shall be reported to the Finance Committee (FC).

This Policy is created to ensure the prudent management of the Agency and its Projects' funds, and the availability of operating funds, bond proceeds and capital funds as needed. This Policy is applied individually to each Project, not in any combination of Projects. This Policy applies to all monetary assets of the Agency and all Projects with the exception of employee deferred contribution funds. The employees deferred contribution funds are placed with a third party administrator and are self-managed by the employees.

The standard of prudence to be used by FMPA investment staff shall be the "prudent person" rule as defined in Florida Statute 218.415: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment."

## 2.0 Scope

Investments purchased by the Agency shall conform to all federal, state, and local legal requirements governing the investment of Public Funds, including all bond resolutions and ordinances adopted by the EC or BOD. Responsibility for investment decisions, including day-to-day transactions undertaken, is hereby delegated to the Treasurer and Risk Director or designated Treasury staff, under the direction of the CFO. No person may engage in an investment transaction except as provided under the terms of this Policy.

FMPA may appoint an outside investment manager as "Agent" for the Agency's cash and investment reserves. The outside investment manager must meet the requirements detailed in the Investment Procedures.

# 3.0 Types of Investment Risk

This Policy is intended to define responsibility, clarify investment goals, establish strategies, achieve stated goals and set up the method of evaluation and control of all investment operations. The CFO will cause Investment Procedures to be written that identify risks in the areas noted below and provide ways to measure, control and mitigate FMPA's exposure to those risks. While not intended to be a comprehensive listing of risks encountered by FMPA during the normal course of the business cycle, the following provides insight into the major areas of investment risk exposure for FMPA

## 3.1 Credit Risk:

The risk that a change in the credit quality of an institution will affect the value of a security or portfolio. An example of credit risk might occur if the issuer of a bond that FMPA has purchased as an investment defaults on its obligations, causing the loss of some or all of the investment value. Such risks can be reduced by diversifying securities and maturities.

## 3.2 Liquidity Risk:

The risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. Some investments are highly liquid and have low liquidity risk (such as money market funds) while other investments are highly illiquid and have high liquidity risk (such as real estate). An example of liquidity risk might occur if FMPA attempted to convert an investment into cash for operating needs, but was unable to do so due to the illiquid nature of the security. Such risk can be reduced by selecting investments with the liquidity to meet FMPA's cash flow needs.

# 4.0 Investment Objectives

Investment selections should balance the primary objectives of FMPA's investment program. In priority order, the objectives are

### 4.1 Safety:

Preservation of capital in the overall portfolio is the highest of the risk based investment practice objectives. To attain this objective, investment securities shall be selected from those deemed authorized and suitable as described in Section 5.0 of this Policy. Speculative strategies shall not be undertaken. Management defines speculation as the process of selecting investments in an attempt to profit from fluctuations in prices.

### 4.2 Liquidity:

The portfolio should be structured so that securities mature concurrent with cash needs to meet anticipated demands. Investments considered to be liquid are those held until maturity where maturity is less than three months. A sufficient level of liquidity must be maintained to meet the next thirty days of expected operating expenses and other disbursements, plus an extra, reasonable amount to meet unusual and unexpected needs.

### 4.3 Return:

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and the cash flow characteristics of the portfolio. Funds should be invested in high credit quality investment instruments (as allowed by Project Bond Resolutions and summarized in Appendix A) in anticipation of achieving a fair return. The methods used in selecting investments should balance market, credit, and liquidity risks.

## 5.0 Authorized and Suitable Investment Securities

FMPA is empowered by Ordinance 87-1, as amended, to invest in the types of securities listed in Appendix A for the Agency and its Projects. FMPA may buy or sell securities for other securities to improve yield, maturity, or reduce credit risk. Investment in securities that "derive" their value through financially engineered derivative indices or are highly interest-rate sensitive are not permissible unless specifically recommended in writing and approved by the EC or BOD. FMPA will not allow leveraging (the borrowing of funds for the expressed purpose of reinvesting those funds) or invest in securities with a rating below that required in Appendix A at the time of purchase. The Treasurer and Risk Director must report on a monthly basis any security whose rating has fallen below the rating level identified in Appendix A after purchase and submit a rationale for maintaining such security if it has not been sold

## 5.1 Authorized Financial Institutions, and Broker/Dealers:

The Treasurer and Risk Director will cause to be maintained a list of financial institutions that meet the qualifications detailed in the Investment Procedures and are authorized to provide investment services. An annual (each fiscal year) review of the ratings from national rating agencies and financial condition of all qualified financial institutions and broker/dealers will be conducted in accordance with Investment Procedures.

## 5.2 Method of Selection:

FMPA shall select securities that provide the highest rate of return within the risk parameters of this P, given the current objectives, diversification, cash flow needs, and maturity requirements. Selection of securities shall be made using either competitive bids, wherein FMPA solicits proposals from at least three firms; or comparison to the current market price as indicated by one of the market pricing resources available, including but not limited to Bloomberg. Records will be kept of the bids or offers, the bids or offers accepted and if necessary a brief explanation of the decision which was made regarding the investment.

## 5.3 Maximum Maturities:

The funds of Agency and Project Operating accounts are invested to achieve a market rate of return while meeting the Agency's and its Projects' cash flow needs. FMPA will match investment maturities with known cash needs and anticipated cash flow requirements, not to exceed maximum maturity requirements.

Unless matched to a specific cash flow, FMPA shall invest securities maturing in accordance to Appendix B and the following.

| Fund/Account | Invested to Mature as Shown |
|---|---|
| ***Operations and Maintenance Fund*** | |
| 1. Operations and Maintenance Account | The month-end duration of the Account will be less than 1.00. |
| 2. Working Capital Account | Within 5 years. |
| 3. Rate Stabilization Account | Within 5 years. |
| ***Debt Service Fund*** | |
| 1. Debt Service Account | Not later than when needed for payment to be made from such Account. |
| 2. Debt Service Reserve | Not later than the final maturity date of any Bonds that are outstanding. |
| 3. Subordinated Debt Fund | Not later than when needed for payment to be made from such Account. |
| ***Construction Fund or Proceeds Fund*** | Not later than when needed for payments to be made from such fund. |
| ***Reserve and Contingency Fund*** | |
| 1. Contingency Account | Within 5 years or when needed to make payment.. |
| 2. Renewal and Replacement | Within 5 years or when needed to make payments. |
| ***General Reserve Fund*** | |
| 1. General Reserve Account | Within 5 years or when needed to make payments. |
| ***Decommissioning*** | Not later than when needed. (Applicable only to St. Lucie) |

## 5.4 Collateralization:

Collateralization, as detailed in the Investment Procedures, may be required for investments such as repurchase agreements and any approved investment agreement contract or agreement.

## 5.5 Diversification:

FMPA must diversify to avoid incurring unreasonable risks associated with over-investing in specific investments, individual financial institutions, maturities and in the future by geographic area or by any other reasonably determinable characteristic. Compliance with the specific diversification requirements shown in the chart below will be measured using market value at the time of purchase and monthly thereafter. In the event that a particular category exceeds the scheduled maximum percentage by 10% (for example, if Repurchase Agreements exceed 22%) for two consecutive months, the Treasurer and Risk Director must report such deviation and submit for approval a strategy for handling each such deviation. For risks potentially resulting from investments with high concentrations of other characteristics not itemized in the chart above, the Treasurer and Risk Director should bring these investments to the attention of the CFO for review. If the concentration risk is deemed significant enough by any one of the three noted here, the CFO must bring this concentration concern to the FC.

| **Diversification by Investment Type:** | **Percentage at time of purchase:** |
|---|---|
| US Treasury Obligations | 100% |
| Municipal Bonds) | 100% |
| US Gov. Agency and US Gov. Sponsored Instrumentality | 100% |
| Banker’s Acceptances | 50% |
| Commercial Paper | 50% |
| Corporate Bonds and Notes (A or above) | 20% |
| Florida Local Government Surplus Fund Trust Fund (SBA) | 50% |
| Local Government Investment Pools | 25% |
| Collateralized CDs and Time Deposits | 25% |
| Money Market Mutual Funds | 25% |

| | |
|---|---|
| Repurchase Agreements | 20% |
| Guaranteed Investment Contracts (GICs) | 15%* |
| Or as approved by the EC or BOD | |

| Diversification by Institution: | Percentage at time of purchase: |
|---|---|
| Money Market Mutual Fund | 25% |
| US Gov. Agency by Agency | 25% |
| Municipal Bonds by Issuer | 20% |
| Commercial Banks (CDs, Time Deposits, or Commercial Paper) | 10% |
| Bankers' Acceptance by Bank | 10% |
| Corporate Notes | 10% |

| Diversification by Geographic Location: | Percentage of Portfolio |
|---|---|
| Within individual state | Not more than 25% |
| | |

### 5.5.1 Exceptions:

Diversification percentages can be exceeded by approval from the EC / BOD.

# 6.0 Custody

All investment security transactions, including collateral for repurchase agreements, entered into by FMPA shall be settled on a delivery versus payment (DVP) basis. Securities will be held by a third party Custodian or Trustee designated by the CFO and evidenced by trade confirmations and bank statements.

All securities purchased by FMPA will be properly designated as an asset of the Agency or its Projects and held by a third party Custodial or Trustee institution. The Custodial or Trustee institution shall annually (each fiscal year) provide a copy of their most recent report on internal controls (Statement on Standards for Attestation Engagements No. 16 (SSAE 16)

). The Treasurer and Risk Director or designated Treasury Staff will provide this report, upon receipt, to the CFO.

# 7.0 Benchmarking Performance

The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates, taking into account investment risk constraints and cash flow needs. The CFO shall cause to be established a series of appropriate benchmarks against which portfolio performance shall be compared on a regular basis. Guidelines on selecting and managing benchmarks, which may include the use of duration and convexity as performance measurement tools, are contained in the Investment Procedures.

Any external investment managers, if hired, shall not independently select benchmarks. All benchmarks used by external investment managers must be approved by the CFO. Specific description and the source, including date of such benchmarks, should be provided in any external investment manager's performance report along with the exact methodology used in calculating the yields/returns on the portfolio and the benchmark.

# 8.0 Internal Controls and Ethics

The CFO shall cause to be established a system of written internal controls to regulate investment and related activities, consistent with this Policy and Investment Procedures, and in accordance with all policies and procedural guidelines established in the FMPA Risk Management Policy. The controls shall be designed to meet the requirements as listed in Florida State Statute Section 218. As part of the year-end audit, the external auditors will be required to state whether the Agency has complied with Florida State Statute Section 218.415, regarding the investment of public funds.

The CFO and the Treasurer and Risk Director, or their designees, may do placement of funds. Accounting staff will not have any responsibility for investing funds. Further internal controls are established in the Investment Procedures to address safekeeping, repurchase agreement, collateral/depository agreements, banking service contracts, delivery vs. payment procedures, and separation of transaction authority from accounting and record-keeping, and may include security controls contained within Treasury software programs.

The Agency Audit Manager shall be responsible to review all documented internal controls and procedures established to ensure they comply with the FMPA Risk Management Policy and adequately mitigate all applicable risks. If, after review, the Agency Audit Manager identifies areas of concern, the documented internal controls weakness(s) will be communicated to the CFO and FC as appropriate.

## 8.1 Policy and Procedure Compliance

Risk Management staff shall ensure that compliance with this Policy and the Investment Procedures are monitored on an ongoing basis. Any unresolved compliance issues will be presented to the FC by the Agency Audit Manager at the next regularly scheduled meeting.

## 8.2 External Parties

All dealers, financial institutions, investment managers, or individuals, collectively referred to as the parties, investing on behalf of FMPA will be sent a copy of the Investment Policy by the Treasurer and Risk Director, along with a list of employees who are authorized to transact investment trades on behalf of FMPA. These parties will be required to respond, in writing, that the Policy was received, read, understood and will commit to adhere to the Policy. FMPA will pursue full recovery of all associated costs resulting from deviations from the Investment Policy.

## 8.3 Continuing Education

The CFO, Treasurer and Risk Director and other appropriate investment staff will be required to complete annually (each fiscal year) a minimum of 8 hours of continuing professional education (CPE's), or more as required by State Regulations, in subject courses of study related to investment practices and products.

# 9.0 Reporting

The Treasurer and Risk Director will produce investment reports in accordance with Investment Procedures and provide these reports to the General Manager and the CFO as and when requested, but for no less than each meeting of the EC and/or BOD.

The CFO shall cause any deviations from this Policy to be reported according to the guidelines set forth in Section 4.1 of the FMPA Risk Management Policy. An annual report on the operation and effectiveness of this Policy shall be completed by the FC as described in Section 7.0 of the FMPA Risk Management Policy. The Treasurer and Risk Director shall report on the current risk environment affecting FMPA's investment program to the CFO as needed, and initiate and/or participate in any necessary discussion prior to moving items to the FC.

**(See Also Glossary of Terms in FMPA's Risk Management Policy)**

**ACCRUED INTEREST:** The interest to be paid on a security from the last interest accrual date to the settlement date. The buyer of the security pays the market price plus accrued interest. Also called "Purchased Interest".

**AGENCY:** Florida Municipal Power Agency.

**AGENCY SECURITIES:** Corporations, such as GNMA, FNMA or FHLMC, which have varying degrees of federal sponsorship and/or regulatory oversight.

**ANNUAL AUDIT:** The official audit report for FMPA. It includes combined statements for each individual fund and account group prepared in conformity with GAAP.

**BASIS POINT:** One one-hundredth of a percent (0.01 %).

**BOND RATINGS:** Evaluations by independent services such as Moody's, Fitch, or Standard & Poor's of a bond's investment quality and credit worthiness.

**BROKER-DEALER:** A broker-dealer firm is in the business of buying and selling securities—stocks, bonds, mutual funds, and certain other investment products—on behalf of its customers (as broker), for its account (as a dealer), or both.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

**COLLATERAL:** Securities, evidence of deposit, or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**CONVEXITY:** A volatility measure, used in conjunction with duration, of how the price of a bond changes as interest rates change.

**CORPORATE BONDS and NOTES:** Public or private corporations and organizations issue corporate bonds and notes for the purpose of funding capital improvements, expansions, acquisitions or debt refinancing. Investors essentially are lending money to the issuer.

**COUPON RATE:** The amount of interest return based upon par value which the issuer agrees to pay the bondholder.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

**DEBENTURE:** A bond secured only by the general credit of the issuer (unsecured, no liens or pledges on specific assets).

**DELIVERY VERSUS PAYMENT:** Delivery versus payment is delivery of securities with an exchange of money for the securities.

**DELIVERY VERSUS RECEIPT:** **(Also called free).** Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**DISCOUNT SECURITIES:** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value; e.g. U. S. Treasury bills.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns.

**DON'T KNOW (DK):** A term designating the lack of knowledge of a delivery in a securities transaction.

**DURATION:** The weighted average time to the receipt of value of the future cash flows of a security weighted by the present value of each of the cash flows in the series. Duration is used as a measure of the relative sensitivity of the price of the security to a change in market required yield.

**FACE VALUE:** The dollar amount the issuer promises to pay the bondholder at maturity. Also called par value.

**FEDERAL CREDIT AGENCIES:** Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives and exporters.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits, currently up to $100,000 per deposit.

**FEDERAL FUNDS RATE:** The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL HOME LOAN BANKS (FHLB):** The institutions that regulate and lend to savings and loan associations. The FHLB play a role analogous to that played by the Federal Reserve Banks vis-à-vis member commercial banks.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae):** FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing & Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. FNMA is a private stockholder owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**FEDERAL OPEN MARKET COMMITTEE (FOMC):** Consists of seven members of the Federal Reserve Board and five Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM ("FED"):** The Central Bank of the United States created by Congress and composed of the presidentially appointed Board of Governors in

Washington, D.C., the Federal Open Market Committee, 12 Regional Federal Reserve Banks, numerous private U.S. member banks, and various advisory councils.

**FORWARD DELIVERY AGREEMENT (FDA) and FORWARD SALE AGREEMENT (FSA):** See “Forward Contracts” in Agency-wide Risk Management Policy Glossary.

**FREE DELIVERY:** See "Delivery versus Receipt".

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae):** Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term “pass-through” is often used to describe Ginnie Mae.

**GOVERNMENT SECURITIES:** Securities that qualify under government securities are issued or guaranteed by more than 15 different entities/agencies of the U.S. government and corporations created by acts of Congress. Some are backed by the full faith and credit of the U.S. and some are not. The direct and guaranteed obligations of the U.S. government, where the securities are backed by the full faith and credits of the U.S., are considered AAA rated. A comprehensive listing of qualified investments for AAA financing is provided in Appendix A.

**INTERNAL RATE OF RETURN (IRR):** The discount rate that makes the present value (sum of the discounted values) of a cash flow of an instrument equal to the price of the instrument.

**LOCAL GOVERNMENT INVESTMENT POOL (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase--reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**MATURITY:** The date a security comes due and fully payable.

**MONEY MARKET:** The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

**MUNICIPAL BOND:** A bond issued by a political unit, such as a state, county, city, town, or village or a political unit's agencies or authorities. In general, interest paid on municipal bonds is exempt from federal income taxes and state and local income taxes within the state of issue.

**NASD:** National Association of Securities Dealers.

**NEW HOUSING AUTHORITY BONDS:** A bond issue by a local public housing authority to finance public housing secured by U.S. Government assistance agreements which guarantees full payment of interest and principal. Also called Public Housing Authority Bonds (PHA's).

**OPEN MARKET OPERATIONS:** Purchases and sales of government securities and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and flexible monetary policy tool.

**PAR VALUE:** See "Face Value".

**PAYMENT DATE:** The date at which the interest on a bond is due.

**PORTFOLIO:** Collection of securities held by an investor.

**PROJECTS:** St Lucie, Stanton, All-Requirements, Tri-City, Stanton II, Pooled Loan, Solar Project I, and II.

**PRIMARY DEALER:** A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission registered securities broker-dealers, banks, and a few unregulated firms.

**PRUDENT PERSON RULE:** An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state- the so-called legal list. In other states the trustee may invest in a security if it is one that would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

**QUALIFIED PUBLIC DEPOSITORIES:** A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state which has segregated eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

**REPURCHASE AGREEMENT (RP OR REPO):** An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement by the first party to repurchase the securities at a specified price from the second party on a specified later date.

**RIDING THE YIELD CURVE:** Buying long-term bonds in anticipation of capital gains as yields fall with the declining maturity of the bonds.

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

**SEC RULE 15C3-1:** See "Uniform Net Capital Rule".

**SECONDARY MARKET:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**SECURITIES ACT OF 1933:** A federal law for the purpose of protecting the public in the issuance and distribution of securities by requiring full disclosure by the issuer.

**SECURITIES AND EXCHANGE COMMISSION:** The government agency responsible for regulating and supervising the securities industry.

**SECURITIES EXCHANGE ACT OF 1934:** A federal law for the purpose of protecting the public in the trading of securities on the stock exchanges and the over-the-counter market.

**STRUCTURED NOTES:** Notes issued by Government Sponsored Enterprises (FHLB, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the yield curve.

**TWO HIGHEST CREDIT RATING CATEGORIES:** For long-term debt the two highest rating categories, namely AAA and AA, without regard to any gradation of that rating by a numerical, symbol or other such modifier however done by any of the different Rating Agencies. See table below. The two highest credit rating categories are highlighted. Likewise, short-term ratings of the two highest categories by rating firm are also highlighted. Table of ratings categories; partial listing of upper portion of complete table as herein needed:

| **Moody's** | | **S&P** | | **Fitch** | |
|---|---|---|---|---|---|
| Long-term | Short-term | Long-term | Short-term | Long-term | Short-term |
| Aaa | P-1 | AAA | A-1+ | AAA | F1+ |

| | | | | | |
|---|---|---|---|---|---|
| Aa1 | P-1 | AA+ | A-1+ | AA+ | F1+ |
| Aa2 | P-1 | AA | A-1+ | AA | F1+ |
| Aa3 | P-1 | AA- | A-1+ | AA- | F1+ |
| A1 | P-1 | A+ | A-1 | A+ | F1 |
| A2 | P-1 | A | A-1 | A | F1 |
| A3 | P-2 | A- | A-2 | A- | F2 |
| Baa1 | P-2 | BBB+ | A-2 | BBB+ | F2 |

Please note, the table shown above is just the relevant part of a comprehensive ratings table in order to clarify the Investment Risk Management Policy meaning for the term "two highest credit rating categories."

**TREASURY BILLS:** A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

**TREASURY BOND:** Long-term U.S. Treasury securities having initial maturities of more than ten years.

**TREASURY NOTES:** Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

**UNIFORM NET CAPITAL RULE:** Securities and Exchange Commission requirement that member firms, as well as nonmember broker-dealers in securities, maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

**Agency, All Requirements, St. Lucie, Stanton, Stanton II, Tri-City Pooled Loan, Solar I & II Projects**

| Authorized Investments | | Credit Rating/Security/Collateral |
|---|---|---|
| 1. | U.S. Gov. obligations including Federal Agencies unconditionally guaranteed by the U.S. Govt. | Guaranteed by the U. S. Government. |
| 2. | Non-callable bonds or other obligations of any U.S. State, Agency, Instrumentality or local Gov. unit. | Guaranteed by cash or U.S. Gov. securities or rated in the highest category by a nationally recognized bond rating agency. |
| 3. | Bonds, debentures or other indebtedness issued or guaranteed issued by any Agency or Instrumentality of the United States of America. | Issued or guaranteed by any agency or corporation of the U.S. Gov. |
| 4. | New Housing Authority Bonds and Project notes fully secured. | Fully secured by payment agreement with U.S. Gov. |
| 5. | Direct and general obligations of any State, Agency or Instrumentality of the U. S. or any agency, instrumentality or local government. | Rated in either of the two highest credit rating categories. |
| 6. | Obligations of any state agency or instrumentality of the U.S. Gov. | Rated in either of the two highest credit rating categories. |
| 7. | Certificates that evidence ownership of the right to payment as long as those securities are those described above, under 1, and are held by a trust company or bank. | Unsecured, uninsured and unguaranteed debt issue ranked in the two highest rating categories. |
| 8. | Certificates that evidence ownership of the right to payment as long as those securities are those described above, under 1, and are held by a trust company or bank. | Guaranteed by the U.S. Gov. |
| 9. | Certificates of deposit and banker's acceptance of the 50 largest banks in the U.S. or commercial paper issued by the parent holding company. | Unsecured, uninsured and unguaranteed debt issue ranked in the two highest rating categories. |
| 10. | Commercial Paper other than that issued by a bank holding co. | Rated in the highest rating category or issued by a U.S. Corp. which has an unsecured, uninsured and unguaranteed debt issue ranked in the two highest rating categories. |
| 11. | Repurchase agreements with banks or trust companies. | Banks with combined capital of no less than $50 million or primary dealer secured by securities described under 1, 3, 4, 9, or 10 above. |
| 12. | Shares of Investment Companies organized under Inv. Co. Act 1940, which invests its assets exclusively in obligations described above, under 1, 6, 9, 10, or 11. | |
| 13. | Local Gov. Surplus Trust Fund of the State of Florida. | |
| 15. | Money Market Funds. | Rated in the highest category of comparable types of obligations. |
| 16. | Investment agreements or guaranteed investment contracts. | Rated in the highest credit rating category. |
| 17 | CORPORATE BONDS and NOTES: Public or private corporations and organizations issue corporate bonds and notes for the purpose of funding capital improvements, expansions, acquisitions or debt refinancing. Investors essentially are lending money to the issuer. | Minimum rated A without regard to any gradation of that rating by a numerical, symbol or other such modifier, by all rating agencies. |

## Decommissioning Funds - St. Lucie Unit No. 2

| Authorized Investments | | Credit Rating/Security/Collateral |
|---|---|---|
| 1. | Securities or other obligations of the Federal, State government or any agency or instrumentality. | |
| 2. | Time deposits or demand deposits of the Trustee. | Insured by an agency of the Federal Gov. |
| 3. | Forward delivery agreements. | Guaranteed by any agency of the U.S. Gov. |
| 4. | In accordance with instructions from FMPA subject to the provisions of Section 5 of the Trust Fund Agreement. | |

Pursuant to the Resolution, all revenues are deposited with FMPA to the credit of the Revenue Fund established under the Bond Resolution. In each month, funds are to be first transferred from the Revenue Fund to the Operation and Maintenance Fund (i) for credit to the Operation and Maintenance account in the amount, if any, required so that the balance credited to said Account shall equal the amount necessary for the payment of Operation and Maintenance Expenses for the succeeding month, (ii) for credit to the Working Capital Account in the amount budgeted therefore, and (iii) for credit to the Rate Stabilization Account in the amount, if any, budgeted therefore. After these transfers from the Revenue Fund, FMPA will make in each month the following deposits from the Revenue Fund in the order of priority set forth below:

**First,** to the Debt Service Account held by the Trustee, the amount required so that the balance in such Account (excluding capitalized interest on deposit therein in excess of the amount thereof to be applied to pay interest accrued and to accrue on all outstanding Bonds to the end of the then current calendar month) shall equal the Accrued Aggregate Debt Service;

**Second,** to the Debt Service Reserve Account held by the Trustee (and each sub account therein), after giving effect to any surety bond, insurance policy, letter of credit or other obligation deposited therein pursuant to the terms of the Resolution, the amount required to be deposited into such Account in such month to make up any deficiency in the Debt Service Reserve Requirement;

**Third,** to the Subordinated Debt Fund held by FMPA for credit to the various accounts therein, including the Offered Securities Account, the amount, if any, required to pay principal or sinking fund installments of and interest on each issue of Subordinated Debt (including the Offered Securities) and reserves therefore, as required by the supplemental Bond Resolution authorizing such issue of Subordinated Debt;

**Fourth,** to the Reserve and Contingency Fund held by FMPA (a) for credit to the Renewal and Replacement Account, the amount budgeted therefore, and (b) for credit to the Contingency Account the amount required for such account to equal the Contingency Requirement;

**Fifth,** for deposit to the Decommissioning Fund (which is not pledged to the Offered Securities), the amount budgeted therefore; (applicable for St. Lucie Project) and

**Sixth,** for credit to the General Reserve Fund held by FMPA, any remaining monies in the Revenue Fund.

| Florida Municipal Power Agency<br>Risk Management Reporting Calendar<br>Investment Risk Management Reporting Requirements | | | | |
|---|---|---|---|---|
| Reporting Item | Frequency Of Report | Responsible Party | Policy Section Reference | Policy Category Reference |
| Security Ratings Compliance | Monthly | Treasurer and Risk Director | Section 5.0 | Authorized and Suitable Investment Securities |
| Financial Condition | Annually | Treasurer and Risk Director | Section 5.1 | Authorized Financial Institutions, and Broker/Dealers: |
| Diversification Percentage | Monthly | Treasurer and Risk Director | Section 5.5 | Diversification: |
| SSAE 16 Report for Trustees and Custodians | Annually | Treasurer and Risk Director | Section 6.0 | Custody |
| Policy Compliance Deviations | As Needed | Agency Audit Manager | Section 8.1 | Policy and Procedure Compliance |
| Investment Reports | EC/BOD meetings | Treasurer and Risk Director | Section 9.0 | Reporting |
| Policy Operation and Effectiveness | Annually | FC | Section 9.0 | Reporting |

# FLORIDA MUNICIPAL POWER AGENCY
# RISK MANAGEMENT POLICY - APPENDIX C

# INVESTMENT RISK MANAGEMENT POLICY

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# INVESTMENT RISK MANAGEMENT POLICY
# FOR FLORIDA MUNICIPAL POWER AGENCY

This Investment Risk Management Policy (the "Policy") and any effective subordinate procedures establish the governance, framework and the controls under which Florida Municipal Power Agency (FMPA) may engage in activities to identify, measure and minimize future business risk resulting from the investment and management of FMPA's financial assets. This Policy is Appendix C of the FMPA Risk Management Policy.

## 1.0 Policy Statement

The Executive Committee (EC) and Board of Directors (BOD) of FMPA recognize that FMPA is exposed to various risks in the normal course of business activities. There may be times when FMPA will determine that certain risks are above the preferred risk tolerance level of FMPA and its members. FMPA is hereby authorized to put mechanisms into place, such as those more fully described in Sections 3.0 and 4.0 of this Policy, which will control, transfer, or mitigate these risks to avert an adverse effect on FMPA's ability to invest funds of the Agency and its Projects in a manner that will balance investment return with principal security, such that FMPA will meet the daily and long term cash flow demands of the Agency and its Projects.

It is the Policy of the EC and BOD that:

- The investment program shall conform to all federal, state, and local legal requirements.
- Authority is delegated to the Chief Financial Officer (CFO) to create procedures to administer this Policy.
- The preservation of capital is the foremost objective of the risk-considered investment practice strategies.
- Investments using derivatives ~~is~~ are prohibited unless specifically approved by the EC or BOD.
- The CFO shall establish benchmarks against which portfolio performance shall be compared regularly.

- ❖ Authority is delegated to the CFO to establish a system of written internal controls to regulate investment activities.
- ❖ The Treasurer and Risk Director ~~and Risk Director~~ shall provide investment reports for each regular meeting of the EC and BOD.
- ❖ Deviations from this Policy shall be reported to the Finance Committee (FC).

This Policy is created to ensure the prudent management of the Agency~~'s~~ and its Projects' funds, and the availability of operating funds, bond proceeds and capital funds as needed. This Policy is applied individually to each Project, not in any combination of Projects. This Policy applies to all monetary assets of the Agency and all Projects with the exception of employee deferred contribution funds. The ~~Agency's~~ employees~~'~~ ~~employee~~ deferred contribution funds are placed with a third party administrator and are self-managed by the employees.

The standard of prudence to be used by FMPA investment staff shall be the "prudent person" rule as defined in Florida Statute 218.415: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment."

## 2.0 Scope

Investments purchased by the Agency shall conform to all federal, state, and local legal requirements governing the investment of Public Funds, including all bond resolutions and ordinances adopted by the EC or BOD. Responsibility for investment decisions, including day-to-day transactions undertaken, is hereby delegated to the Treasurer and Risk Director or designated Treasury staff, under the direction of the CFO. No person may engage in an investment transaction except as provided under the terms of this Policy.

~~Positions authorized as investment signatories are: FMPA's General Manager and CEO, CFO, Chief Operating Officer Power Resources, and Executive Officer Public Relations and Human Resources.~~ FMPA may appoint an outside investment manager as "Agent" for the

**Commented [RP1]:** Indivduals not needed as signatures for investments.

Agency's cash and investment reserves. The outside investment manager must meet the requirements detailed in the Investment Procedures.

# 3.0 Types of Investment Risk

This Policy is intended to define responsibility, clarify investment goals, establish strategies, achieve stated goals and set up the method of evaluation and control of all investment operations. The CFO will cause Investment Procedures to be written that identify risks in the areas noted below and provide ways to measure, control and mitigate FMPA's exposure to those risks. While not intended to be a comprehensive listing of risks encountered by FMPA during the normal course of the business cycle, the following provides insight into the major areas of investment risk exposure for FMPA

## 3.1 Credit Risk:

The risk that a change in the credit quality of an institution will affect the value of a security or portfolio. An example of credit risk might occur if the issuer of a bond that FMPA has purchased as an investment defaults on its obligations, causing the loss of some or all of the investment value. Such risks can be reduced by diversifying securities and maturities.

## 3.2 Liquidity Risk:

The risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. Some investments are highly liquid and have low liquidity risk (such as money market funds) while other investments are highly illiquid and have high liquidity risk (such as real estate). An example of liquidity risk might occur if FMPA attempted to convert an investment into cash for operating needs, but was unable to do so due to the illiquid nature of the security. Such risk can be reduced by selecting investments with the liquidity to meet FMPA's cash flow needs.

# 4.0 Investment Objectives

Investment selections should balance the primary objectives of FMPA's investment program. In priority order, the objectives are

### 4.1 Safety:

Preservation of capital in the overall portfolio is the highest of the risk based investment practice objectives. To attain this objective, investment securities shall be selected from those deemed authorized and suitable as described in Section 5.0 of this Policy. Speculative strategies shall not be undertaken. Management defines speculation as the process of selecting investments in an attempt to profit from fluctuations in prices.

### 4.2 Liquidity:

The portfolio should be structured so that securities mature concurrent with cash needs to meet anticipated demands. Investments considered to be liquid are those held until maturity where maturity is less than ~~3~~ three months. A sufficient level of liquidity must be maintained to meet the next thirty days of expected operating expenses and other disbursements, plus an extra, reasonable amount to meet unusual and unexpected needs.

### 4.3 Return:

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and the cash flow characteristics of the portfolio. Funds should be invested in high credit quality investment instruments (as allowed by Project Bond Resolutions and summarized in Appendix A) in anticipation of achieving a fair return. The methods used in selecting investments should balance market, credit, and liquidity risks.

## 5.0 Authorized and Suitable Investment Securities

FMPA is empowered by Ordinance 87-1, as amended, to invest in the types of securities listed in Appendix A for the Agency and its Projects. FMPA may ~~swap~~ buy or sell securities for other securities to improve yield, maturity, or reduce credit risk. Investment in securities that "derive" their value through financially engineered derivative indices or are highly ~~interest~~ interest-rate sensitive are not permissible unless specifically recommended in writing and approved by the EC or BOD. FMPA will not allow leveraging (the borrowing of funds for the expressed purpose of reinvesting those funds)~~,~~ or invest in securities with a rating below that required in Appendix A at the time of purchase. The Treasurer and Risk Director must report on a monthly basis any security whose rating has fallen below the rating level identified in Appendix A after purchase and submit a rationale for maintaining such security if it has not been sold

### 5.1 Authorized Financial Institutions, ~~Depositories,~~ and Broker/Dealers:

Commented [RP2]: depositories not used for investments

The Treasurer and Risk Director will cause to be maintained a list of financial institutions ~~and depositories~~ that meet the qualifications detailed in the Investment Procedures and are authorized to provide investment services. An annual (each fiscal year) review of the ratings from national rating agencies and financial condition of all qualified financial institutions and broker/dealers will be conducted in accordance with Investment Procedures.

### 5.2 Method of Selection:

FMPA shall select securities ~~which~~ that provide the highest rate of return within the risk parameters of this P~~policy~~, given the current objectives, diversification, cash flow needs, and maturity requirements. Selection of securities shall be made using either competitive bids, wherein FMPA solicits proposals from at least three firms; or comparison to the current market price as indicated by one of the market pricing resources available, including but not limited to Bloomberg. Records will be kept of the bids or offers, the bids or offers accepted and if necessary a brief explanation of the decision which was made regarding the investment.

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### 5.3 Maximum Maturities:

The funds of Agency and Project Operating accounts are invested to achieve a market rate of return while meeting the Agency's and its Projects' cash flow needs. FMPA will match investment maturities with known cash needs and anticipated cash flow requirements, not to exceed maximum maturity requirements.

Unless matched to a specific cash flow, FMPA shall invest securities maturing in accordance to Appendix B and the following.

| Fund/Account | Invested to Mature as Shown |
|---|---|
| ***Operations and Maintenance Fund*** | |
| 1. Operations and Maintenance Account | The month-end duration of the Account will be less than 1.00.~~Within 12 months from investment date. (Depends on cash flow needs)~~ |
| 2. Working Capital Account | Within 5 years. |
| 3. Rate Stabilization Account | Within 5 years. |
| ***Debt Service Fund*** | |
| 1. Debt Service Account | Not later than when needed for payment to be made from such Account. |
| 2. Debt Service Reserve | Not later than the final maturity date of any Bonds that are outstanding. |
| 3. Subordinated Debt Fund | Not later than when needed for payment to be made from such Account. |
| ***Construction Fund or Proceeds Fund*** | Not later than when needed for payments to be made from such fund. |
| ***Reserve and Contingency Fund*** | |
| 1. Contingency Account | Within 5 years or when needed to make payments. |
| 2. Renewal and Replacement | Within 5 years or when needed to make payments. |
| ***General Reserve Fund*** | |
| 1. General Reserve Account | Within 5 years or when needed to make payments. |
| ***Decommissioning*** | Not later than when needed. (Applicable only to St. Lucie) |

### 5.4 Collateralization:

Collateralization, as detailed in the Investment Procedures, may be required for investments such as repurchase agreements and any approved investment agreement contract or agreement.

## 5.5 Diversification:

FMPA must diversify to avoid incurring unreasonable risks associated with over-investing in specific investments, individual financial institutions, maturities and in the future by geographic area or by any other reasonably determinable characteristic. Compliance with the specific diversification requirements shown in the chart below will be measured using market value at the time of purchase and monthly thereafter. In the event that a particular category exceeds the scheduled maximum percentage by 10% (for example, if Repurchase Agreements exceed 22%) for two consecutive months, the Treasurer and Risk Director must report such deviation and submit for approval a strategy for handling each such deviation. For risks potentially resulting from investments with high concentrations of other characteristics not itemized in the chart above, the Treasurer and Risk Director should bring these investments to the attention of the CFO for review. If the concentration risk is deemed significant enough by any one of the three noted here, the CFO must bring this concentration concern to the FC.

| Diversification by Investment Type: | Percentage at time of purchase: |
|---|---|
| US Treasury Obligations | 100% |
| Municipal Bonds ~~(including FSA/FDA)~~[1] | 100% |
| US Gov. Agency and US Gov. Sponsored Instrumentality | 100% |
| Banker's Acceptances | 50% |
| Commercial Paper | 50% |
| Corporate Bonds and Notes (A or above) | 20% |
| Florida Local Government Surplus Fund Trust Fund (SBA) | 50% |
| Local Government Investment Pools | 25% |
| Collateralized CDs and Time Deposits | 25% |
| Money Market Mutual Funds | 25% |
| Repurchase Agreements | 20% |
| Guaranteed Investment Contracts (GICs) | 15%* |
| Or as approved by the EC or BOD | |

~~(1) Beginning with Version 5 of the Investment Policy, at time of purchase and measured monthly thereafter no more than 25% of total investments, exclusive of the FSA and FDA investments, can be from the same state, regardless of bond structure. Current investment portfolio, at adoption of this Policy revision is grandfathered; Treasury is not required to sell current portfolio to get to 25%., but cannot acquire more, if current portfolio is already to the 25% limit.~~

| **Diversification by Institution:** | **Percentage at time of purchase:** |
|---|---|
| Money Market Mutual Fund | 25% |
| US Gov. Agency by Agency | 25% |
| Municipal Bonds by Issuer | 20% |
| Commercial Banks (CDs, Time Deposits, or Commercial Paper) | 10% |
| Bankers' Acceptance by Bank | 10% |
| Corporate Notes | 10% |

| Diversification by Geographic Location: | Percentage of Portfolio |
|---|---|
| Within individual state | Not more than 25% |
| ~~The limitation of investments within a state prior to May 21, 2015 was limited to 50%. The contents of any investment portfolio prior to this date is grandfathered and do not require adjustments to meet the current Policy limit of 25%. Any FSA and FDA investment is exempted from the 25% limitation.~~ | |

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### 5.5.1 Exceptions:

Diversification percentages can be exceeded by approval from the EC / BOD.

## 6.0 Custody

All investment security transactions, including collateral for repurchase agreements, entered into by FMPA shall be settled on a delivery versus payment (DVP) basis. Securities will be held by a third party Custodian or Trustee designated by the CFO and evidenced by trade confirmations and bank statements.

All securities purchased by FMPA will be properly designated as an asset of the Agency or its Projects and held by a third party Custodial or Trustee institution. The Custodial or Trustee institution shall annually (each fiscal year) provide a copy of their most recent report on internal controls (Statement on Standards for Attestation Engagements No. 16 (SSAE 16) ). The Treasurer and Risk Director or designated Treasury Staff will provide this report, upon receipt, to the CFO.

## 7.0 Benchmarking Performance

The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates, taking into account investment risk constraints and cash flow needs. The CFO shall cause to be established a series of appropriate benchmarks against which portfolio performance shall be compared on a regular basis. Guidelines on selecting and managing benchmarks, which may include the use of duration and convexity as performance measurement tools, are contained in the Investment Procedures.

Any external investment managers, if hired, shall not independently select benchmarks. All benchmarks used by external investment managers must be approved by the CFO. Specific description and the source, including date of such benchmarks, should be provided in any external investment manager's performance report along with the exact methodology used in calculating the yields/returns on the portfolio and the benchmark.

## 8.0 Internal Controls and Ethics

The CFO shall cause to be established a system of written internal controls to regulate investment and related activities, consistent with this Policy and Investment Procedures, and in accordance with all policies and procedural guidelines established in the FMPA Risk Management Policy. The controls shall be designed to meet the requirements as listed in Florida State Statute Section 218. As part of the year-end audit, the external auditors will be required to state whether the Agency has complied with Florida State Statute Section 218.415, regarding the investment of public funds.

The CFO and the Treasurer and Risk Director, or their designees, may do placement of funds. Accounting staff will not have any responsibility for investing funds. Further internal controls are established in the Investment Procedures to address safekeeping, repurchase agreement, collateral/depository agreements, banking service contracts, delivery vs. payment procedures, and separation of transaction authority from accounting and record-keeping, and may include security controls contained within Treasury software programs.

The Agency ~~Risk~~ Audit Manager shall be responsible to review all documented internal controls and procedures established to ensure they comply with the FMPA Risk Management

Policy and adequately mitigate all applicable risks. If, after review, the Agency ~~Risk~~ Audit Manager identifies areas of concern, the documented internal controls weakness(s) will be communicated to the CFO and FC as appropriate.

### 8.1 Policy and Procedure Compliance

~~Risk Management~~Internal Audit staff shall ensure that compliance with this Policy and the Investment Procedures are monitored on an ongoing basis. Any unresolved compliance issues will be presented to the FC by the Agency ~~Risk~~ Audit Manager at the next regularly scheduled meeting.

### 8.2 External Parties

All dealers, financial institutions, investment managers, or individuals, collectively referred to as the parties, investing on behalf of FMPA will be sent a copy of the Investment Policy by the Treasurer and Risk Director, along with a list of employees who are authorized to transact investment trades on behalf of FMPA. These parties will be required to respond, in writing, that the Policy was received, read, understood and will commit to adhere to the Policy. FMPA will pursue full recovery of all associated costs resulting from deviations from the Investment Policy.

### 8.3 Continuing Education

The CFO, Treasurer and Risk Director and other appropriate investment staff will be required to complete annually (each fiscal year) a minimum of 8 hours of continuing professional education (CPE's), or more as required by State Regulations, in subject courses of study related to investment practices and products.

## 9.0 Reporting

The Treasurer and Risk Director will produce investment reports in accordance with Investment Procedures and provide these reports to the General Manager and the CFO as and when requested, but for no less than each meeting of the EC and/or BOD.

The CFO shall cause any deviations from this Policy to be reported according to the guidelines set forth in Section 4.1 of the FMPA Risk Management Policy. An annual report on the operation and effectiveness of this Policy shall be completed by the FC as described in Section 7.0 of the FMPA Risk Management Policy. The Treasurer and Risk Director shall report on the current risk environment affecting FMPA's investment program to the CFO as needed, and initiate and/or participate in any necessary discussion prior to moving items to the FC.

**(See Also Glossary of Terms in FMPA's Risk Management Policy)**

**ACCRUED INTEREST:** The interest to be paid on a security from the last interest accrual date to the settlement date. The buyer of the security pays the market price plus accrued interest. Also called "Purchased Interest".

**AGENCY:** Florida Municipal Power Agency.

**AGENCY SECURITIES:** Corporations, such as GNMA, FNMA or FHLMC, which have varying degrees of federal sponsorship and/or regulatory oversight.

**ANNUAL AUDIT:** The official audit report for FMPA. It includes combined statements for each individual fund and account group prepared in conformity with GAAP.

**BASIS POINT:** One one-hundredth of a percent (0.01 %).

**BOND RATINGS:** Evaluations by independent services such as Moody's, Fitch, or Standard & Poor's of a bond's investment quality and credit worthiness.

**BROKER-DEALER:** A broker-dealer firm is in the business of buying and selling securities—stocks, bonds, mutual funds, and certain other investment products—on behalf of its customers (as broker), for its account (as a dealer), or both.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

**COLLATERAL:** Securities, evidence of deposit, or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**CONVEXITY:** A volatility measure, used in conjunction with duration, of how the price of a bond changes as interest rates change.

**CORPORATE BONDS and NOTES:** Public or private corporations and organizations issue corporate bonds and notes for the purpose of funding capital improvements,

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expansions, acquisitions or debt refinancing. Investors essentially are lending money to the issuer.

**COUPON RATE:** The amount of interest return based upon par value which the issuer agrees to pay the bondholder.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

**DEBENTURE:** A bond secured only by the general credit of the issuer (unsecured, no liens or pledges on specific assets).

**DELIVERY VERSUS PAYMENT:** Delivery versus payment is delivery of securities with an exchange of money for the securities.

**DELIVERY VERSUS RECEIPT:** **(Also called free).** Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**DISCOUNT SECURITIES:** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value; e.g. U. S. Treasury bills.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns.

**DON'T KNOW (DK):** A term designating the lack of knowledge of a delivery in a securities transaction.

**DURATION:** The weighted average time to the receipt of value of the future cash flows of a security weighted by the present value of each of the cash flows in the series. Duration is used as a measure of the relative sensitivity of the price of the security to a change in market required yield.

**FACE VALUE:** The dollar amount the issuer promises to pay the bondholder at maturity. Also called par value.

**FEDERAL CREDIT AGENCIES:** Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives and exporters.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits, currently up to $100,000 per deposit.

**FEDERAL FUNDS RATE:** The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL HOME LOAN BANKS (FHLB):** The institutions that regulate and lend to savings and loan associations. The FHLB play a role analogous to that played by the Federal Reserve Banks vis-à-vis member commercial banks.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae):** FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing & Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. FNMA is a private stockholder owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**FEDERAL OPEN MARKET COMMITTEE (FOMC):** Consists of seven members of the Federal Reserve Board and five Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM ("FED"):** The Central Bank of the United States created by Congress and composed of the presidentially appointed Board of Governors in

Washington, D.C., the Federal Open Market Committee, 12 Regional Federal Reserve Banks, numerous private U.S. member banks, and various advisory councils.

**FORWARD DELIVERY AGREEMENT (FDA) and FORWARD SALE AGREEMENT (FSA):** See “Forward Contracts” in Agency-wide Risk Management Policy Glossary.

**FREE DELIVERY:** See "Delivery versus Receipt".

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae):** Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term “pass-through” is often used to describe Ginnie Mae.

**GOVERNMENT SECURITIES:** Securities that qualify under government securities are issued or guaranteed by more than 15 different entities/agencies of the U.S. government and corporations created by acts of Congress. Some are backed by the full faith and credit of the U.S. and some are not. The direct and guaranteed obligations of the U.S. government, where the securities are backed by the full faith and credits of the U.S., are considered AAA rated. A comprehensive listing of qualified investments for AAA financing is provided in Appendix A.

**INTERNAL RATE OF RETURN (IRR):** The discount rate that makes the present value (sum of the discounted values) of a cash flow of an instrument equal to the price of the instrument.

**LOCAL GOVERNMENT INVESTMENT POOL (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase--reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**MATURITY:** The date a security comes due and fully payable.

**MONEY MARKET:** The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

**MUNICIPAL BOND:** A bond issued by a political unit, such as a state, county, city, town, or village or a political unit's agencies or authorities. In general, interest paid on municipal bonds is exempt from federal income taxes and state and local income taxes within the state of issue.

**NASD:** National Association of Securities Dealers.

**NEW HOUSING AUTHORITY BONDS:** A bond issue by a local public housing authority to finance public housing secured by U.S. Government assistance agreements which guarantees full payment of interest and principal. Also called Public Housing Authority Bonds (PHA's).

**OPEN MARKET OPERATIONS:** Purchases and sales of government securities and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and flexible monetary policy tool.

**PAR VALUE:** See "Face Value".

**PAYMENT DATE:** The date at which the interest on a bond is due.

**PORTFOLIO:** Collection of securities held by an investor.

**PROJECTS:** St Lucie, Stanton, All-Requirements, Tri-City, Stanton II, Pooled Loan, and Solar I & II

**PRIMARY DEALER:** A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission registered securities broker-dealers, banks, and a few unregulated firms.

**PRUDENT PERSON RULE:** An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state- the so-called legal list. In other states the trustee may invest in a security if it is one that would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

**QUALIFIED PUBLIC DEPOSITORIES:** A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state which has segregated eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

**REPURCHASE AGREEMENT (RP OR REPO):** An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement by the first party to repurchase the securities at a specified price from the second party on a specified later date.

**RIDING THE YIELD CURVE:** Buying long-term bonds in anticipation of capital gains as yields fall with the declining maturity of the bonds.

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

**SEC RULE 15C3-1:** See "Uniform Net Capital Rule".

**SECONDARY MARKET:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**SECURITIES ACT OF 1933:** A federal law for the purpose of protecting the public in the issuance and distribution of securities by requiring full disclosure by the issuer.

**SECURITIES AND EXCHANGE COMMISSION:** The government agency responsible for regulating and supervising the securities industry.

**SECURITIES EXCHANGE ACT OF 1934:** A federal law for the purpose of protecting the public in the trading of securities on the stock exchanges and the over-the-counter market.

**STRUCTURED NOTES:** Notes issued by Government Sponsored Enterprises (FHLB, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the yield curve.

**TWO HIGHEST CREDIT RATING CATEGORIES:** For long-term debt the two highest rating categories, namely AAA and AA, without regard to any gradation of that rating by a numerical, symbol or other such modifier however done by any of the different Rating Agencies. See table below. The two highest credit rating categories are highlighted. Likewise, short-term ratings of the two highest categories by rating firm are also highlighted. Table of ratings categories; partial listing of upper portion of complete table as herein needed:

| **Moody's** | | **S&P** | | **Fitch** | |
|---|---|---|---|---|---|
| Long-term | Short-term | Long-term | Short-term | Long-term | Short-term |
| Aaa | P-1 | AAA | A-1+ | AAA | F1+ |

| | | | | | |
|---|---|---|---|---|---|
| Aa1 | P-1 | AA+ | A-1+ | AA+ | F1+ |
| Aa2 | P-1 | AA | A-1+ | AA | F1+ |
| Aa3 | P-1 | AA- | A-1+ | AA- | F1+ |
| A1 | P-1 | A+ | A-1 | A+ | F1 |
| A2 | P-1 | A | A-1 | A | F1 |
| A3 | P-2 | A- | A-2 | A- | F2 |
| Baa1 | P-2 | BBB+ | A-2 | BBB+ | F2 |

Please note, the table shown above is just the relevant part of a comprehensive ratings table in order to clarify the Investment Risk Management Policy meaning for the term "two highest credit rating categories."

**TREASURY BILLS:** A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

**TREASURY BOND:** Long-term U.S. Treasury securities having initial maturities of more than ten years.

**TREASURY NOTES:** Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

**UNIFORM NET CAPITAL RULE:** Securities and Exchange Commission requirement that member firms, as well as nonmember broker-dealers in securities, maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

**Agency, All Requirements, St. Lucie, Stanton, Stanton II and Tri-City, Pooled Loan and Solar I & II Projects**

| Authorized Investments | | Credit Rating/Security/Collateral |
|---|---|---|
| 1. | U.S. Gov. obligations including Federal Agencies unconditionally guaranteed by the U.S. Govt. | Guaranteed by the U. S. Government. |
| 2. | Non-callable bonds or other obligations of any U.S. State, Agency, Instrumentality or local Gov. unit. | Guaranteed by cash or U.S. Gov. securities or rated in the highest category by a nationally recognized bond rating agency. |
| 3. | Bonds, debentures or other indebtedness issued or guaranteed issued by any Agency or Instrumentality of the United States of America. | Issued or guaranteed by any agency or corporation of the U.S. Gov. |
| 4. | New Housing Authority Bonds and Project notes fully secured. | Fully secured by payment agreement with U.S. Gov. |
| 5. | Direct and general obligations of any State, Agency or Instrumentality of the U. S. or any agency, instrumentality or local government. | Rated in either of the two highest credit rating categories. |
| 6. | Obligations of any state agency or instrumentality of the U.S. Gov. | Rated in either of the two highest credit rating categories. |
| 7. | Certificates that evidence ownership of the right to payment as long as those securities are those described above, under 1, and are held by a trust company or bank. | Unsecured, uninsured and unguaranteed debt issue ranked in the two highest rating categories. |
| 8. | Certificates that evidence ownership of the right to payment as long as those securities are those described above, under 1, and are held by a trust company or bank. | Guaranteed by the U.S. Gov. |
| 9. | Certificates of deposit and banker's acceptance of the 50 largest banks in the U.S. or commercial paper issued by the parent holding company. | Unsecured, uninsured and unguaranteed debt issue ranked in the two highest rating categories. |
| 10. | Commercial Paper other than that issued by a bank holding co. | Rated in the highest rating category or issued by a U.S. Corp. which has an unsecured, uninsured and unguaranteed debt issue ranked in the two highest rating categories. |
| 11. | Repurchase agreements with banks or trust companies. | Banks with combined capital of no less than $50 million or primary dealer secured by securities described under 1, 3, 4, 9, or 10 above. |
| 12. | Shares of Investment Companies organized under Inv. Co. Act 1940, which invests its assets exclusively in obligations described above, under 1, 6, 9, 10, or 11. | |
| 13. | Local Gov. Surplus Trust Fund of the State of Florida. | |
| 15. | Money Market Funds. | Rated in the highest category of comparable types of obligations. |
| 16. | Investment agreements or guaranteed investment contracts. | Rated in the highest credit rating category. |
| 17 | CORPORATE BONDS and NOTES: Public or private corporations and organizations issue corporate bonds and notes for the purpose of funding capital improvements, expansions, acquisitions or debt refinancing. Investors essentially are lending money to the issuer. | Minimum ~~R~~rated A ~~,~~ without regard to any gradation of that rating by a numerical, symbol or other such modifier, by all rating agencies. ~~or above~~ |

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**Commented [RP4]:** Rated "A" does not make clear if all rating agencies have to have the investment rated as an "A". Also removing the numercial or symbol matches the other investements rating concept as stated of the highest two categories. The addition of all rating agencies makes it clearer if anyone agency drops their rating below an A classification the investment is outside the policy.

**Decommissioning Funds - St. Lucie Unit No. 2**

| | Authorized Investments | Credit Rating/Security/Collateral |
|---|---|---|
| 1. | Securities or other obligations of the Federal, State government or any agency or instrumentality. | |
| 2. | Time deposits or demand deposits of the Trustee. | Insured by an agency of the Federal Gov. |
| 3. | Forward delivery agreements. | Guaranteed by any agency of the U.S. Gov. |
| 4. | In accordance with instructions from FMPA subject to the provisions of Section 5 of the Trust Fund Agreement. | |

Pursuant to the Resolution, all revenues are deposited with FMPA to the credit of the Revenue Fund established under the Bond Resolution. In each month, funds are to be first transferred from the Revenue Fund to the Operation and Maintenance Fund (i) for credit to the Operation and Maintenance account in the amount, if any, required so that the balance credited to said Account shall equal the amount necessary for the payment of Operation and Maintenance Expenses for the succeeding month, (ii) for credit to the Working Capital Account in the amount budgeted therefore, and (iii) for credit to the Rate Stabilization Account in the amount, if any, budgeted therefore. After these transfers from the Revenue Fund, FMPA will make in each month the following deposits from the Revenue Fund in the order of priority set forth below:

**First,** to the Debt Service Account held by the Trustee, the amount required so that the balance in such Account (excluding capitalized interest on deposit therein in excess of the amount thereof to be applied to pay interest accrued and to accrue on all outstanding Bonds to the end of the then current calendar month) shall equal the Accrued Aggregate Debt Service;

**Second,** to the Debt Service Reserve Account held by the Trustee (and each sub account therein), after giving effect to any surety bond, insurance policy, letter of credit or other obligation deposited therein pursuant to the terms of the Resolution, the amount required to be deposited into such Account in such month to make up any deficiency in the Debt Service Reserve Requirement;

**Third,** to the Subordinated Debt Fund held by FMPA for credit to the various accounts therein, including the Offered Securities Account, the amount, if any, required to pay principal or sinking fund installments of and interest on each issue of Subordinated Debt (including the Offered Securities) and reserves therefore, as required by the supplemental Bond Resolution authorizing such issue of Subordinated Debt;

**Fourth,** to the Reserve and Contingency Fund held by FMPA (a) for credit to the Renewal and Replacement Account, the amount budgeted therefore, and (b) for credit to the Contingency Account the amount required for such account to equal the Contingency Requirement;

**Fifth,** for deposit to the Decommissioning Fund (which is not pledged to the Offered Securities), the amount budgeted therefore; (applicable for St. Lucie Project) and

**Sixth,** for credit to the General Reserve Fund held by FMPA, any remaining monies in the Revenue Fund.

| Florida Municipal Power Agency<br>Risk Management Reporting Calendar<br>Investment Risk Management Reporting Requirements | | | | |
|---|---|---|---|---|
| Reporting Item | Frequency Of Report | Responsible Party | Policy Section Reference | Policy Category Reference |
| Security Ratings Compliance | Monthly | Treasurer and Risk Director | Section 5.0 | Authorized and Suitable Investment Securities~~Authorized and Suitable Investment Securities~~~~Authorized and Suitable Investment Securities~~~~Authorized and Suitable Investment Securities~~ |
| Financial Condition | Annually | Treasurer and Risk Director | Section 5.1 | Authorized Financial Institutions,  and Broker/Dealers:~~Authorized Financial Institutions,  and Broker/Dealers:~~~~Authorized Financial Institutions,  and Broker/Dealers:~~~~Authorized Financial Institutions, Depositories, and Broker/Dealers:~~ |
| Diversification Percentage | Monthly | Treasurer and Risk Director | Section 5.5 | Diversification: ~~Diversification:~~ ~~Diversification:~~ ~~Diversification:~~ |

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| | | | | |
|---|---|---|---|---|
| SSAE 16 Report for Trustees and Custodians | Annually | Treasurer and Risk Director | Section 6.0 | Custody~~CustodyCustodyCustody~~ |
| Policy Compliance Deviations | As Needed | Agency ~~Risk Manager~~Audit Manager | Section 8.1 | Policy and Procedure Compliance~~Policy and Procedure CompliancePolicy and Procedure CompliancePolicy and Procedure Compliance~~ |
| Investment Reports | EC/BOD meetings | Treasurer and Risk Director | Section 9.0 | Reporting~~ReportingReportingReporting~~ |
| Policy Operation and Effectiveness | Annually | FC | Section 9.0 | Reporting~~ReportingReportingReporting~~ |

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## AGENDA ITEM 8 – ACTION ITEMS

d. Approval of the Credit Card Audit Report

**Finance Committee Meeting**
**August 19, 2020**

# 8d – Credit Card Audit Report

Finance

Committee

August 19, 2020

# Credit Card Audit

- Objective and Scope
- Audit Methodology
- Finding and Recommendations

# Audit Objective

- Objective:  Ensure adequate procedures are in place for proper internal controls

# Audit Methodology

- Review pertinent procedures
- Document understanding
- Obtain sample transactions
- Perform analytical audit procedures
- Testing selected samples

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# Audit Findings

- FMPA
  - Two late receipt submissions
- Plant
  - Twelve late receipt submissions

# Audit Recommendation

- We recommend that missing receipts are entered into SharePoint.
- We recommend modifying the credit card procedure for the plant staff submission timeline requirement to allow for additional time since they don't have access to SharePoint.
- We recommend that controls are in place to ensure timely submission of the credit card receipts from all credit card users.

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# Questions?

# FY2020 Credit Card Review Report

Audit Performed By:
Veda Sharma
Trent Lewis
Liyuan Woerner

August 19, 2020

# Table of Contents

## EXECUTIVE SUMMARY

The purpose of the credit card review was to determine whether management internal controls were effective. We reviewed information from October 2019 through July 2020 and identified the two months with the highest number of transactions to audit (October 2019 and February 2020).

We have audited procedures related to FMPA credit cards under the following agreements:

- Treasure Coast Energy Center Operation and Maintenance Agreement between Florida Municipal Power Agency (All-Requirements Power Supply Project) and Fort Pierce Utilities Authority, as amended
- Consolidated Operating and Maintenance Contract for the Stock Island Generating Facility between Florida Municipal Power Agency (All-Requirements Power Supply Project) and the Utility Board of the City of Key West, Florida, Doing Business as KEYS Energy Services, as amended
- Consolidated Operating and Joint Ownership Contract for the Cane Island Facilities between Florida Municipal Power Agency (All-Requirements Power Supply Project) and Kissimmee Utility Authority
- FMPA Credit Card Procedures
- FMPA Credit Card User Agreement

Based on our audit procedures, we determined that the agency generally complied with the requirements of the FMPA Credit Card Procedure and related agreements. However, improvements are recommended to strengthen internal controls and ensure that management can properly assess credit card risk in their everyday operation as well as ensure written procedures are continually reviewed and communicated to employees.

## BACKGROUND INFORMATION

*Issuing an FMPA Credit Card*

In accordance with the approved Credit Card procedure, FMPA staff members or FMPA member city employees working at power generation facilities (i.e. Cane Island Power Park, Stock Island Generating Facility, and Treasure Coast Energy Center) may be issued an FMPA credit card with a spending limit on an as-needed basis upon signing an FMPA Credit Card Use Agreement and approved by the CEO or General Counsel. A credit card will not be issued until the Agreement is signed by user.

*Monitoring an FMPA Credit Card*

FMPA employees must go into SharePoint to process their credit card expenses. Employees are to upload their receipts and/or other documentation to SharePoint to support their credit card charges within (30) calendar days. The procedure has since been changed as of July 2020 so that receipts must be submitted within fifteen (15) business days of the incurred charge, but no later than seven (7) business days following the end of the month that the expense was incurred. SharePoint has internal control measures to create travel expense and training request forms as necessary. Once the employee acknowledges the charge and provides details, SharePoint will forward the expense to the appropriate managers for approval.

For non-FMPA users/those not on SharePoint, the FMPA Accounting Department will send a list of monthly credit card transactions to the authorized users and request the receipts are to be submitted within (30) days (if there was activity on their card). The non-FMPA employee/those not on SharePoint will sign-off on the transactions and provide corresponding receipts and/or other documentation for all line items. These items are then uploaded to Maximo for approval. Once in Maximo, the monthly credit card transaction list goes through a regular purchase request workflow, which requires the following dollar amount approvals:

- Under $3,500 is approved by the Plant Manager
- Between $3,500 to $50,000 is approved by the FMPA Generation Fleet Director
- Between $50,000-$100,000 requires approval from the FMPA Chief Operating Officer (COO)
- Over $100,000 requires approval from the FMPA Chief Executive Officer (CEO)

On an annual basis, the Credit Card Administrator (CCA) reviews and documents the credit limit for each user for reasonableness of the limits based on actual activity usage.

*Terminating an FMPA Credit Card*

According to the procedure, “When an employee separates employment with FMPA, the employee’s manager is responsible for collecting all FMPA property, including the employee’s FMPA credit card. The credit card must be collected from the employee no later than the employee’s last day of employment.” For non-FMPA users who separate employment within their organization, the member city’s human resources department must destroy the credit card and/or return it to FMPA within three days and the card is immediately cancelled by the CCA.

## AUDIT OBJECTIVE AND SCOPE

The primary objective of this audit is to verify that FMPA managers have assessed credit card risk in their everyday operations. We reviewed information from October 2019– July2020.

The scope of this audit consisted of the following:

1) Reviewed credit card user agreements to ensure all users have an up-to-date signed user agreement on file.
2) Obtained a list from SunTrust and Wells Fargo of all authorized credit card users, monitored the monthly credit limit changes performed by the CCA, and reconciled credit card activity using SharePoint.
3) Examined existing credit card procedures for implementation and accuracy.
4) Tested procedures for credit card processing.
5) Review of receipt submittals for timeliness.

## AUDIT METHODOLOGY

The internal audit team utilized a risk-based approach from planning to testing when performing the credit card review. To obtain a thorough understanding of the credit card process, the auditors compiled information through walkthroughs, research, interviews, observations, sample testing, and analytical data reviews.

The following steps were taken to accomplish the audit objective:

- Identified applicable FMPA policies, procedures, and contractual agreements
- Verified the existence of signed credit card user agreements for all authorized credit card users
- Interviewed responsible agency management and staff
- Reviewed agency documentation
- Verified that management conducted a review of user credit limits and changes to credit limits had appropriate documentation.
- Selected audit samples to verify the credit card transactions.
- Reviewed credit card transactions for evidence that controls, policies, and procedures are being adhered to.

## AUDIT FINDINGS AND RECOMMENDATIONS

***Receipt and SharePoint Expense Approval Process Findings:***

1. Two late receipt submissions
2. There were 20 credit card transactions selected for testing regarding plant employees, and 12 transactions were identified as being submitted past 30 days.

We recommend all missing receipts are entered into SharePoint. In addition, we recommend modifying the credit card procedure for the plant staff submission timeline requirement to allow for additional time since they don't have access to SharePoint. We also recommend that controls are in place to ensure timely submission of the credit card receipts from all credit card users.

### Management Response

FMPA staff provided receipts supporting their charges which were initially not submitted in SharePoint in response to our findings. Concerning our findings related to the plant credit card charges, due to the timing of the credit card process, it is difficult to meet the 30 days requirement in the current procedure. Management agreed with the audit recommendation to modify the current procedure for plant staff to submit receipts ten days from when receiving the credit card reconciliation report from the FMPA Accounting Department.

## AGENDA ITEM 9 – INFORMATION ITEMS

## a. Budget vs. Actual Update

**Finance Committee Meeting**
**August 19, 2020**

# FC 9a - FY 2020 Budget Status

Finance Committee

August 19, 2020

# Summary

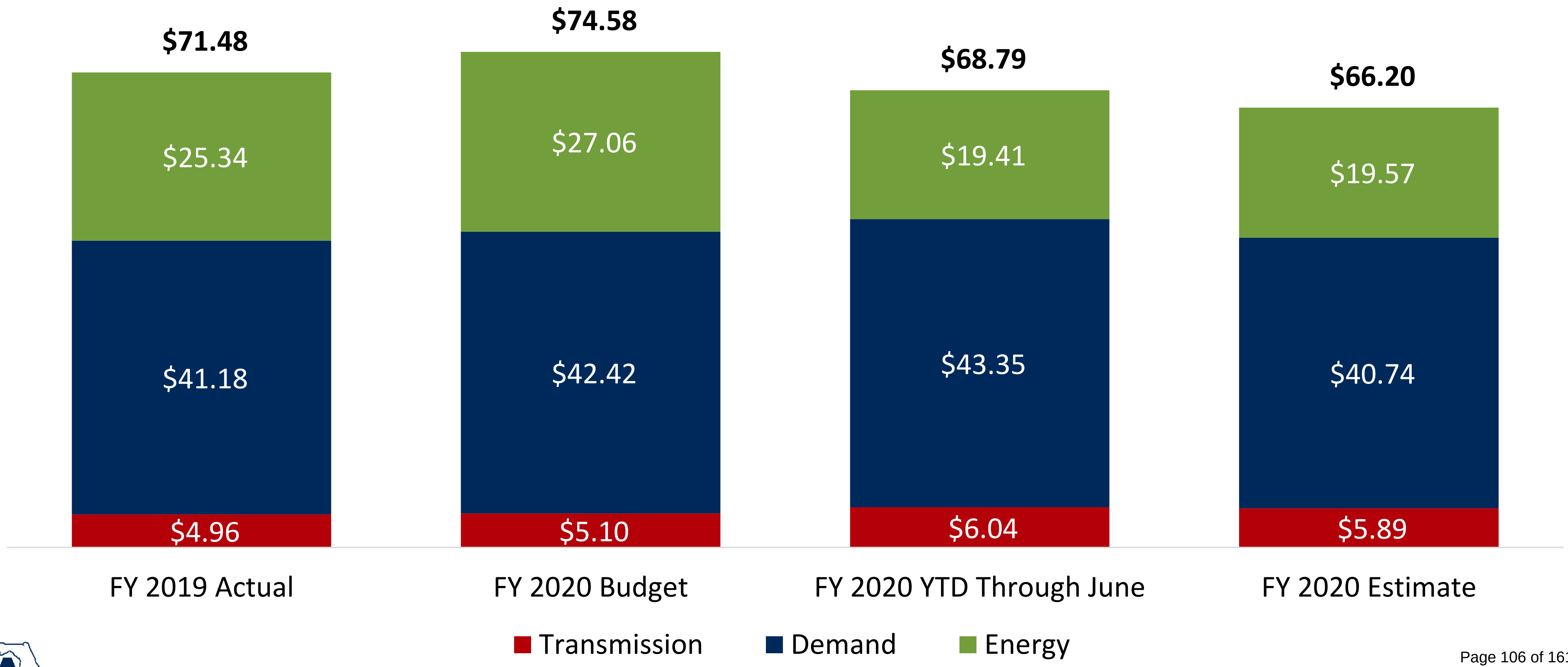
- ARP expenses projected well below budget with lowest power costs (~$66/MWh) since 2004
- St. Lucie, Stanton and Stanton II Projects expenses below budget; no budget amendments anticipated
- Tri-City Project may need small (~$200k) budget increase due to higher YTD generation than anticipated
- Agency expenses projected below budget

# ARP

# ARP Power Costs for FY 2020 Projected at $66/MWh

*11% Below Fiscal 2020 Budget; Lowest Since 2004*

**ARP Participant Costs ($/MWh)**

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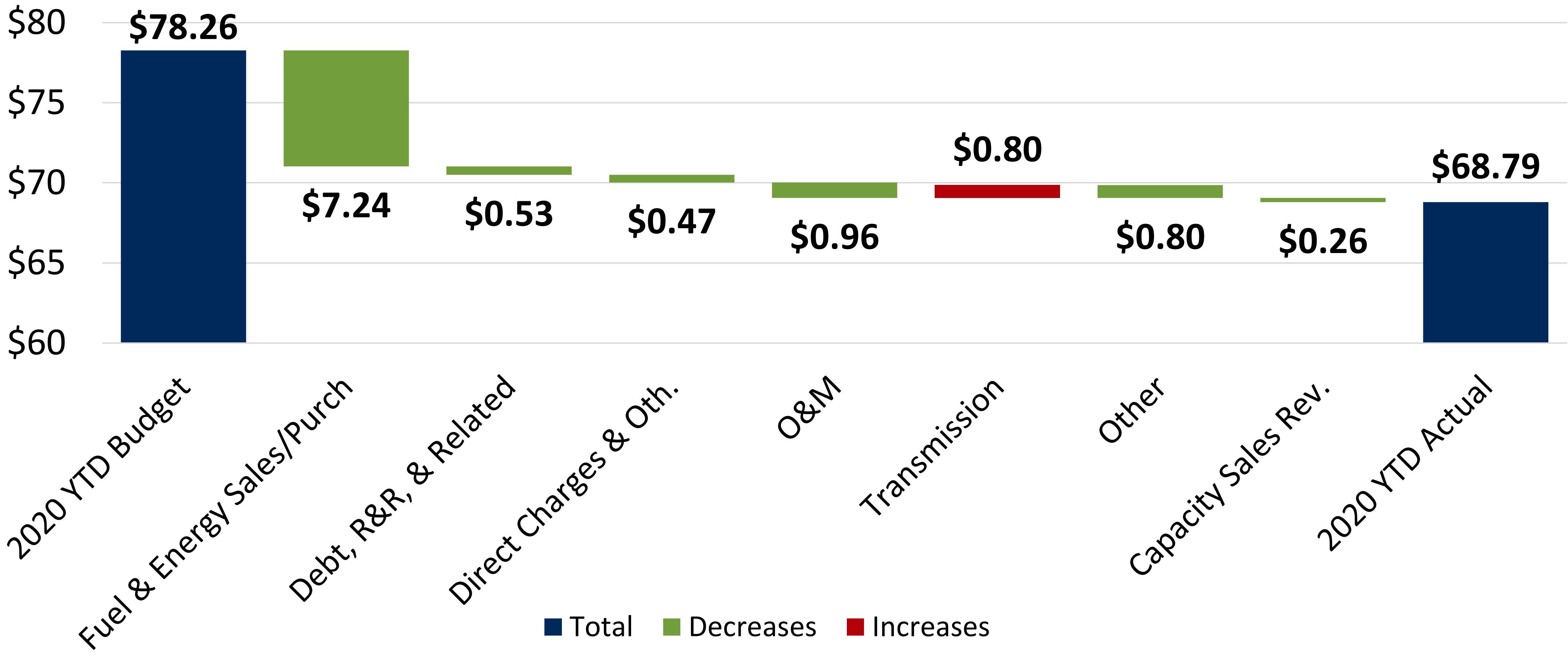
# YTD ARP Participant Costs ~$9.50/MWh (12%) < Budget

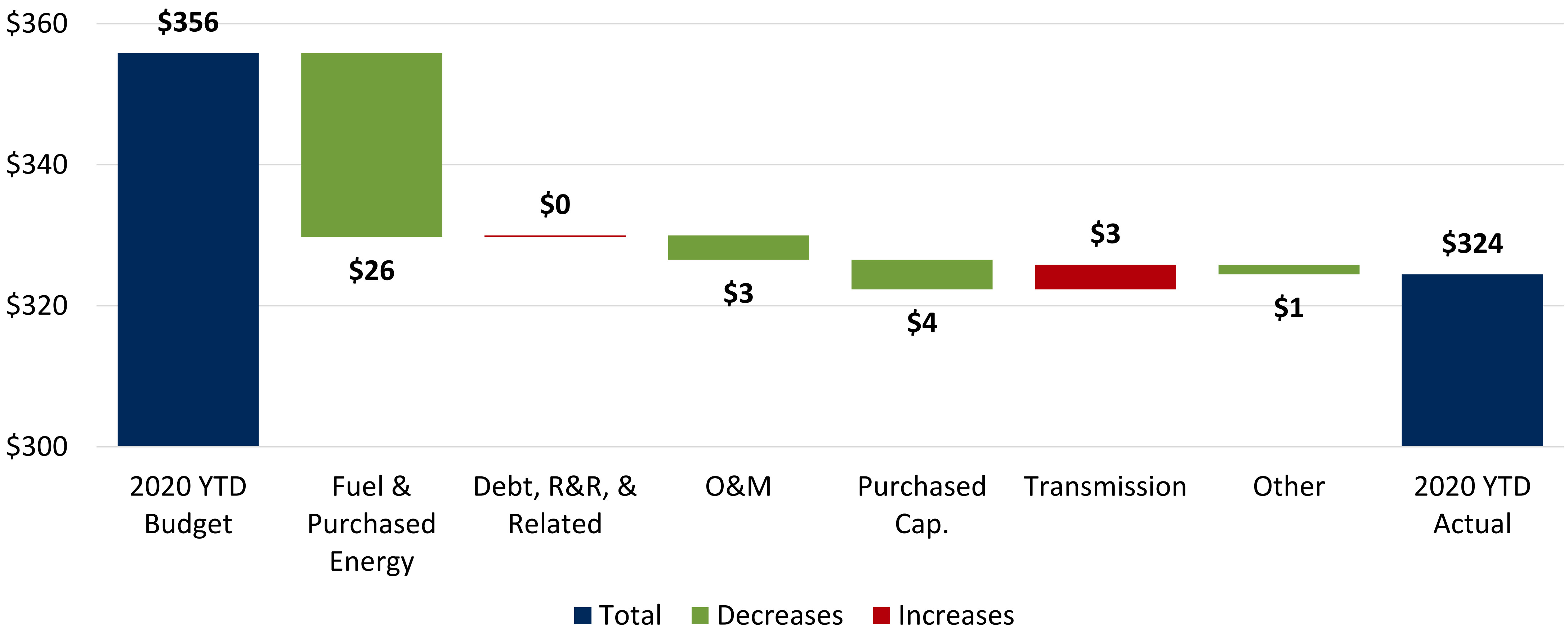
*Low Gas Prices, Sales > Budget Drive $/MWh Cost Savings*



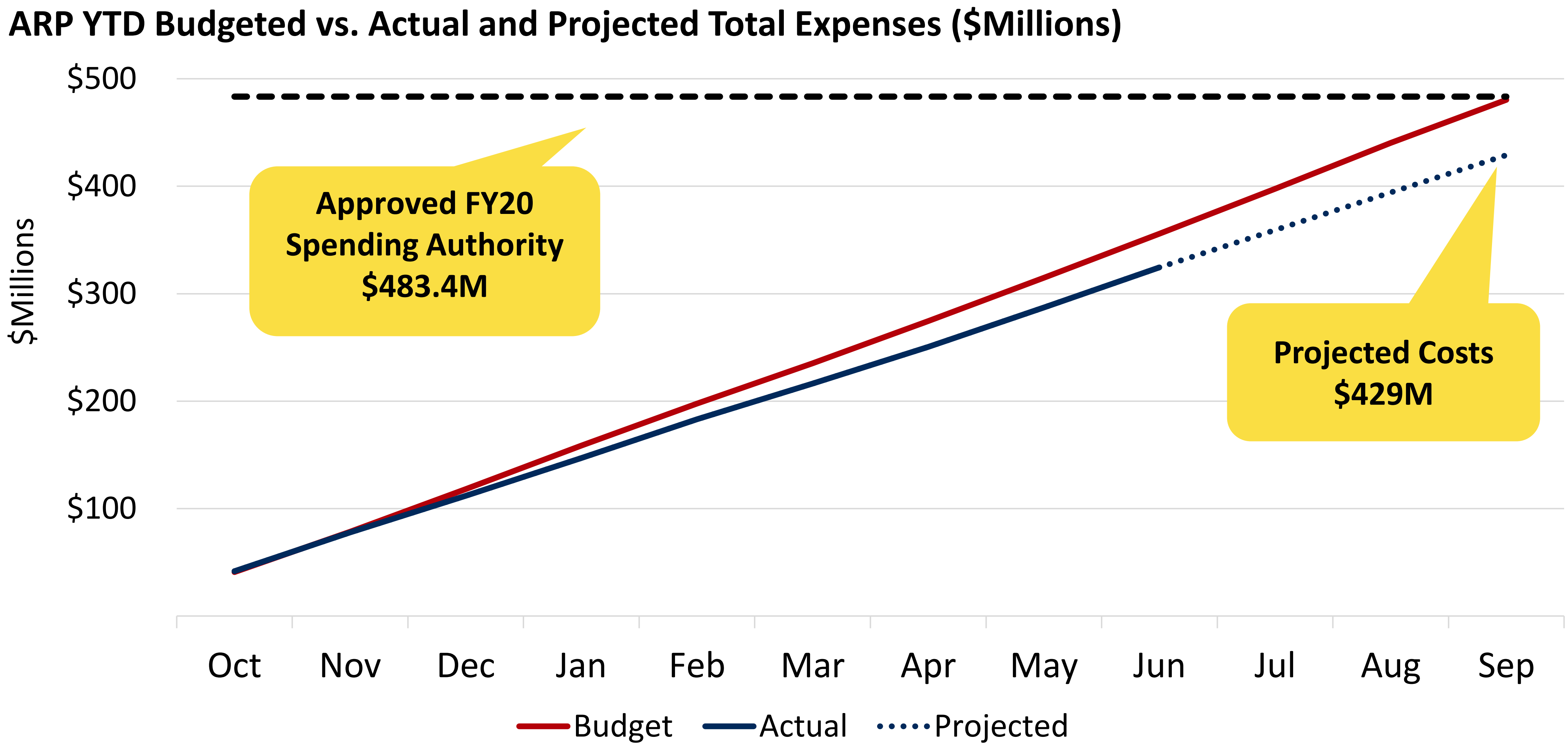

FMPA MUNICIPAL POWER

# YTD ARP Expenses $32M (9%) < Budget

*Low Gas Prices Provide Biggest Cost Savings*



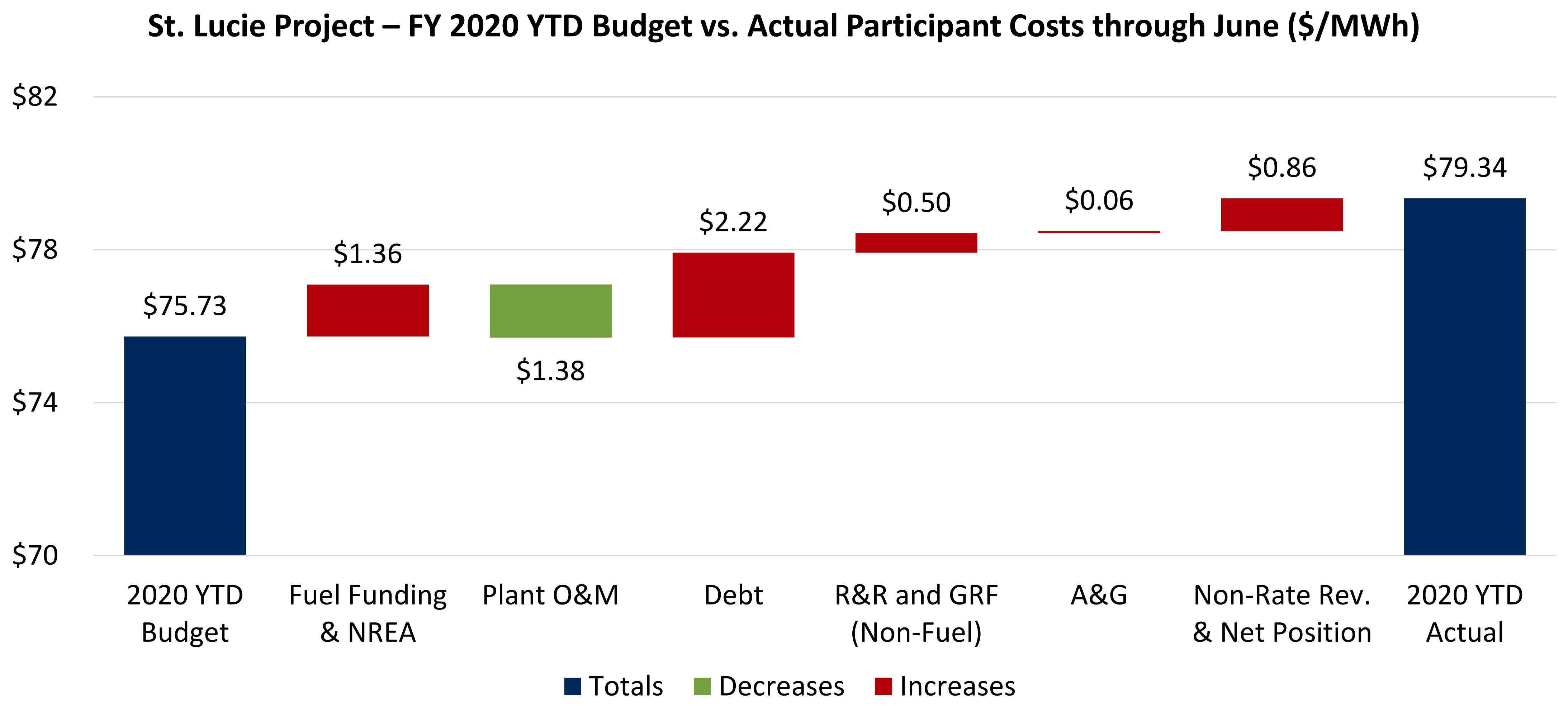
# ARP Projected Costs Well Below FY 2020 Spending Authority



# St. Lucie Project

# FY 2020 YTD Costs ~$3.50 /MWh > YTD Target

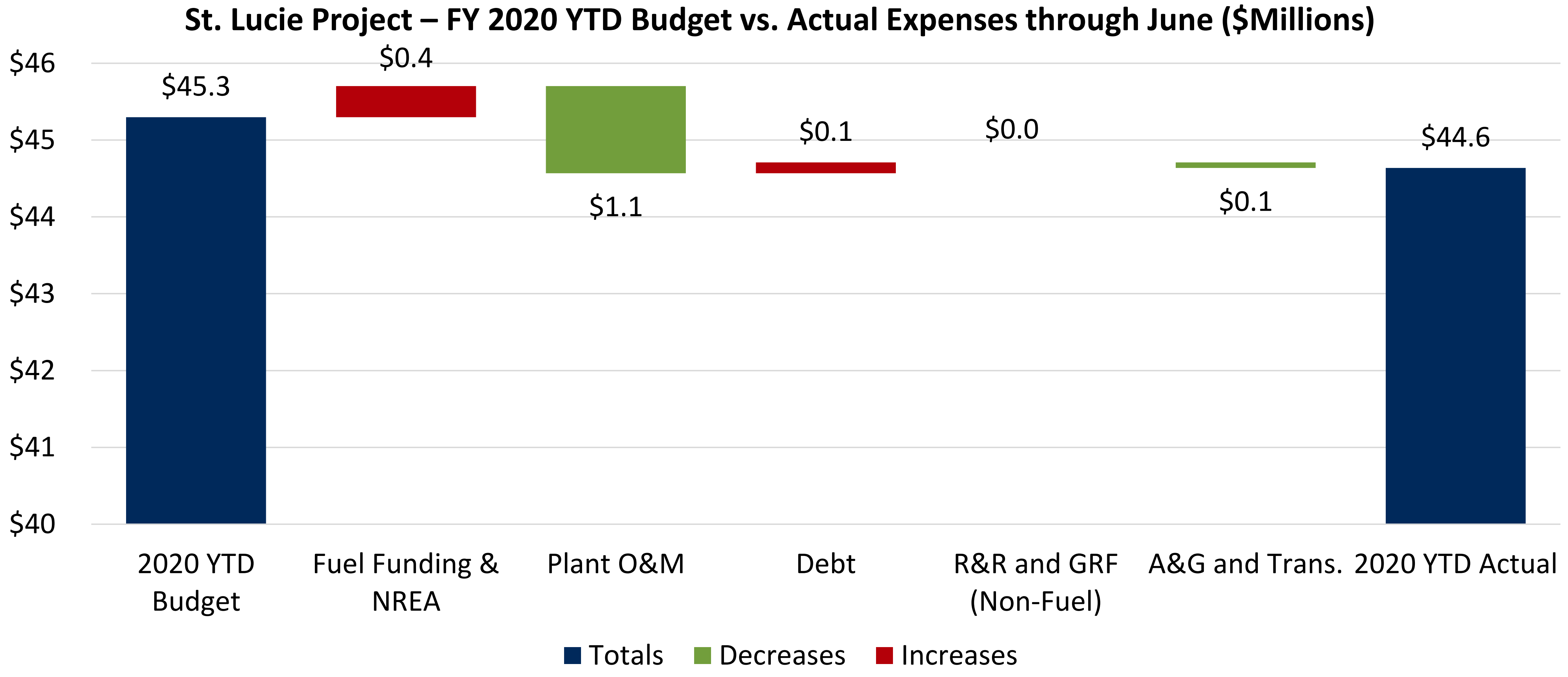
*Primarily Due to MWh Sales 4.5% < Target; Hurricane Dorian Caused Delay in St. Lucie 1 Refueling Outage from late FY 2019 to early FY 2020*



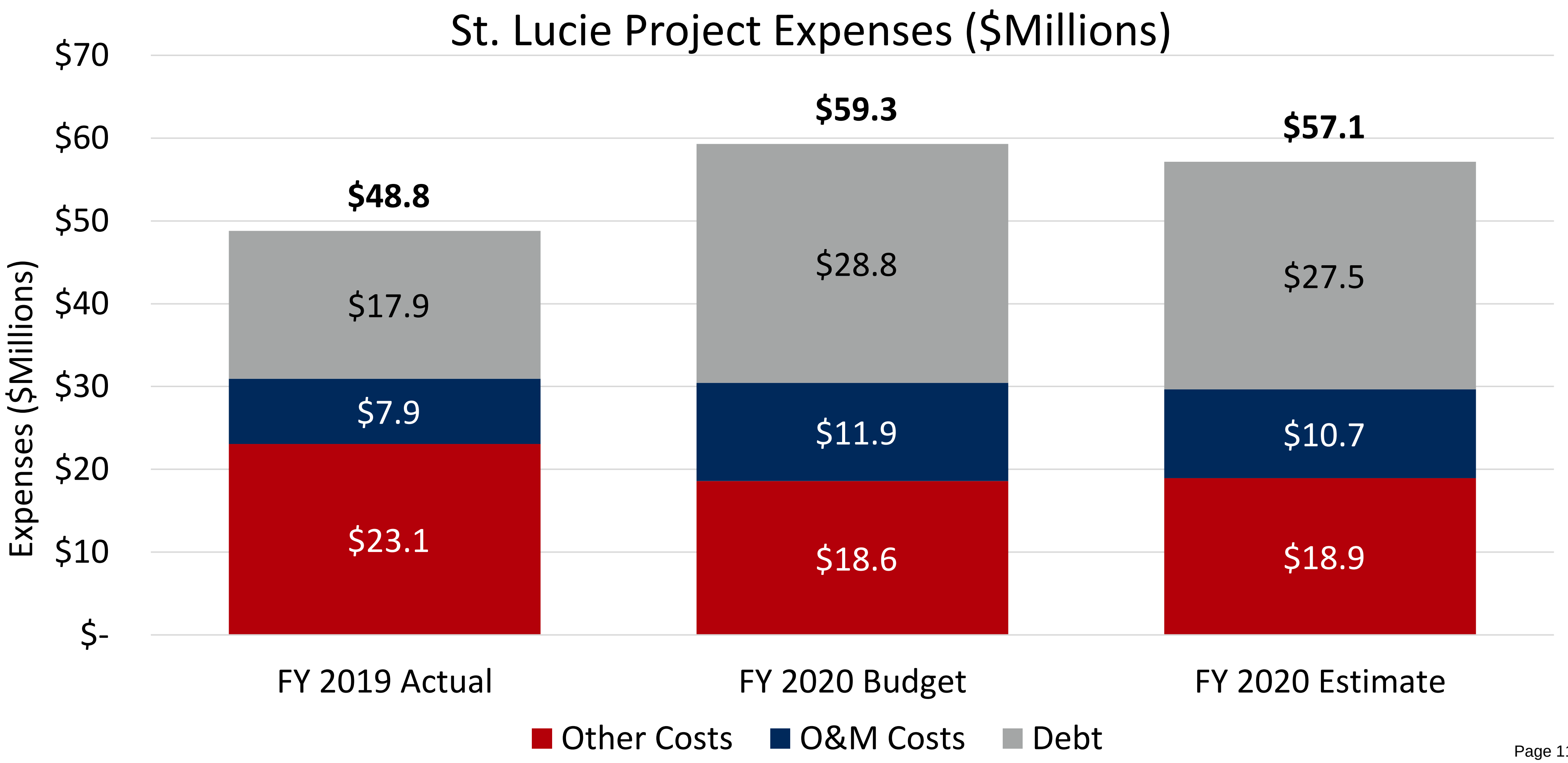

FMPA MUNICIPAL POWER

# FY 2020 YTD Expenses $0.7M < Target

## *O&M Costs $1.1M < Target Are Main Driver*



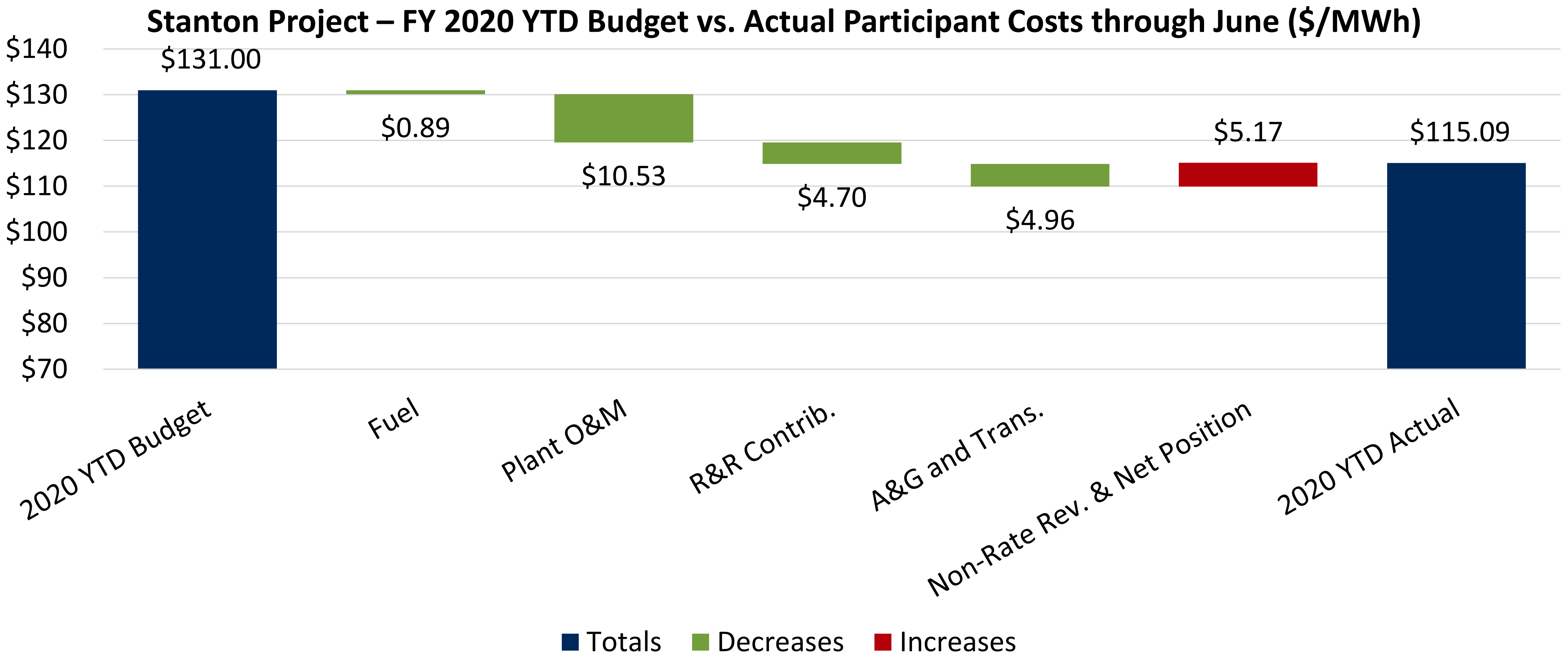
# St. Lucie Projected Costs Below Spending Authority



# Stanton Project

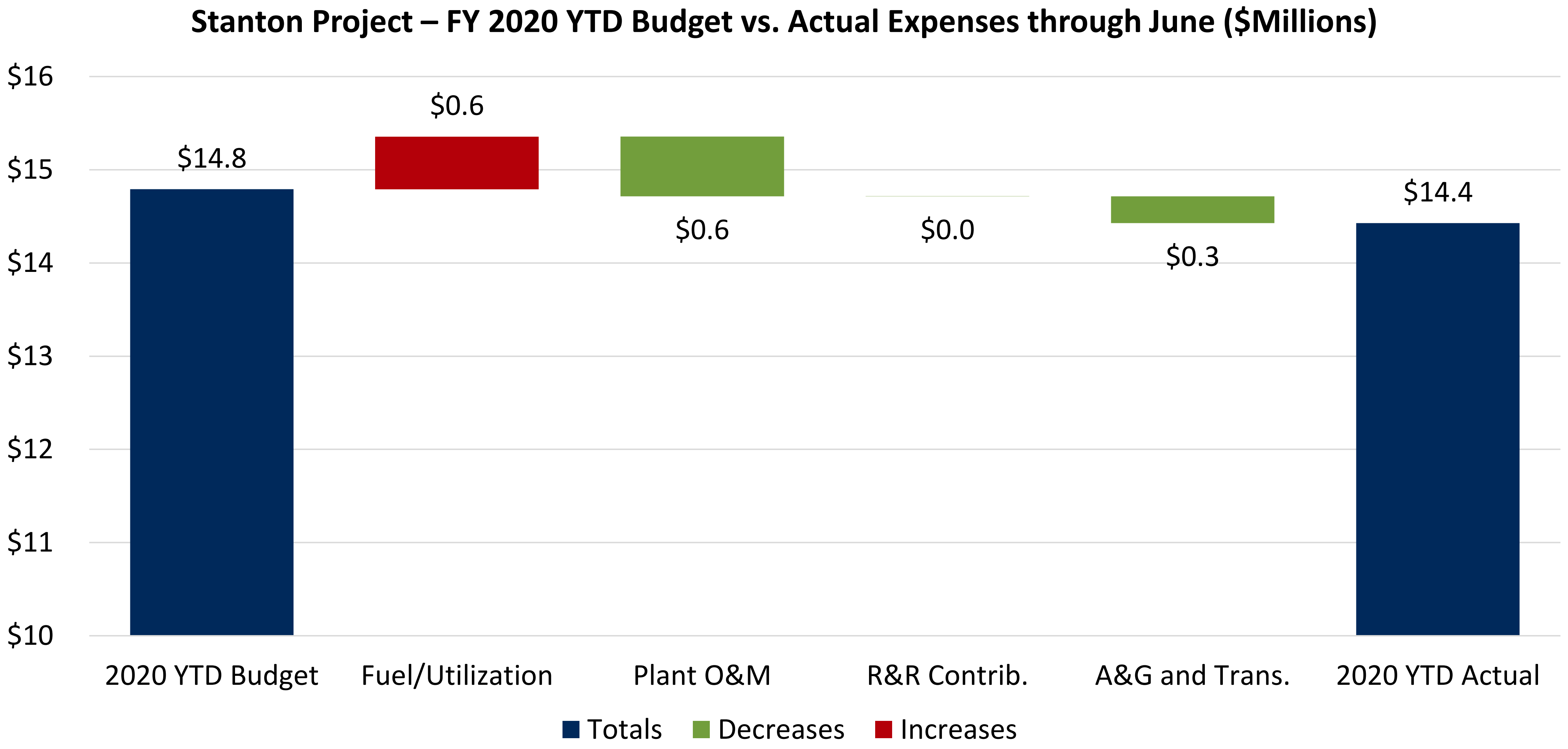
# FY 2020 YTD $/MWh Costs Through June Below YTD Target Due to Generation 18% > Budget

*YTD Capacity Factor 31% vs. 26% Budgeted through June*

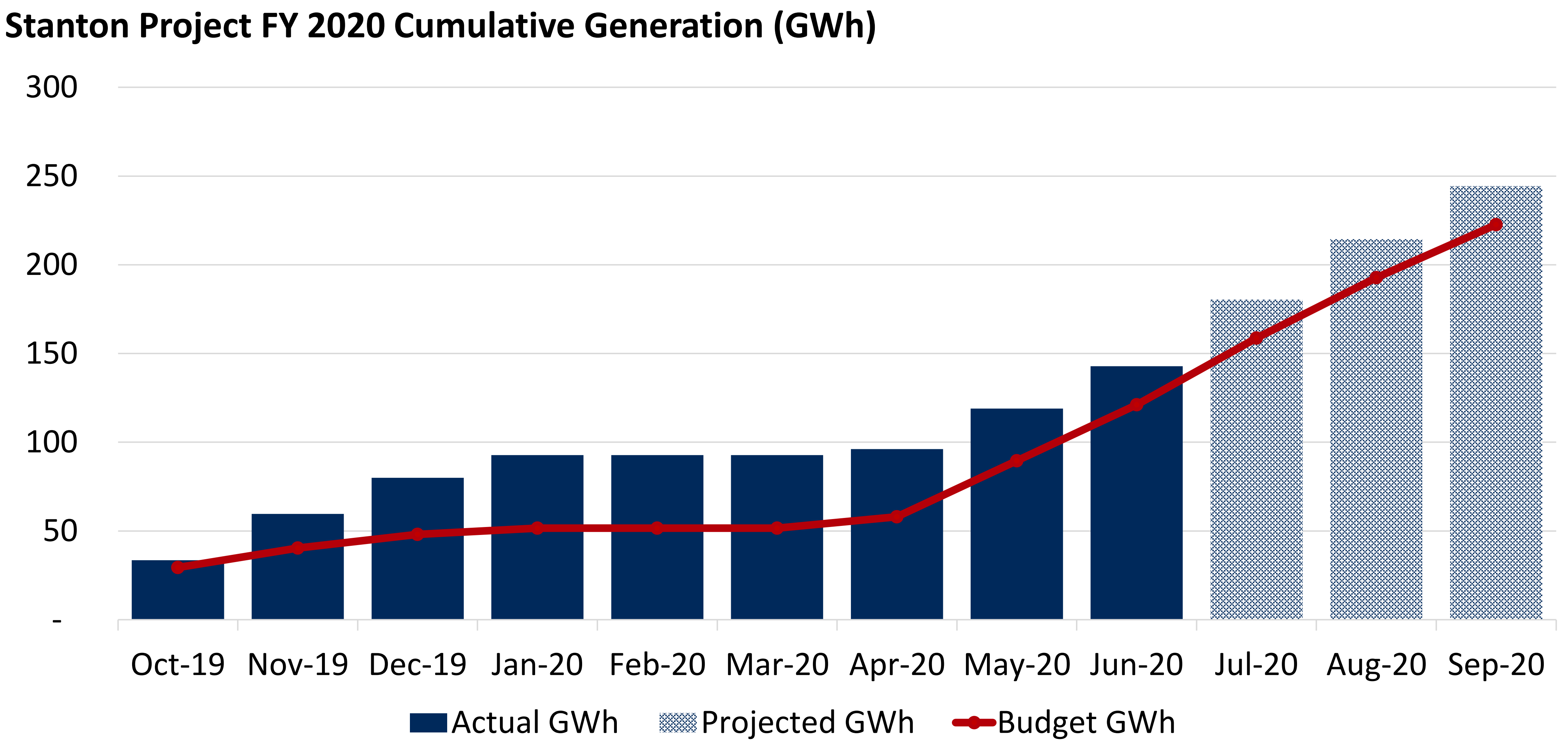



FMPA MUNICIPAL POWER

# Despite Higher Fuel Costs Due to YTD Generation > Target, Total YTD Project Expenses ~ $0.4M < Target

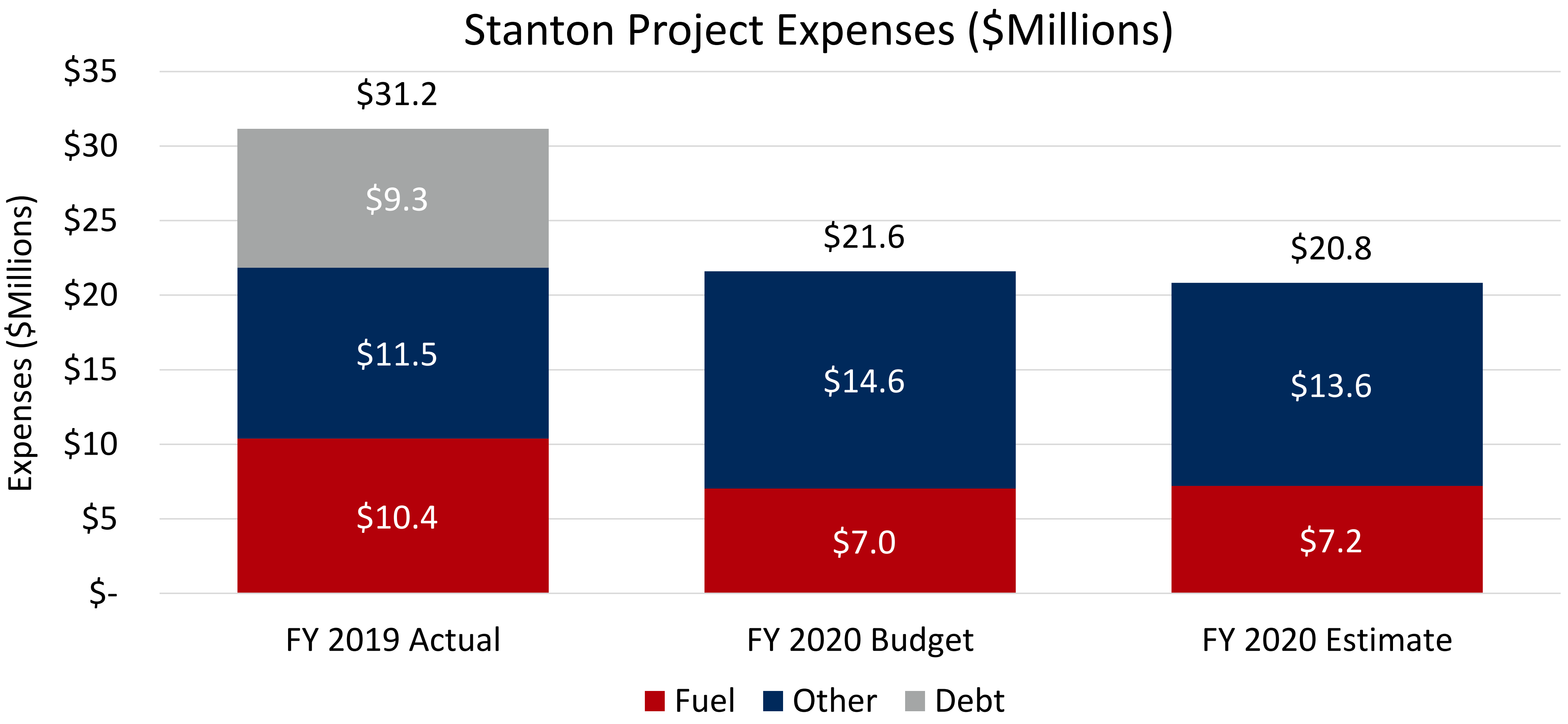


# Stanton Project Generation Projected > Budget



# Stanton Project Forecasted ~$0.8M (3.7%) < Budget

*No Budget Amendment Anticipated, but Staff Will Continue to Monitor*

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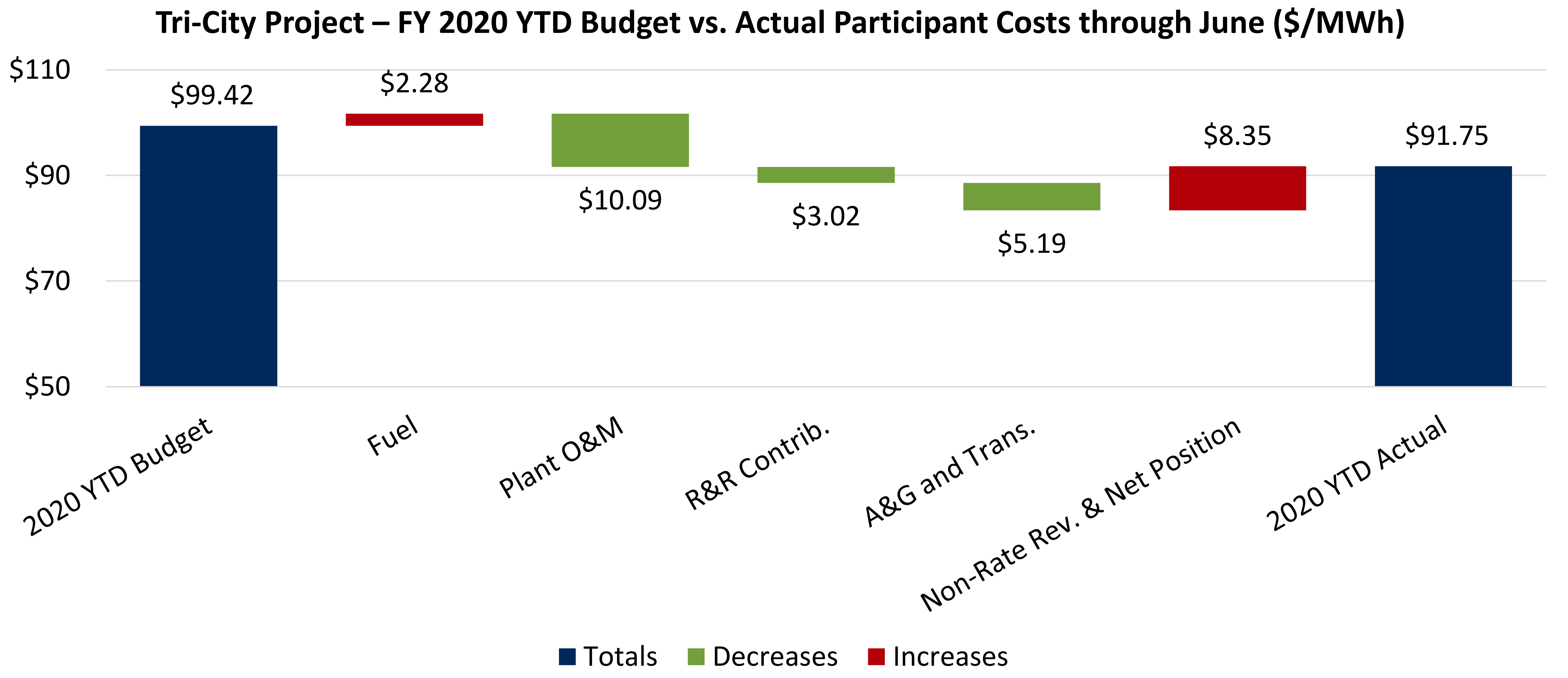
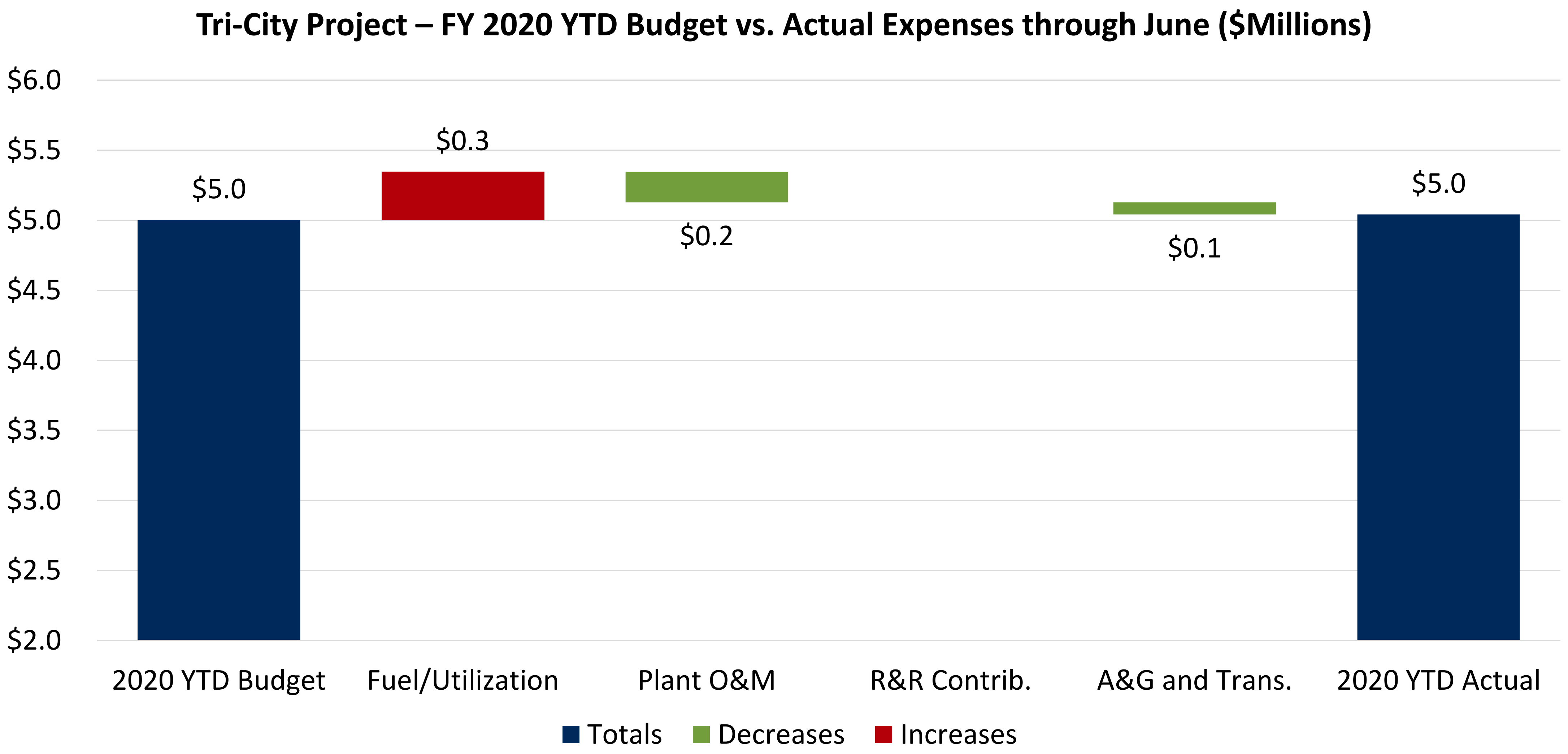
# Tri-City Project

# FY 2020 YTD $/MWh Costs Running Well Below YTD Target Due to Generation 17% > Budget

*YTD Capacity Factor 31% vs. 26% Budgeted through June*

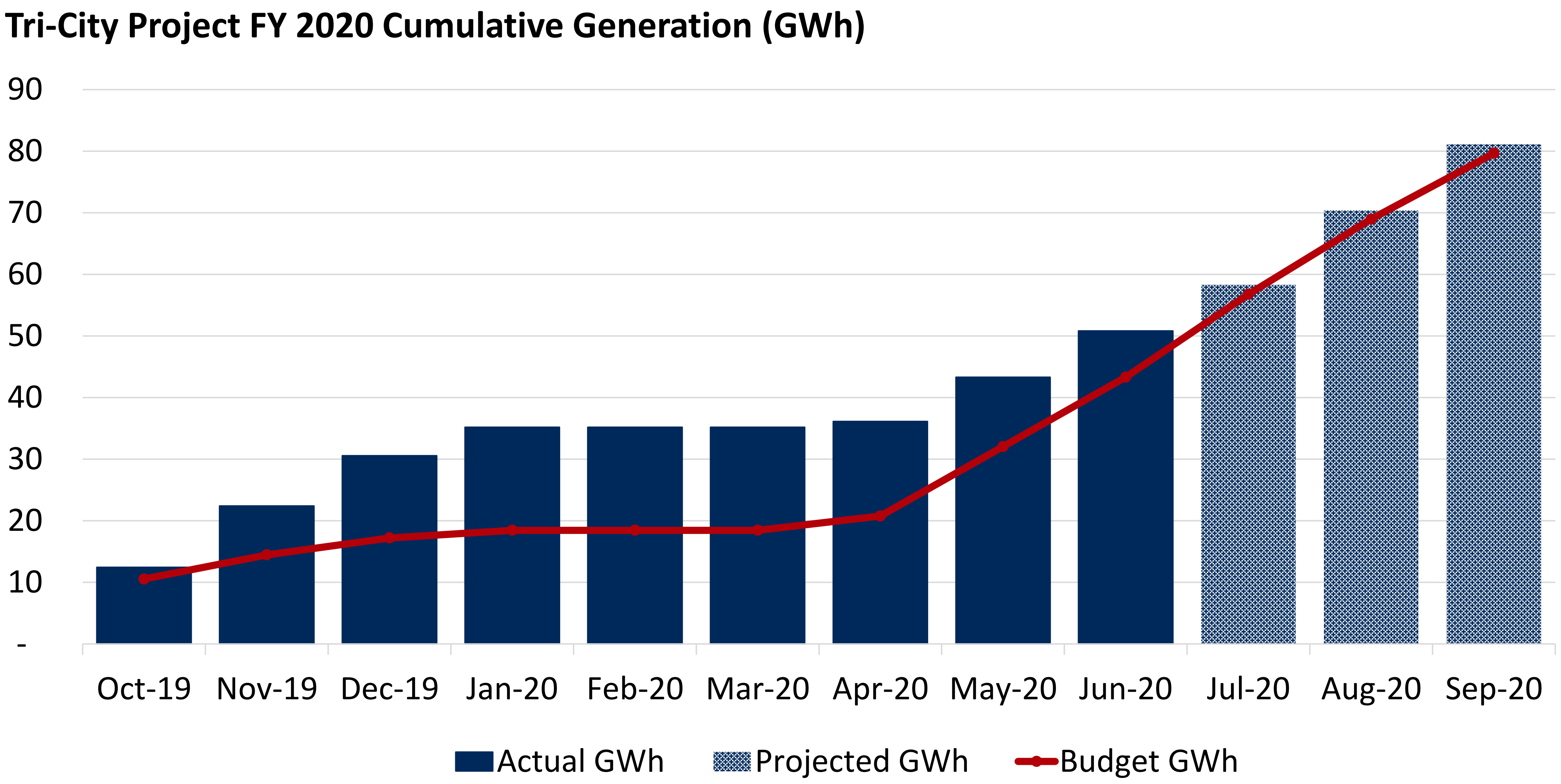


# Despite Fuel Costs $0.3M > Target Due to Higher Generation, Total YTD Project Expenses ~ Target




FMPA MUNICIPAL POWER

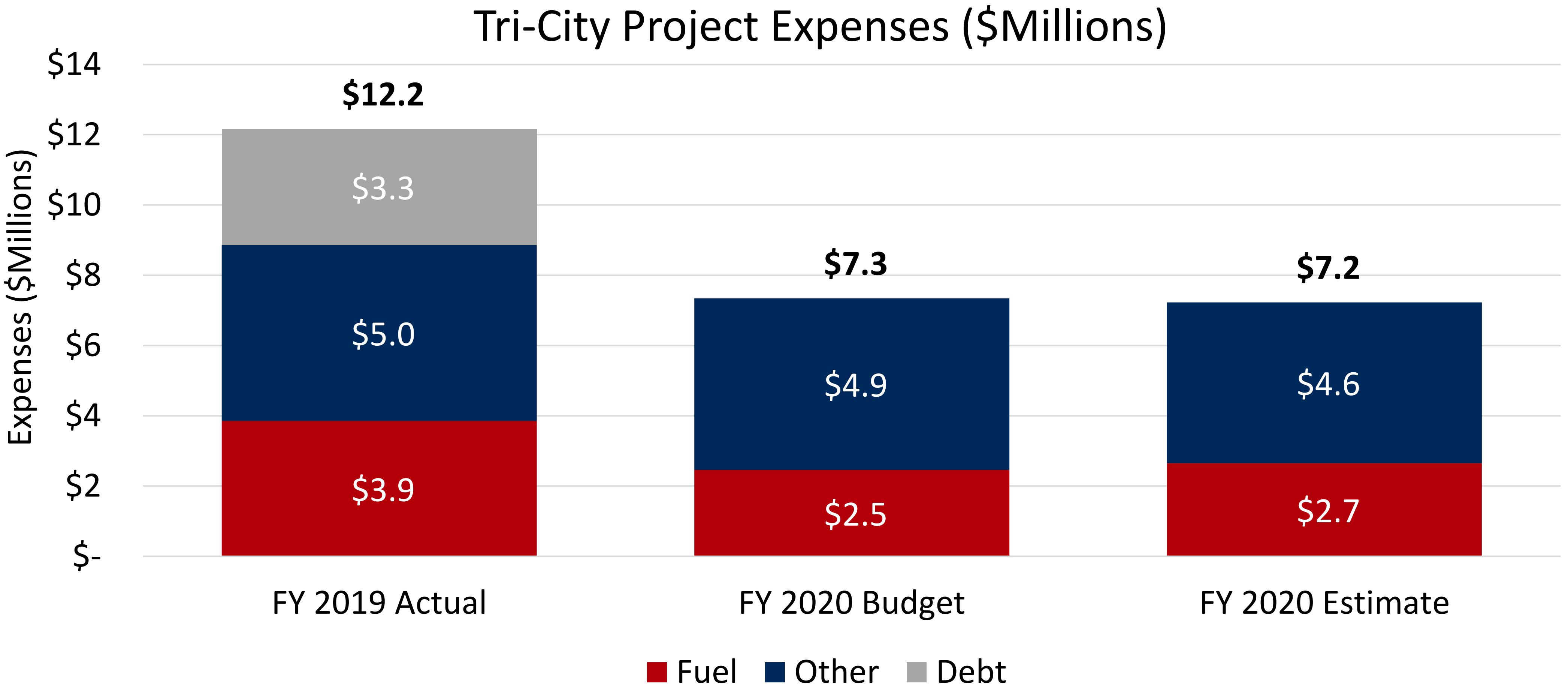
# Tri-City Project Generation Projected > Budget




FMPA MUNICIPAL POWER

# Tri-City Project Forecasted ~ Budget

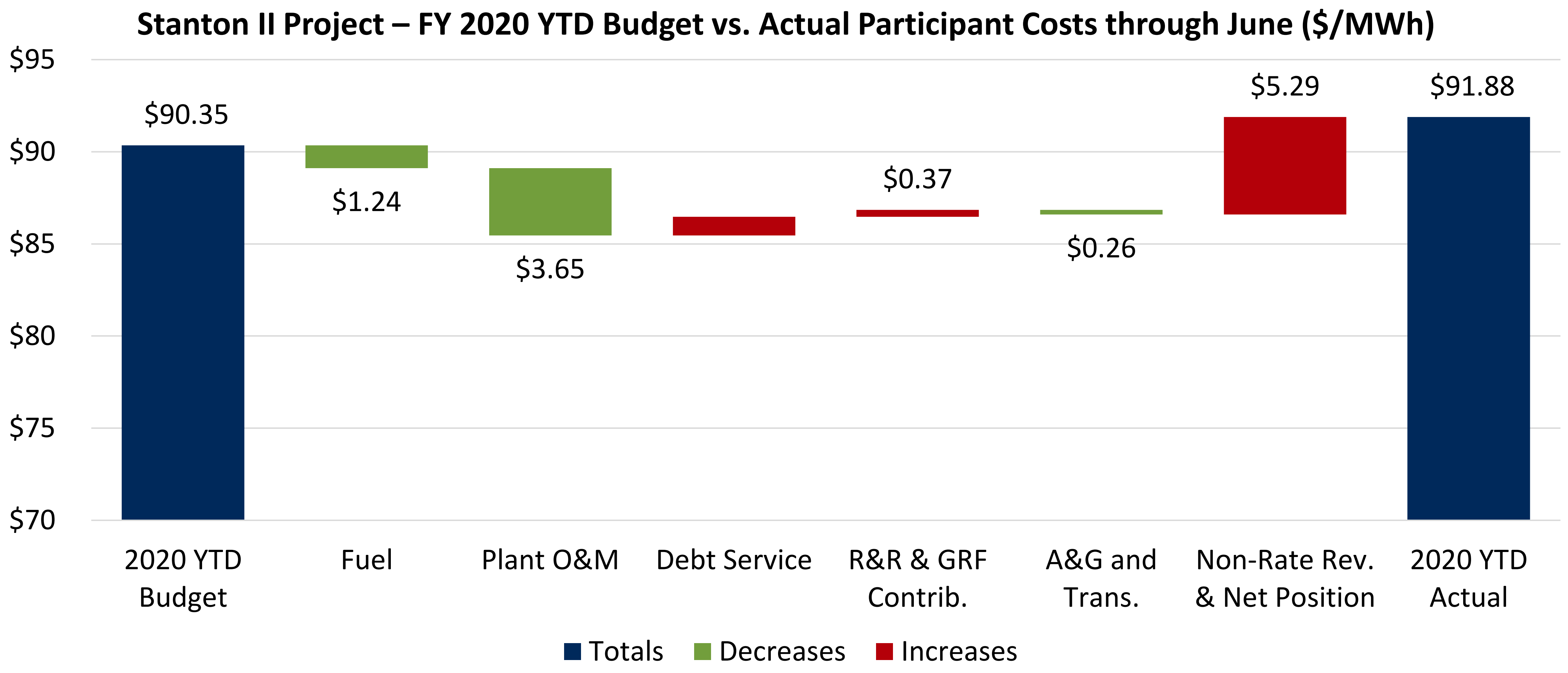
*May Seek Small Budget Increase in September Due to Generation > Budget Driving Fuel Costs > Budget Levels*



# Stanton II Project

# FY 2020 YTD Participant $/MWh Costs 1.7% < YTD Target

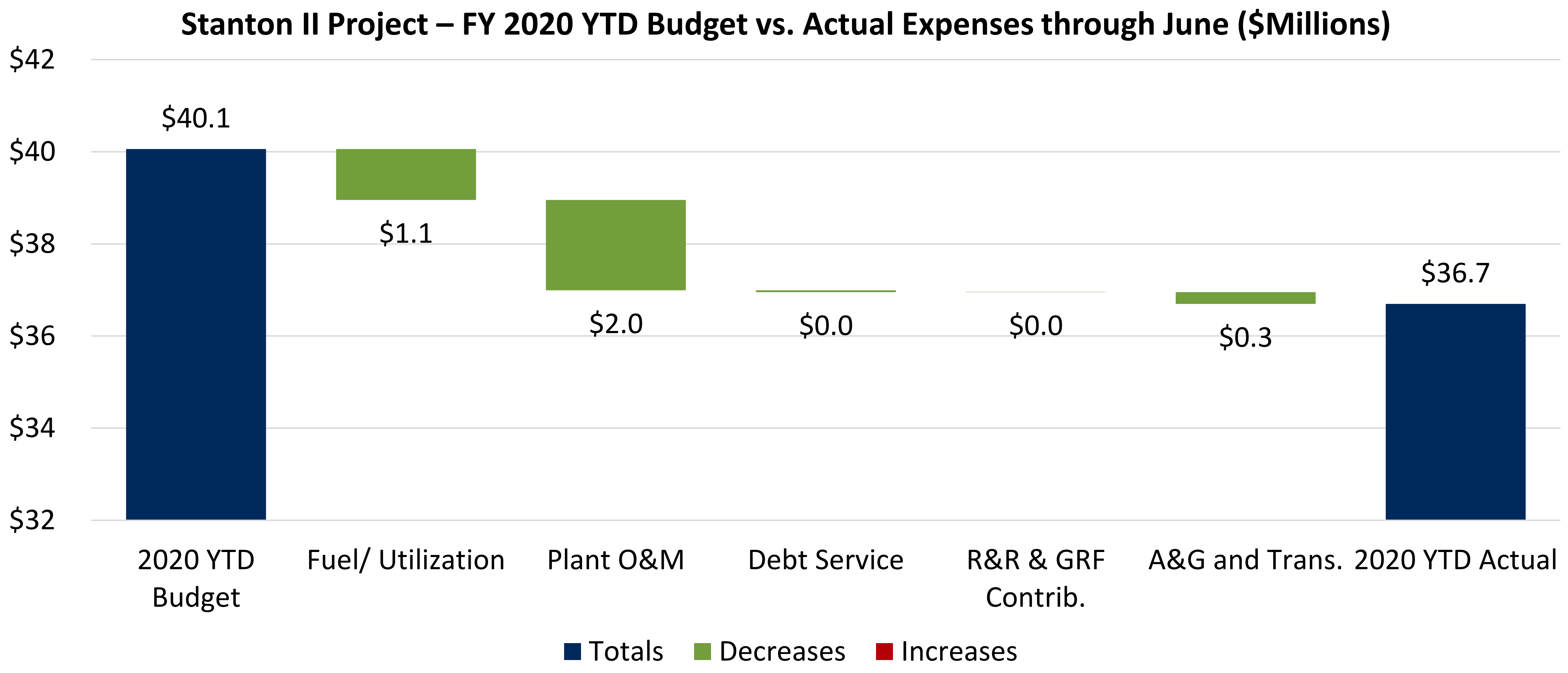
*O&M Costs Below Budget Help Offset $/MWh Cost Impact of YTD Generation 16% < Target*



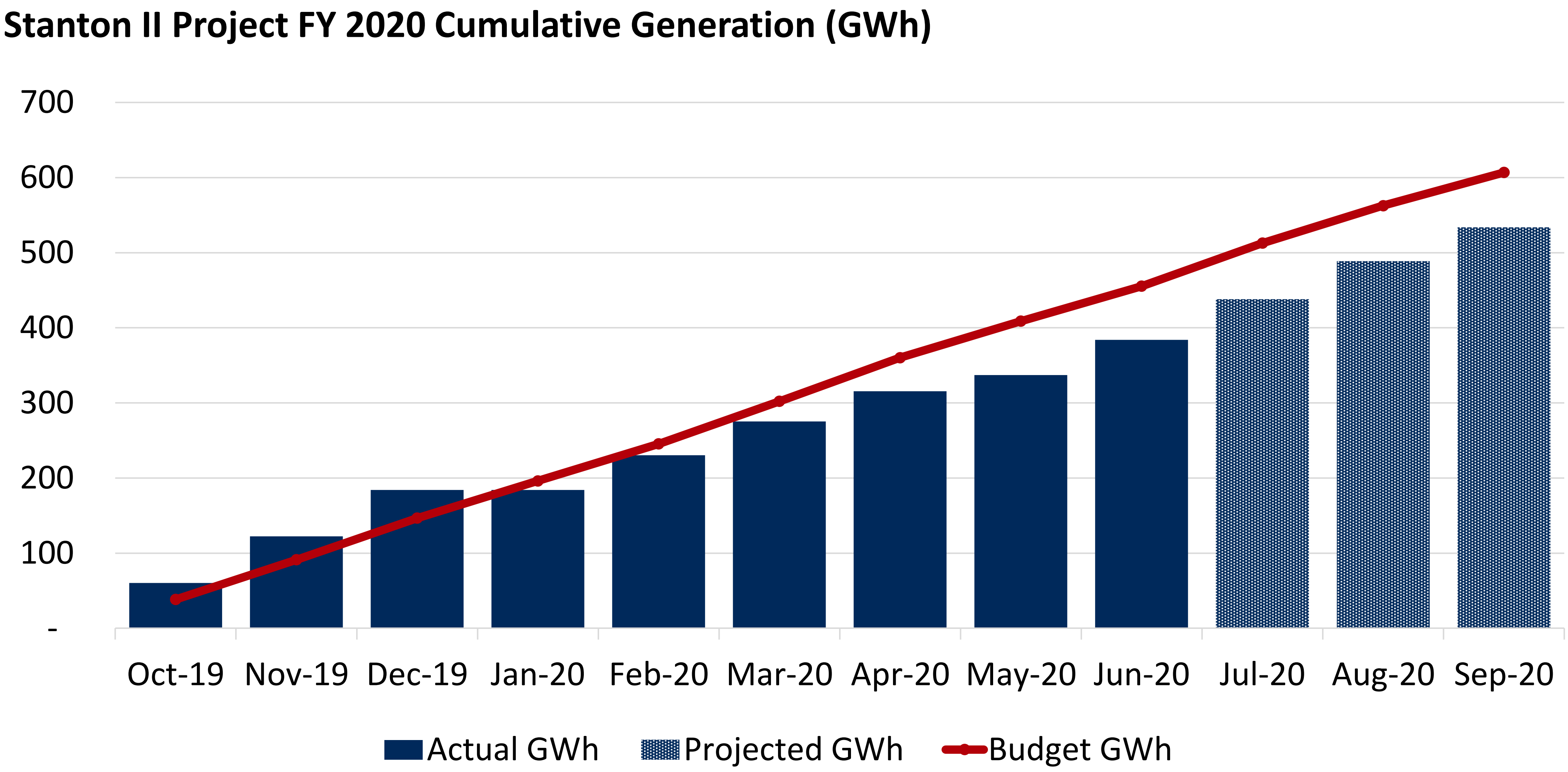

FMPA MUNICIPAL POWER

# FY 2020 YTD Expenses $3.4M (8%) < YTD Target

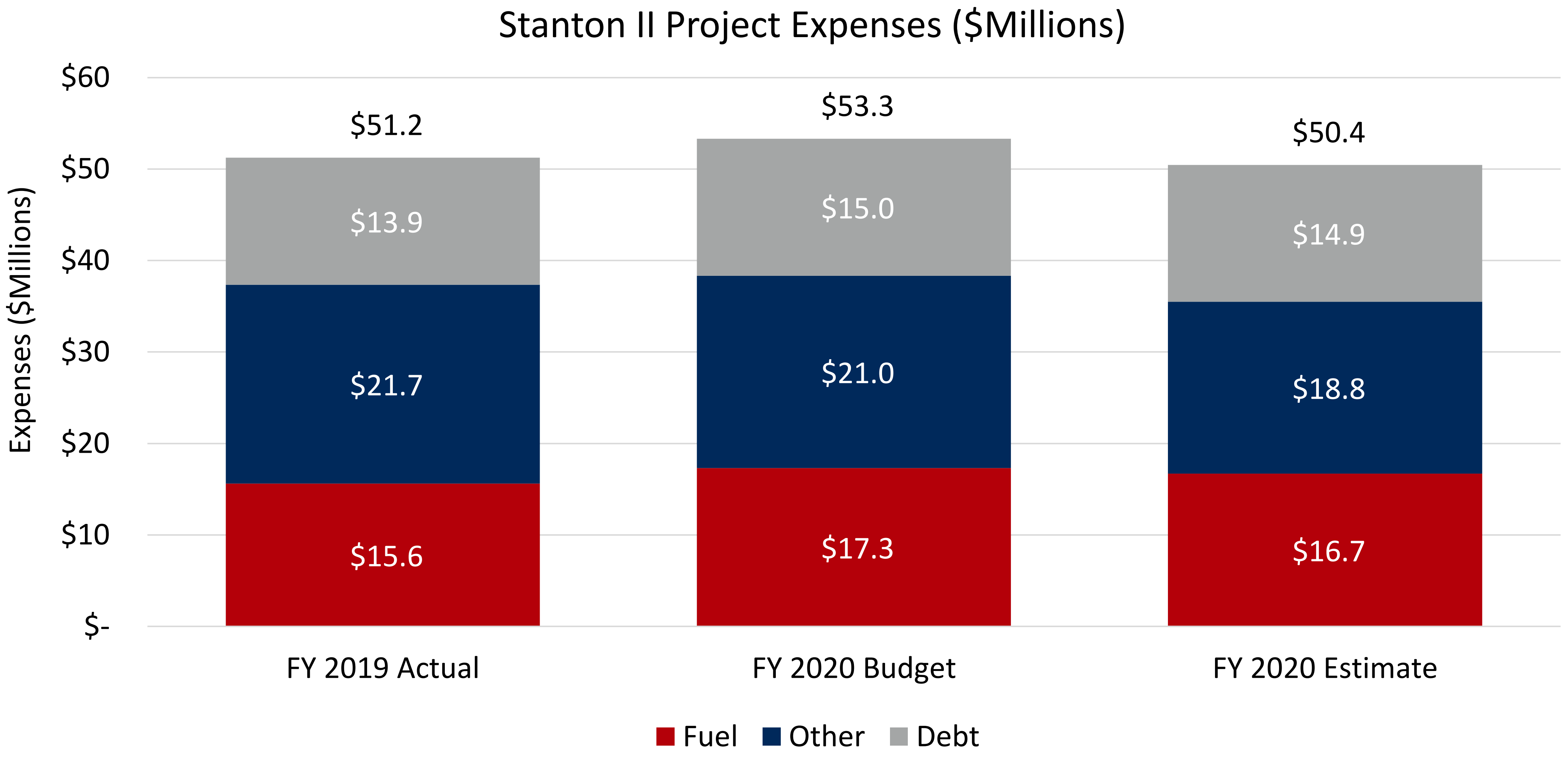
## *Fuel and O&M Costs Are Biggest Drivers*



# Stanton II Project Generation Projected < Budget

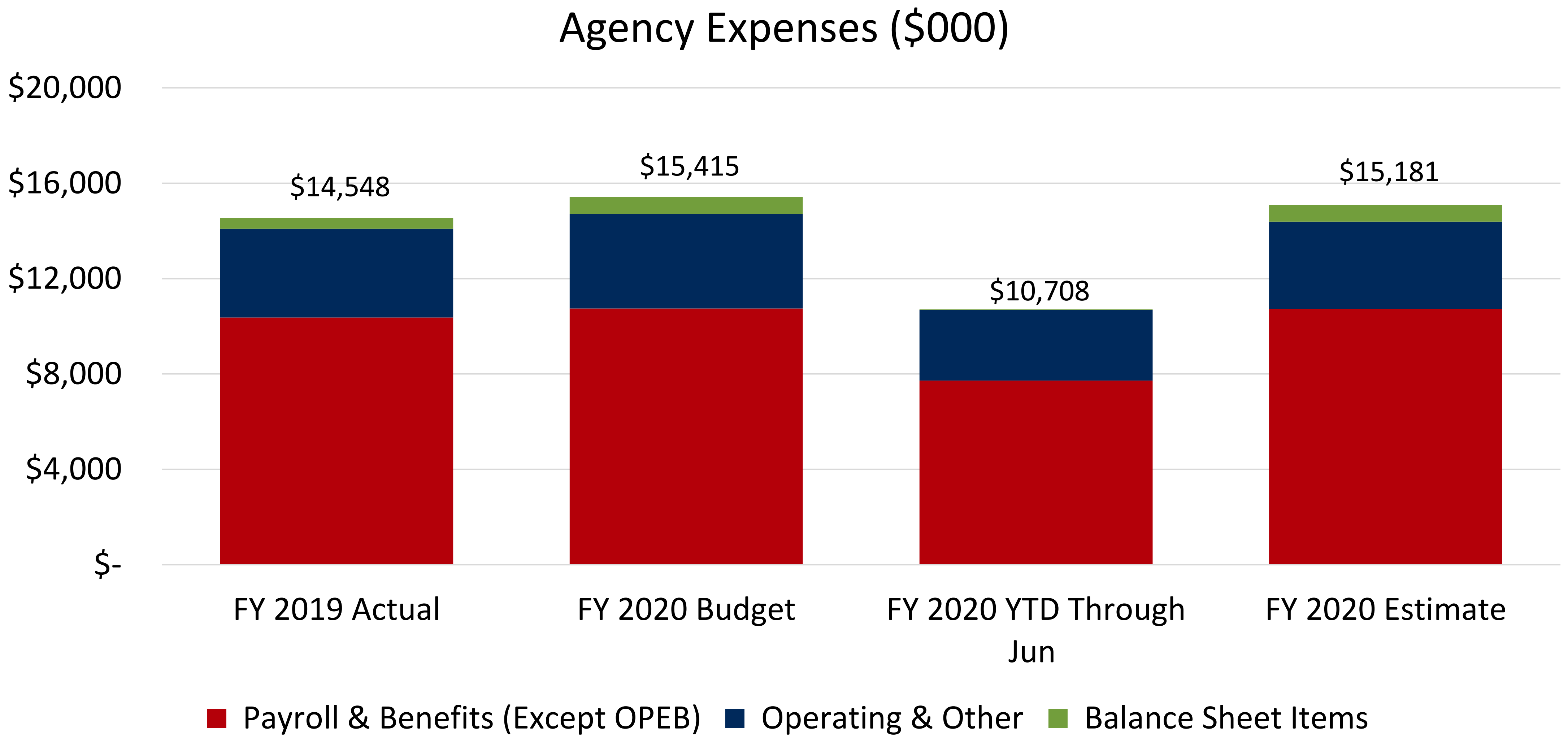


# Stanton II Project Forecasted $2.9M (5%) < Budget



# Agency

# Agency Costs For FY 2020 Projected $0.2M < Budget, Excluding OPEB Impacts




FMPA MUNICIPAL POWER

# Recommended Motion

- For information only.  No action requested.

**AGENDA ITEM 9 – INFORMATION ITEMS**

**b. Report on Interim Audit**

**Finance Committee Meeting**
**August 19, 2020**

# 9b - Report on Interim Audit

Finance Committee

August 19, 2020

# FYE 2020 Interim Audit

*Completed by Purvis Gray & Co July 20th -July 31st*

- **Conducted leadership & management interviews**
- **Reviewed internal control systems for payroll, Accounts Payable, Billing, Cash & Investments**
- **Performed tests of controls on Accounts Payable & Payroll**
- **Communicated FYE 2020 inventory procedures**
- **Purvis Gray & Company memo following**

FMPA MUNICIPAL POWER

**AGENDA ITEM 9 – INFORMATION ITEMS**

**c. Exit Conference with External Auditors**

**Finance Committee Meeting**
**August 19, 2020**

PURVIS GRAY

**Procedure:**
Establish and document an overall audit strategy that sets the scope, timing, and direction of the audit and the resources needed to perform the engagement.

**<u>Scope of Interim Procedures performed during the week of July 27, 2020</u>**

1. Planning:
    a. Completed planning procedures for risk assessment (including review of FMPA's entity, operational environment), client acceptance, required communications, and documentation of independence for non-attest services (financial statement assistance).
2. Interim Audit Procedures:
    **a.** Updated documentation of the entity's internal control system for each significant transaction class
        **1.** Payroll
        **2.** Accounts Payable
        **3.** Member Billing
        **4.** Cash and Investments
    **ii.** Performed test of controls over the following area:
        **1.** Accounts payable disbursements-Pulled sample of disbursements.
            **a.** Noted no findings or comments.
        **2.** Payroll disbursements-Pulled sample of disbursements
            **a.** Noted no findings or comments.
    **iii.** Performed walk through procedures over the following area:
        1. Billings:
            a. ARP Member Billing
                i. LAIR credit for Bushnell
            b. Other Project Billings
            c. PPA Billings
                i. Bartow
                ii. Reedy Creek (Off-Peak)
                iii. Homestead
                iv. Winter Park
                v. TECO
        2. Cash and Investments
        3. Agency Allocations
        4. Financial Close Process
        5. Journal Entries
**3.** Met with management personnel to discuss new items in their respective departments to determine potential audit impact for final fieldwork:
    a. General Manager and Chief Executive Officer
    b. Chief Financial Officer
    c. Controller
    d. Treasury and Risk Director
    e. Engineering Services Director
    f. Resource and Strategic Planning Manager

PURVIS GRAY

g. Business Development and System Operations Director
h. Power Generation Fleet Director
i. Chief Operations Officer
j. Financial Planning Rates and Budget Director
k. VP Public Relations and Member Services
l. VP of Human Resources and Shared Services
m. Audit Manager
    i. Requested the contract audit reports for credit cards – These have not been finalized as of interim

4. Significant areas reviewed during interim:
    a. Acumatica Implementation
        i. Reviewed the implementation impact on the applicable transaction areas above
    b. Docusign Implementation
5. Held Exit Conference with Management via Phone Monday August 10, 2020:
    a. Discuss above items performed
    b. Communicated Inventory procedures: PGC will perform the count at the Cane Island site and contract audit will complete observations at the remaining sites (Stock Island and Treasure Coast).
    c. Plans to begin year end field work-Monday, November 2 , 2020
    d. Discuss process of confirmations
    e. Discuss remitting list of items we will need for the year end field work "Prepared By client List"
    f. Contract Audit to perform bond and investment compliance procedures
    g. Discussion of status of policy/procedure recommendations from the prior year audit (Member Services Billing and Agency Cost Allocations):
        i. <u>Per discussion with client, member services billings have been addressed with a new policy/procedure and the agency allocation will be updated for the 20/21 fiscal year.</u>
    h. Census data for OPEB will be reviewed at year end
    i. Coordinate with IT
    j. Current Year Interim Discussion Items
        i. PGP Impairment – additional yearend review will be needed to determine if additional write offs are necessary to expedite the elimination of the line item from the financial statements.
        ii. Load Attraction Incentive Rate (LAIR) Credit for Bushnell and Demand estimation – The board approved use of alternative LAIR rider which allowed for a methodology that estimated the incremental amount of demand to be utilized to determine the base for the eligible credits. FMPA utilized a third party to forecast the load pre and post new customers to determine the applicable percentage of load increase eligible for the credit. This approach will reflect static percentages to limit the risk of load growth uncertainty and reduce skewing the estimated proportions. In addition the LAIR credit percentage will be reduced by 10% each year over a 5 year period.
        iii. FMPP Invoice Review by Contract Audit – Per discussion with S. Ruppell the reviews (reviewing components of the bill each quarter) are in process. It was noted that there are several areas of improvement that have been communicated to FMPP and areas are still being reviewed.
        iv. New physical gas purchase commitment contracts and the prepaid contracts. We will obtain copies of the new contracts to assess potential disclosure and accounting requirements of the purchase commitments.

## AGENDA ITEM 10 – REPORTS

a. FGU April, May, June and July Storage Reports

**Finance Committee Meeting**
**August 19, 2020**

FMPA Storage Management Report

Florida Gas Utility

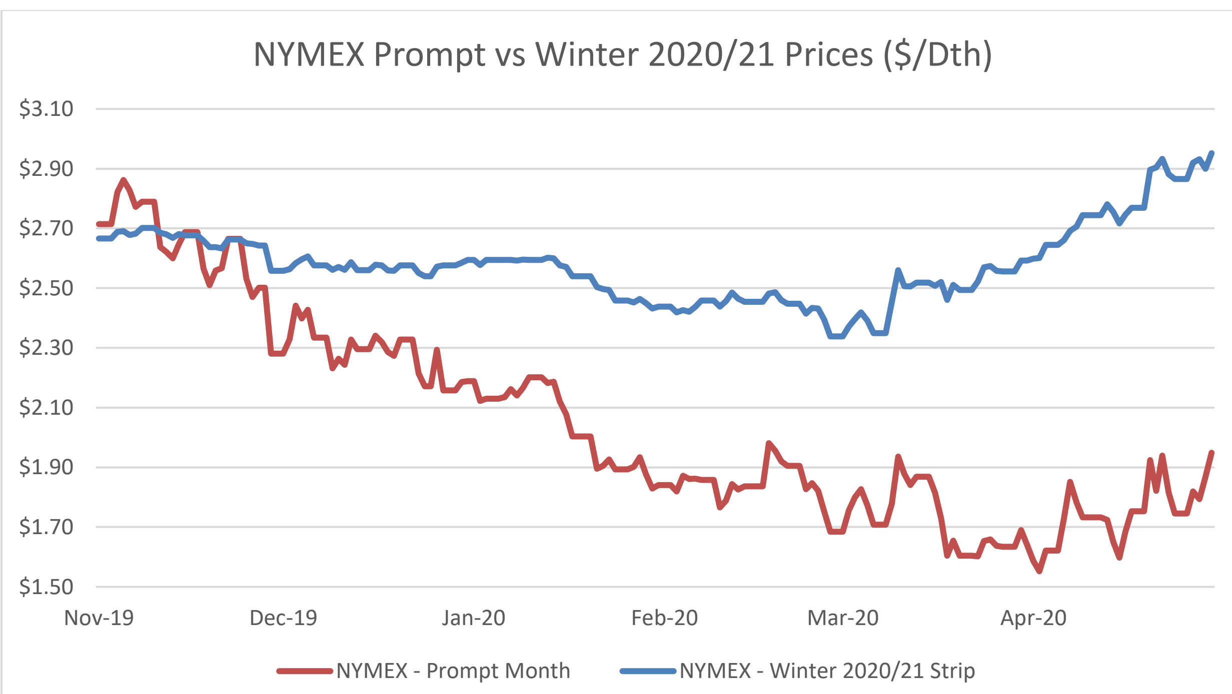
April 2020

## Executive Summary – April 2020 Activity

During April 2020, FGU conducted no physical gas injections, nor withdrawals. Cash market natural gas prices at FGT Zone 3 traded at an average discount of $0.10/Dth to the prompt month May 2020 NYMEX contract as the economic and energy consumption effects of the COVID-19 pandemic came into full effect. FMPA's optimized storage position, as of April 30, 2020, is long 497,948 Dths of storage inventory (99% full) and short a total of 497,500 Dths of financial hedges (short 247,500 Dths of June 2020 futures and short 250,000 Dths of February 2021 futures). These financial positions are housed in FGU's clearing account with Rosenthal Collins Group (RCG) with associated margining requirements. FMPA's overall net optimized storage position increased in value by $18,403 during the month of April 2020.

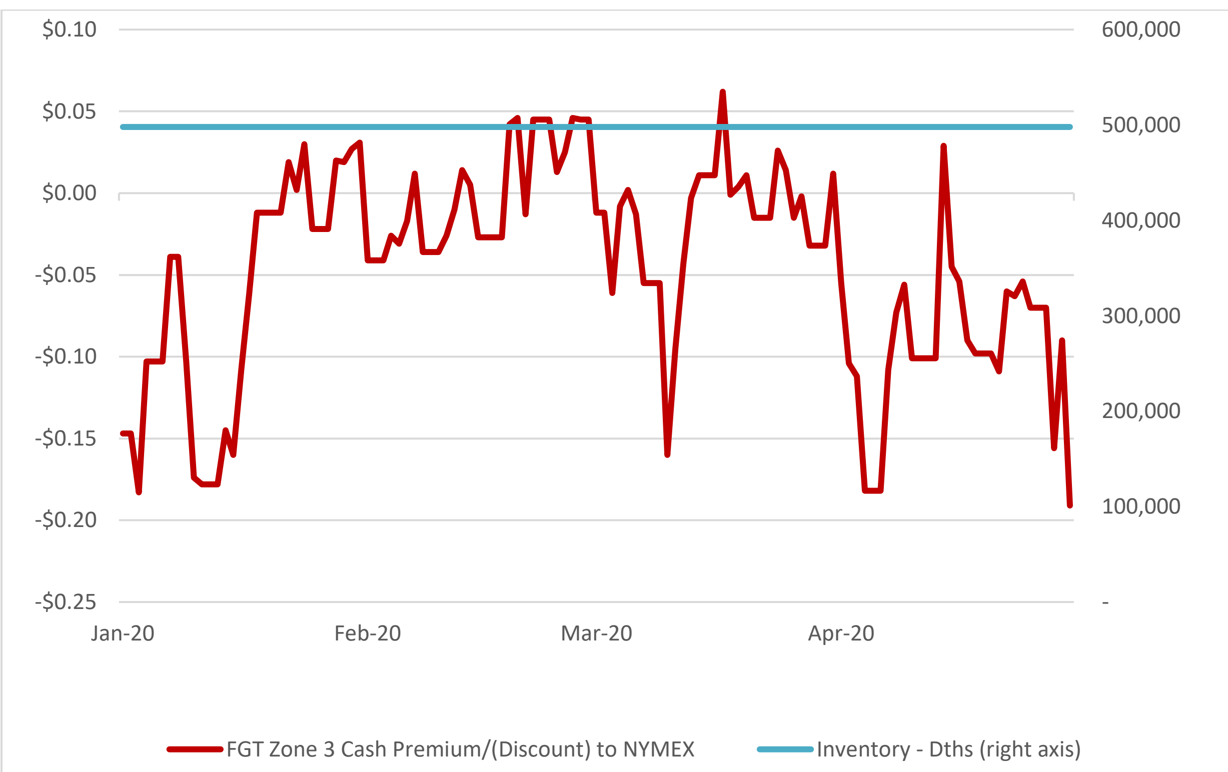
With the forward natural gas curve increasing in value for each subsequent month, the value of FMPA's storage inventory will reflect a corresponding increase following the expiration of each month's prompt NYMEX contract. This is the primary factor in the increase in value of FMPA's overall storage position during April 2020. This increase is being partially offset by the continued strength of the winter 2020/21 NYMEX months relative to the prompt month(s) NYMEX contract. With half of FMPA's storage hedges in the February 2021 contract as part of a diversification strategy, that portion of the financial portfolio is not seeing the benefit from the increase in winter price premium, a key component in the economic value of storage capacity.

As discussed in the March 2020 report, the near-term economic impact of the COVID-19 pandemic has led to continue pressure on near-term energy prices, including natural gas. The reduction in domestic oil production in response to anemic oil prices is projected to have a corresponding reduction in associated natural gas production. Those effects will have a delay in price impact with the NYMEX curve anticipating the supply/demand balance to tip the scales toward stronger natural gas prices (i.e., ~$3.00/Dth) for the winter of 2020/20201.



## FGT Zone 3 Cash Market vs NYMEX Prompt-Month Futures


## Cash Market Spread to NYMEX Prompt-Month vs FMPA Storage Inventory Level



**Summary of Existing Physical Inventory Position (4/30/2020)**

| Total Inventory Volume | Total Inventory Cost | Inventory WACOG | Market Value | Marked to Market | Unrealized Gain/(Loss) |
|---|---|---|---|---|---|
| 497,948 | $1,245,710 | $2.50 | $1.97 | $982,949 | ($262,760) |

**Summary of Existing Financial and Forward Physical Risk Management Positions (4/30/2020)**

| Delivery Month | Net Position | Realized Gain/(Loss) to Date | Open Equity | Total Value |
|---|---|---|---|---|
| Nov-19 | 0 | $8,168 | $0 | $8,168 |
| Dec-19 | 0 | $17,680 | $0 | $17,680 |
| Jan-20 | 0 | $96,755 | $0 | $96,755 |
| Feb-20 | 0 | $282,553 | $0 | $282,553 |
| Mar-20 | 0 | $623 | $0 | $623 |
| Apr-20 | 0 | $56,115 | $0 | $56,115 |
| May-20 | 0 | ($31,785) | $0 | ($31,785) |
| Jun-20 | (247,500) | $0 | ($740) | ($740) |
| Jul-20 | 0 | $0 | $0 | $0 |
| Aug-20 | 0 | $0 | $0 | $0 |
| Sep-20 | 0 | $0 | $0 | $0 |
| Oct-20 | 0 | $0 | $0 | $0 |
| Nov-20 | 0 | $0 | $0 | $0 |
| Dec-20 | 0 | $0 | $0 | $0 |
| Jan-21 | 0 | $0 | $0 | $0 |
| Feb-21 | (250,000) | $0 | ($135,420) | ($135,420) |
| Mar-21 | 0 | $0 | $0 | $0 |
| Apr-21 | 0 | $0 | $0 | $0 |

**Summary of Historical Value - Physical and Financial (December 2009 through April 2020)**

| Optimization Activity | Net Position (Dths) | Total Realized Gain/(Loss) | Unrealized Gain/(Loss) | Total Storage Net Benefit |
|---|---|---|---|---|
| Current Physical/Financial Positions (4/30/2020) | 448 | $3,154,810 | ($398,920) | $2,755,889 |
| Fees & Commissions | | ($54,121) | | $2,701,769 |
| NJRES Capacity Release | | $477,598 | | $3,179,366 |
| Sale of Call Options (Jan 2015) | | $26,000 | | $3,205,366 |

# Schedule of FMPA Gas and Cash Flows Related to FGU Storage Services

| Month | Actual Injection Cost/ NYMEX Curve (4/30/2020) | Actual/ Anticipated Cash Flow ($) | Net Injection Volume (Dths) | Net Withdrawal Volume (Dths) | Running Inventory Balance at End of Month (Dths) | Running Inventory Cost Balance ($) | WACOG ($/Dth) |
|---|---|---|---|---|---|---|---|
| ***Dec-19*** | ***$2.02*** | ***$59,764*** | ***29,550*** | ***0*** | ***497,948*** | ***$1,245,710*** | ***$2.502*** |
| ***Jan-20*** | ***$0.00*** | ***$0*** | ***0*** | ***0*** | ***497,948*** | ***$1,245,710*** | ***$2.502*** |
| ***Feb-20*** | ***$0.00*** | ***$0*** | ***0*** | ***0*** | ***497,948*** | ***$1,245,710*** | ***$2.502*** |
| ***Mar-20*** | ***$0.00*** | ***$0*** | ***0*** | ***0*** | ***497,948*** | ***$1,245,710*** | ***$2.502*** |
| ***Apr-20*** | ***$0.00*** | ***$0*** | ***0*** | ***0*** | ***497,948*** | ***$1,245,710*** | ***$2.502*** |
| *May-20* | *$1.79* | *$0* | *0* | *0* | *497,948* | *$1,245,710* | *$2.502* |
| *Jun-20* | *$1.95* | *$0* | *0* | *0* | *497,948* | *$1,245,710* | *$2.502* |
| *Jul-20* | *$2.17* | *$0* | *0* | *0* | *497,948* | *$1,245,710* | *$2.502* |
| *Aug-20* | *$2.28* | *$0* | *0* | *0* | *497,948* | *$1,245,710* | *$2.502* |
| *Sep-20* | *$2.33* | *$0* | *0* | *0* | *497,948* | *$1,245,710* | *$2.502* |
| *Oct-20* | *$2.42* | *$0* | *0* | *0* | *497,948* | *$1,245,710* | *$2.502* |
| *Nov-20* | *$2.66* | *($37,525)* | *0* | *15,000* | *482,948* | *$1,208,185* | *$2.502* |
| *Dec-20* | *$2.98* | *($50,034)* | *0* | *20,000* | *462,948* | *$1,158,151* | *$2.502* |
| *Jan-21* | *$3.12* | *($500,337)* | *0* | *200,000* | *262,948* | *$657,813* | *$2.502* |
| *Feb-21* | *$3.07* | *($500,337)* | *0* | *200,000* | *62,948* | *$157,476* | *$2.502* |
| *Mar-21* | *$2.93* | *$0* | *0* | *0* | *62,948* | *$157,476* | *$2.502* |
| *Apr-21* | *$2.62* | *$0* | *0* | *0* | *62,948* | *$157,476* | *$2.502* |
| *May-21* | *$2.58* | *$567,820* | *220,000* | *0* | *282,948* | *$725,296* | *$2.563* |
| *Jun-21* | *$2.62* | *$0* | *0* | *0* | *282,948* | *$725,296* | *$2.563* |
| *Jul-21* | *$2.67* | *$0* | *0* | *0* | *282,948* | *$725,296* | *$2.563* |
| *Aug-21* | *$2.67* | *$133,550* | *50,000* | *0* | *332,948* | *$858,846* | *$2.580* |
| *Sep-21* | *$2.65* | *$277,935* | *105,000* | *0* | *437,948* | *$1,136,781* | *$2.596* |
| *Oct-21* | *$2.66* | *$132,850* | *50,000* | *0* | *487,948* | *$1,269,631* | *$2.602* |
| *Nov-21* | *$2.70* | *$0* | *0* | *0* | *487,948* | *$1,269,631* | *$2.602* |
| *Dec-21* | *$2.83* | *$0* | *0* | | *487,948* | *$1,269,631* | *$2.602* |
| *Jan-22* | *$2.94* | *($650,495)* | *0* | *250,000* | *237,948* | *$619,136* | *$2.602* |
| *Feb-22* | *$2.89* | *($455,347)* | *0* | *175,000* | *62,948* | *$163,789* | *$2.602* |
| *Mar-22* | *$2.75* | *$0* | *0* | *0* | *62,948* | *$163,789* | *$2.602* |
| *Apr-22* | *$2.37* | *$0* | *0* | *0* | *62,948* | *$163,789* | *$2.602* |
| *May-22* | *$2.33* | *$524,250* | *225,000* | *0* | *287,948* | *$688,039* | *$2.389* |

Winter months

**Bold = actual data**

- Negative values reflect withdrawals of storage gas that have already been paid for.
- Positive values reflect charges to FMPA for gas purchases to be injected into storage.
- Months above reflect the period of storage activity and the actual charge/credit from FGU would occur the following month.

# FMPA Storage Management Report

Florida Gas Utility

May 2020

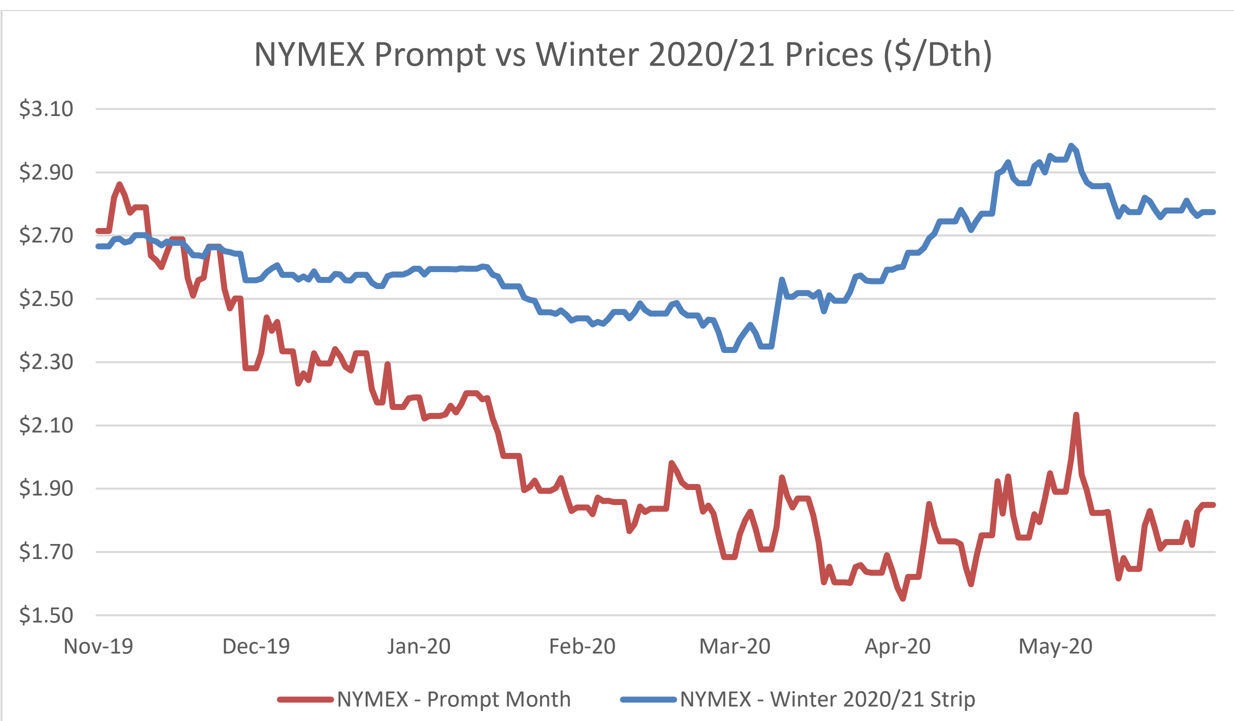
Florida GAS UTILITY

## Executive Summary – May 2020 Activity

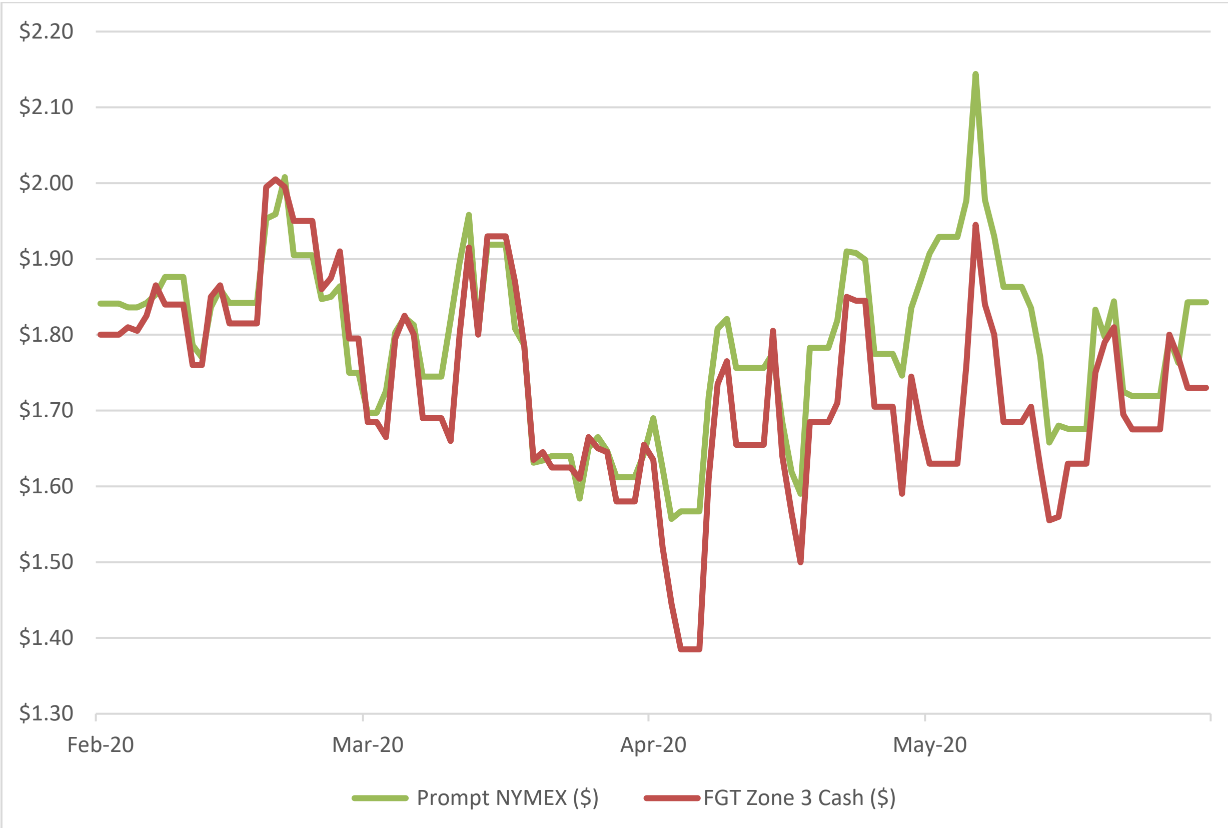
During May 2020, FGU conducted one physical gas withdrawal to sell intraday supply and create some headroom for potential operational needs heading into the summer. Cash market natural gas prices at FGT Zone 3 traded at an average discount of $0.12/Dth to the prompt month June 2020 NYMEX contract due in part to the continued effects of the COVID-19 pandemic. FMPA's optimized storage position, as of May 31, 2020, is long 485,919 Dths of storage inventory (97% full) and short a total of 485,000 Dths of financial hedges (short 235,000 Dths of July 2020 futures and short 250,000 Dths of February 2021 futures). These financial positions are housed in FGU's clearing account with Rosenthal Collins Group (RCG) with associated margining requirements. FMPA's overall net optimized storage position increased in value by $50,891 during the month of May 2020.

The natural gas market continues to reflect the current low demand/oversupply conditions and assumes a tightening of the demand/supply balance moving into the coming winter. Cash market prices are generally $0.10/Dth lower than the prompt-month NYMEX contract and the forward NYMEX curve reflects each successive forward contract increasing in value by $0.05-$0.10/Dth through the end of the summer. This price escalation is the primary driver for the increase in value of FMPA's storage position during May 2020. FMPA's storage inventory is assessed a value based on the prompt-month NYMEX contract. Upon expiration of each current month's contract, the next month's contract price and corresponding inventory value will reflect the $0.05-$0.10/Dth increase in price.

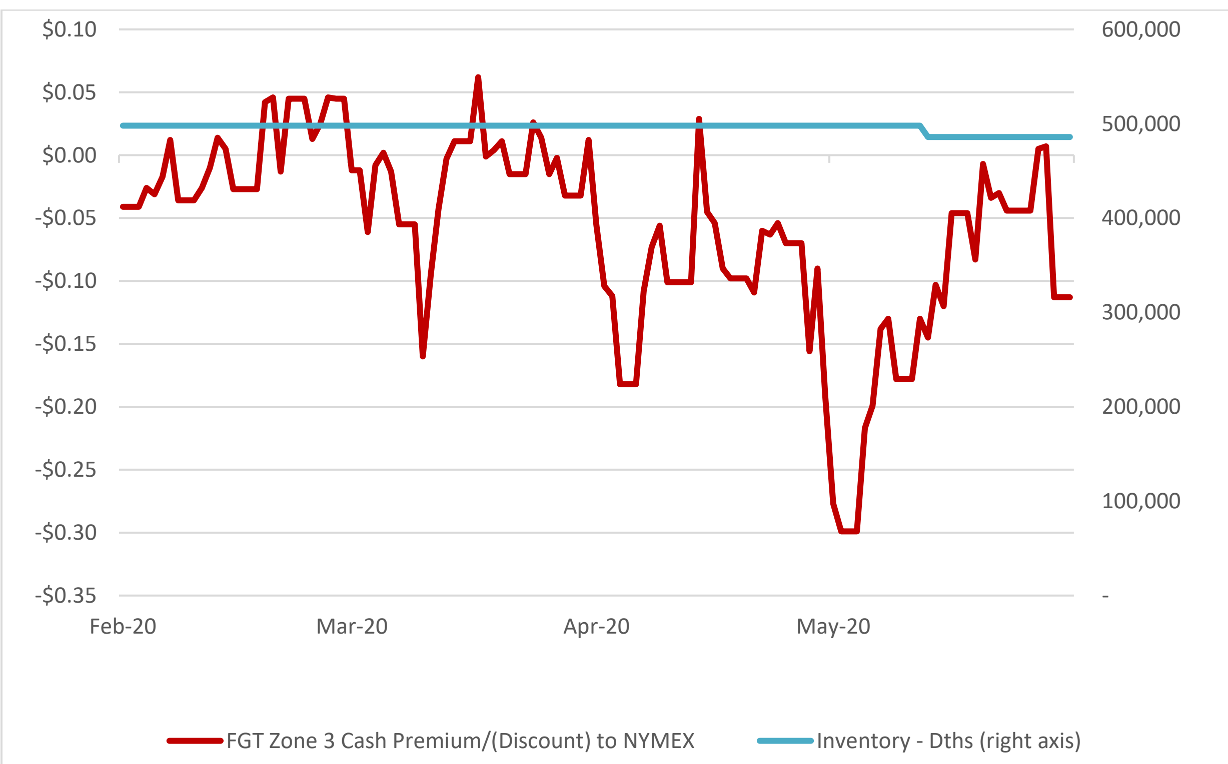
The average 2020/21 winter price reflects an even greater premium of $0.88/Dth compared to the remainder of the summer average price. Because of this forward price curve, the economic incentive is to keep storage inventory near capacity. FGU took advantage of an intraday price premium to withdraw and sell 12,029 Dths in order to create some storage space for operational needs. FMPA's inventory remains near capacity, however, due to the market prices discussed above.



## FGT Zone 3 Cash Market vs NYMEX Prompt-Month Futures




## Cash Market Spread to NYMEX Prompt-Month vs FMPA Storage Inventory Level



## Summary of Existing Physical Inventory Position (5/31/2020)

| Total Inventory Volume | Total Inventory Cost | Inventory WACOG | Market Value | Marked to Market | Unrealized Gain/(Loss) |
|---|---|---|---|---|---|
| 485,919 | $1,215,617 | $2.50 | $1.87 | $910,612 | ($305,005) |

## Summary of Existing Financial and Forward Physical Risk Management Positions (5/31/2020)

| Delivery Month | Net Position (Dths) | Realized Gain/(Loss) to Date ($) | Open Equity ($) | Total Value ($) |
|---|---|---|---|---|
| Nov-19 | 0 | $8,168 | $0 | $8,168 |
| Dec-19 | 0 | $17,680 | $0 | $17,680 |
| Jan-20 | 0 | $96,755 | $0 | $96,755 |
| Feb-20 | 0 | $282,553 | $0 | $282,553 |
| Mar-20 | 0 | $623 | $0 | $623 |
| Apr-20 | 0 | $56,115 | $0 | $56,115 |
| May-20 | 0 | ($31,785) | $0 | ($31,785) |
| Jun-20 | 0 | $56,455 | $0 | $56,455 |
| Jul-20 | (235,000) | $0 | $7,908 | $7,908 |
| Aug-20 | 0 | $0 | $0 | $0 |
| Sep-20 | 0 | $0 | $0 | $0 |
| Oct-20 | 0 | $0 | $0 | $0 |
| Nov-20 | 0 | $0 | $0 | $0 |
| Dec-20 | 0 | $0 | $0 | $0 |
| Jan-21 | 0 | $0 | $0 | $0 |
| Feb-21 | (250,000) | $0 | ($96,920) | ($96,920) |
| Mar-21 | 0 | $0 | $0 | $0 |
| Apr-21 | 0 | $0 | $0 | $0 |

## Summary of Historical Value - Physical and Financial (December 2009 through May 2020)

| Optimization Activity | Net Position (Dths) | Total Realized Gain/(Loss) | Unrealized Gain/(Loss) | Total Storage Net Benefit |
|---|---|---|---|---|
| Current Physical/Financial Positions (5/31/2020) | 919 | $3,201,020 | ($394,017) | $2,807,002 |
| Fees & Commissions | | ($54,522) | | $2,752,481 |
| NJRES Capacity Release | | $477,598 | | $3,230,078 |
| Sale of Call Options (Jan 2015) | | $26,000 | | $3,256,078 |

# Schedule of FMPA Gas and Cash Flows Related to FGU Storage Services

| Month | Actual Injection Cost/ NYMEX Curve (5/29/2020) | Actual/ Anticipated Cash Flow ($) | Net Injection Volume (Dths) | Net Withdrawal Volume (Dths) | Running Inventory Balance at End of Month (Dths) | Running Inventory Cost Balance ($) | WACOG ($/Dth) |
|---|---|---|---|---|---|---|---|
| **Feb-20** | **$0.00** | **$0** | **0** | **0** | **497,948** | **$1,245,710** | **$2.502** |
| **Mar-20** | **$0.00** | **$0** | **0** | **0** | **497,948** | **$1,245,710** | **$2.502** |
| **Apr-20** | **$0.00** | **$0** | **0** | **0** | **497,948** | **$1,245,710** | **$2.502** |
| **May-20** | **$0.00** | **($30,093)** | **0** | **12,029** | **485,919** | **$1,215,617** | **$2.502** |
| *Jun-20* | *$1.72* | *$0* | *0* | *0* | *485,919* | *$1,215,617* | *$2.502* |
| *Jul-20* | *$1.85* | *$0* | *0* | *0* | *485,919* | *$1,215,617* | *$2.502* |
| *Aug-20* | *$1.94* | *$0* | *0* | *0* | *485,919* | *$1,215,617* | *$2.502* |
| *Sep-20* | *$1.99* | *$0* | *0* | *0* | *485,919* | *$1,215,617* | *$2.502* |
| *Oct-20* | *$2.07* | *$0* | *0* | *0* | *485,919* | *$1,215,617* | *$2.502* |
| *Nov-20* | *$2.39* | *$0* | *0* | *0* | *485,919* | *$1,215,617* | *$2.502* |
| *Dec-20* | *$2.81* | *($50,034)* | *0* | *20,000* | *465,919* | *$1,165,583* | *$2.502* |
| *Jan-21* | *$2.96* | *($562,879)* | *0* | *225,000* | *240,919* | *$602,704* | *$2.502* |
| *Feb-21* | *$2.92* | *($562,879)* | *0* | *225,000* | *15,919* | *$39,824* | *$2.502* |
| *Mar-21** | *$2.80* | *($39,824)* | *0* | *15,919* | *0* | *$0* | *$0.000* |
| *Apr-21* | *$2.51* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *May-21* | *$2.48* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Jun-21* | *$2.53* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Jul-21* | *$2.57* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Aug-21* | *$2.58* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Sep-21* | *$2.56* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Oct-21* | *$2.57* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Nov-21* | *$2.62* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Dec-21* | *$2.75* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Jan-22* | *$2.85* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Feb-22* | *$2.81* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Mar-22* | *$2.67* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Apr-22* | *$2.32* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *May-22* | *$2.29* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |

*FMPA's current storage agreement expires March 31, 2021. FGU assumes no extension of any storage agreement for purposes of projecting cash flows.

Winter months

**Bold = actual data**

FMPA Storage Management Report

Florida Gas Utility

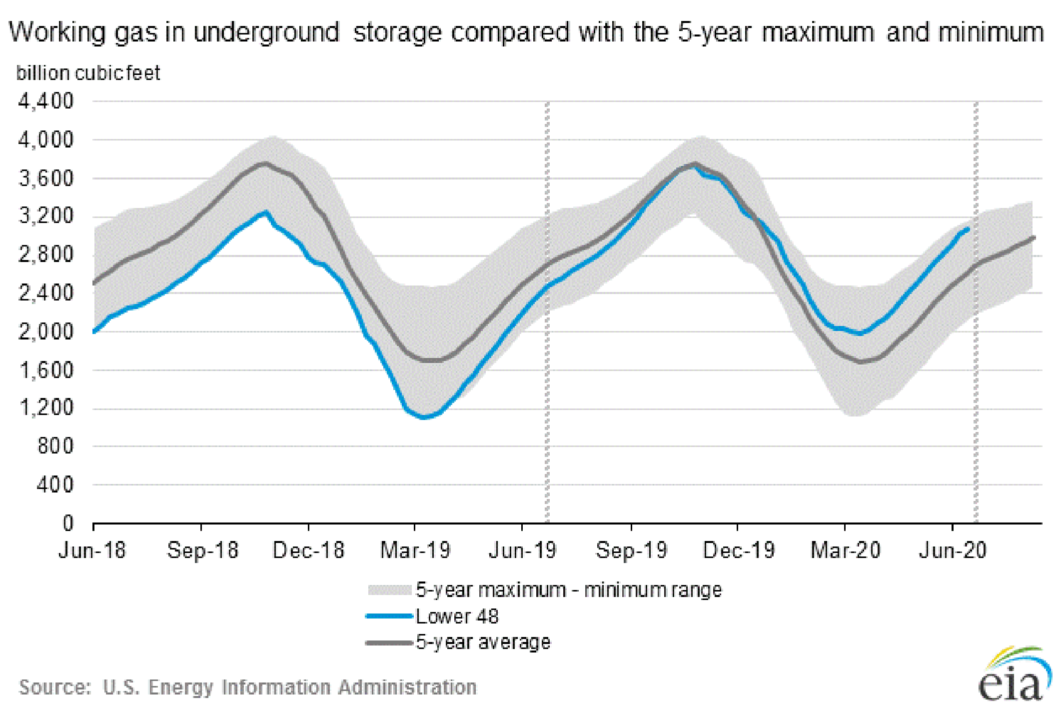
June 2020

## Executive Summary – June 2020 Activity

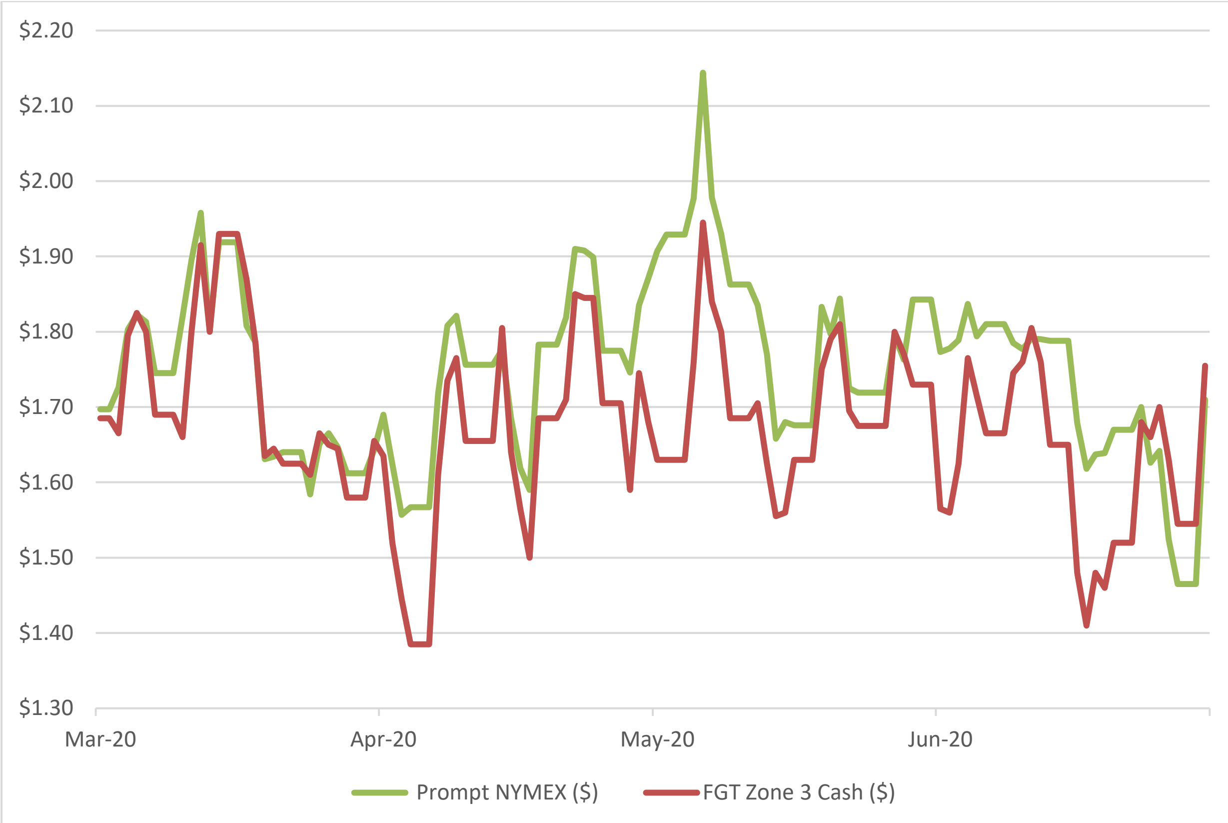
During June 2020, FGU conducted no physical gas withdrawals nor injections due to the inventory position being nearly full (preventing additional injections) and the lack of market opportunities for significant cash market price premiums (preventing withdrawals). Cash market natural gas prices at FGT Zone 3 traded at an average discount of $0.13/Dth to the prompt month July 2020 NYMEX contract during the majority of June. However, the last week of June saw high temperatures in Florida and operational issues on the Sabal Trail pipeline that combined to drive the cash market prices for FGT Zone 3 to an average premium of $0.07/Dth during that period. Despite the relative surge in FGT Zone 3 pricing, this premium was not enough to provide an economic incentive to withdraw after accounting for the variable costs of withdrawing and re-injecting gas into storage and thus no such activity took place. FMPA's optimized storage position, as of June 30, 2020, is long 485,919 Dths of storage inventory (97% full) and short a total of 485,000 Dths of financial hedges (short 235,000 Dths of August 2020 futures and short 250,000 Dths of February 2021 futures). FMPA's overall net optimized storage position increased in value by $15,159 during the month of June 2020.

The end of June saw the lowest NYMEX natural gas price for the prompt month in 25 years at $1.482/Dth for the July 2020 contract before expiring at $1.495/Dth. The continued discount of cash market prices and prompt-month futures relative to the winter 2020/21 futures prices drove significant storage injections over the past two months. The 2020 injections during May and June were 10% greater than the prior 5-year average quantity of injections during the same two months.

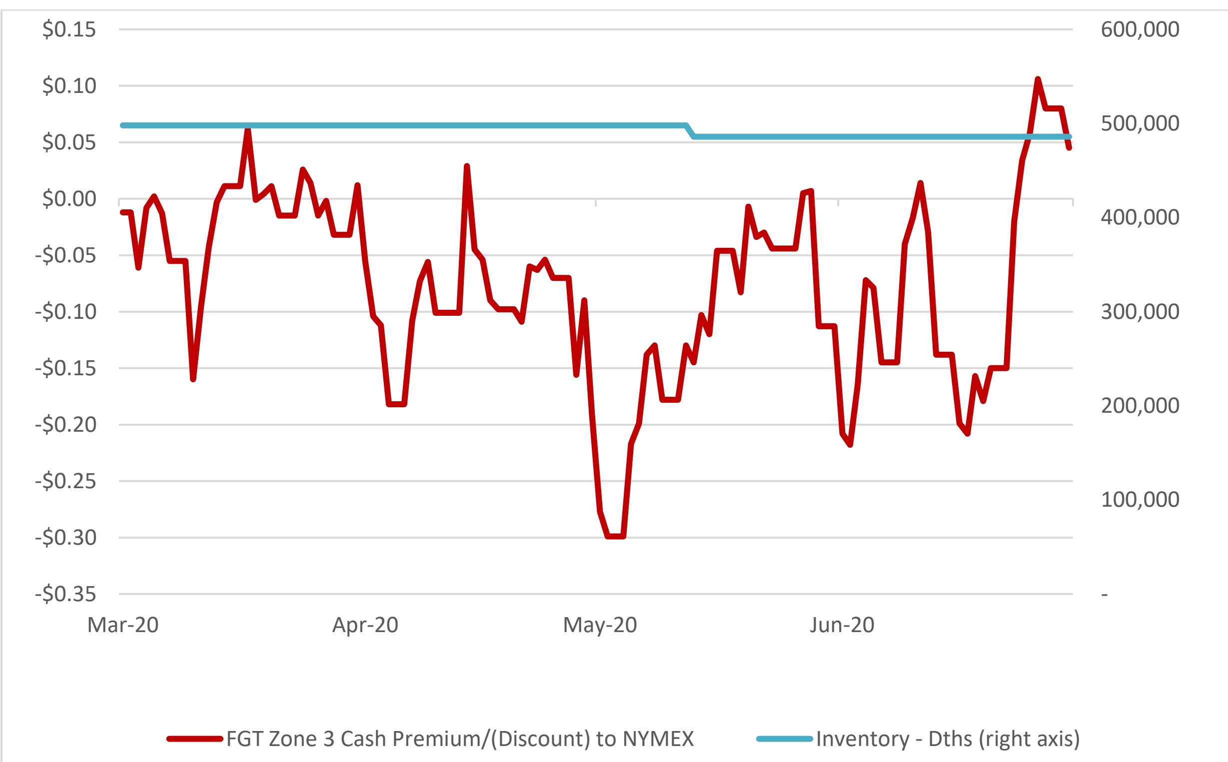
As of June 26, 2020, the EIA estimated that working gas in storage for the lower 48 states stood at 3,077 Bcf. This is 30 percent more than at the same time last year and nearly 18% greater than the prior 5-year average. The chart below illustrates the inventory position relative to the average and min/max ranges during the prior 5 years. The relatively high level of current storage, combined with the demand destruction from the COVID-19 pandemic, are significant drivers behind the recent record low prices.



## FGT Zone 3 Cash Market vs NYMEX Prompt-Month Futures




## Cash Market Spread to NYMEX Prompt-Month vs FMPA Storage Inventory Level



**Summary of Existing Physical Inventory Position (6/30/2020)**

| Total Inventory Volume | Total Inventory Cost | Inventory WACOG | Market Value | Marked to Market | Unrealized Gain/(Loss) |
|---|---|---|---|---|---|
| 485,919 | $1,215,617 | $2.50 | $1.80 | $873,925 | ($341,692) |

**Summary of Existing Financial and Forward Physical Risk Management Positions (6/30/2020)**

| Delivery Month | Net Position (Dths) | Realized Gain/(Loss) to Date ($) | Open Equity ($) | Total Value ($) |
|---|---|---|---|---|
| Nov-19 | 0 | $8,168 | $0 | $8,168 |
| Dec-19 | 0 | $17,680 | $0 | $17,680 |
| Jan-20 | 0 | $96,755 | $0 | $96,755 |
| Feb-20 | 0 | $282,553 | $0 | $282,553 |
| Mar-20 | 0 | $623 | $0 | $623 |
| Apr-20 | 0 | $56,115 | $0 | $56,115 |
| May-20 | 0 | ($31,785) | $0 | ($31,785) |
| Jun-20 | 0 | $56,455 | $0 | $56,455 |
| Jul-20 | 0 | $91,098 | $0 | $91,098 |
| Aug-20 | (235,000) | $0 | ($48,878) | ($48,878) |
| Sep-20 | 0 | $0 | $0 | $0 |
| Oct-20 | 0 | $0 | $0 | $0 |
| Nov-20 | 0 | $0 | $0 | $0 |
| Dec-20 | 0 | $0 | $0 | $0 |
| Jan-21 | 0 | $0 | $0 | $0 |
| Feb-21 | (250,000) | $0 | ($78,920) | ($78,920) |
| Mar-21 | 0 | $0 | $0 | $0 |
| Apr-21 | 0 | $0 | $0 | $0 |

**Summary of Historical Value - Physical and Financial (December 2009 through June 2020)**

| Optimization Activity | Net Position (Dths) | Total Realized Gain/(Loss) | Unrealized Gain/(Loss) | Total Storage Net Benefit |
|---|---|---|---|---|
| Current Physical/Financial Positions (6/30/2020) | 919 | $3,292,117 | ($469,489) | $2,822,628 |
| Fees & Commissions | | ($55,210) | | $2,767,418 |
| NJRES Capacity Release | | $477,598 | | $3,245,016 |
| Sale of Call Options (Jan 2015) | | $26,000 | | $3,271,016 |

# Schedule of FMPA Gas and Cash Flows Related to FGU Storage Services

| Month | Actual Injection Cost/ NYMEX Curve (6/30/2020) | Actual/ Anticipated Cash Flow ($) | Net Injection Volume (Dths) | Net Withdrawal Volume (Dths) | Running Inventory Balance at End of Month (Dths) | Running Inventory Cost Balance ($) | WACOG ($/Dth) |
|---|---|---|---|---|---|---|---|
| **Feb-20** | **$0.00** | **$0** | **0** | **0** | **497,948** | **$1,245,710** | **$2.502** |
| **Mar-20** | **$0.00** | **$0** | **0** | **0** | **497,948** | **$1,245,710** | **$2.502** |
| **Apr-20** | **$0.00** | **$0** | **0** | **0** | **497,948** | **$1,245,710** | **$2.502** |
| **May-20** | **$0.00** | **($30,093)** | **0** | **12,029** | **485,919** | **$1,215,617** | **$2.502** |
| **Jun-20** | **$0.00** | **$0** | **0** | **0** | **485,919** | **$1,215,617** | **$2.502** |
| *Jul-20* | *$1.50* | *$0* | *0* | *0* | *485,919* | *$1,215,617* | *$2.502* |
| *Aug-20* | *$1.83* | *$0* | *0* | *0* | *485,919* | *$1,215,617* | *$2.502* |
| *Sep-20* | *$1.89* | *$0* | *0* | *0* | *485,919* | *$1,215,617* | *$2.502* |
| *Oct-20* | *$1.98* | *$0* | *0* | *0* | *485,919* | *$1,215,617* | *$2.502* |
| *Nov-20* | *$2.34* | *$0* | *0* | *0* | *485,919* | *$1,215,617* | *$2.502* |
| *Dec-20* | *$2.74* | *($50,034)* | *0* | *20,000* | *465,919* | *$1,165,583* | *$2.502* |
| *Jan-21* | *$2.87* | *($562,879)* | *0* | *225,000* | *240,919* | *$602,704* | *$2.502* |
| *Feb-21* | *$2.84* | *($562,879)* | *0* | *225,000* | *15,919* | *$39,824* | *$2.502* |
| *Mar-21** | *$2.73* | *($39,824)* | *0* | *15,919* | *0* | *$0* | *$0.000* |
| *Apr-21* | *$2.47* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *May-21* | *$2.44* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Jun-21* | *$2.48* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Jul-21* | *$2.53* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Aug-21* | *$2.55* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Sep-21* | *$2.53* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Oct-21* | *$2.55* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Nov-21* | *$2.60* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Dec-21* | *$2.73* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Jan-22* | *$2.83* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Feb-22* | *$2.79* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Mar-22* | *$2.64* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Apr-22* | *$2.28* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *May-22* | *$2.24* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |

*FMPA's current storage agreement expires March 31, 2021. FGU assumes no extension of any storage agreement for purposes of projecting cash flows.

Winter months

**Bold = actual data**

- Negative values reflect withdrawals of storage gas that have already been paid for.
- Positive values reflect charges to FMPA for gas purchases to be injected into storage.
- Months above reflect the period of storage activity and the actual charge/credit from FGU would occur the following month.

FMPA Storage Management Report

Florida Gas Utility

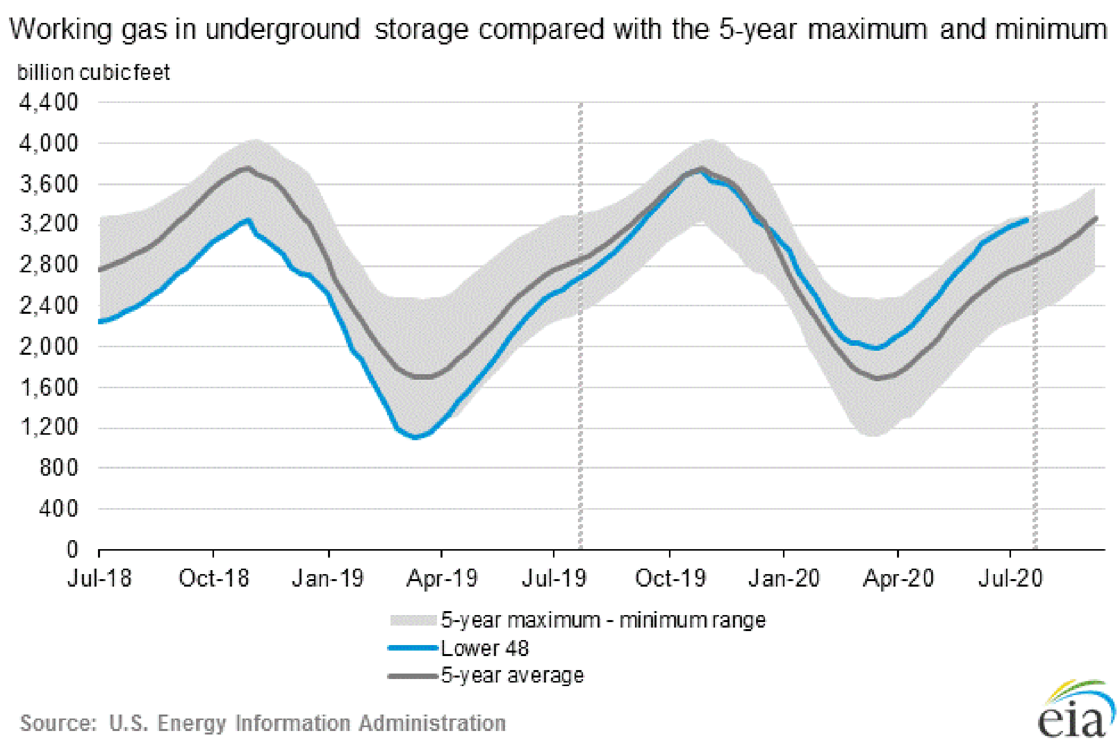
July 2020

## Executive Summary – July 2020 Activity

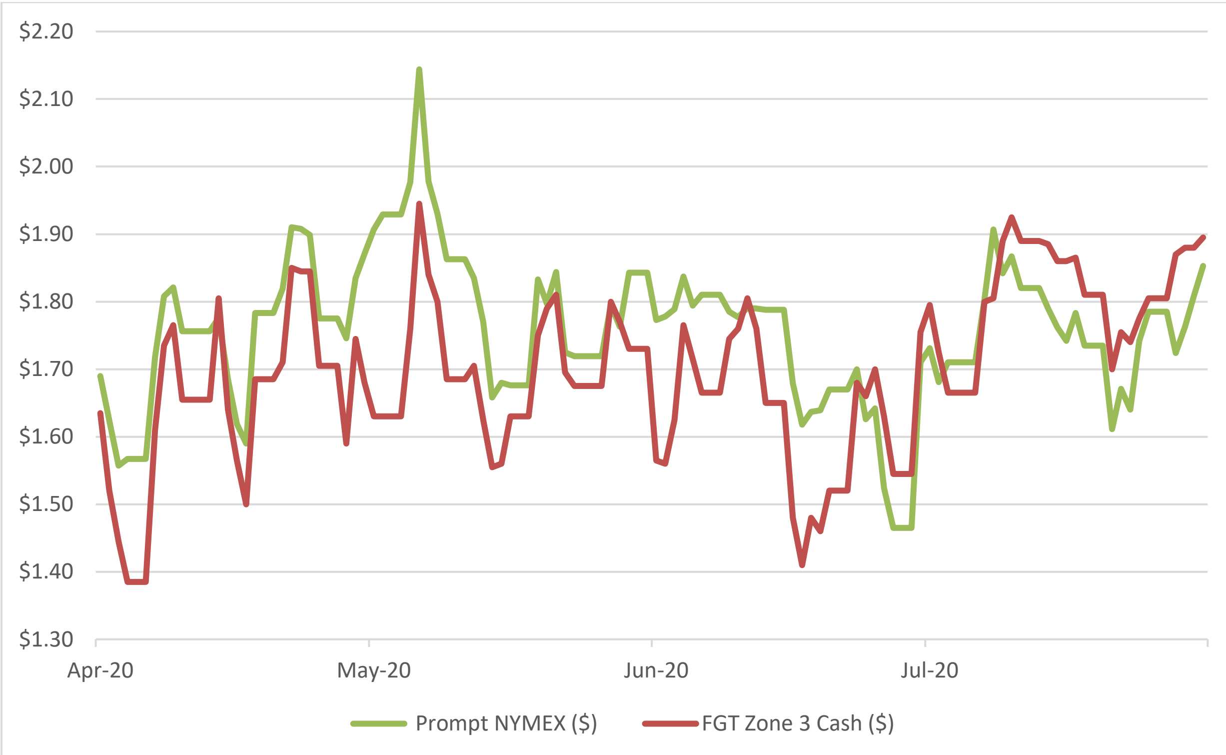
During July 2020, FGU conducted no physical gas withdrawal/injection activity given the nearly full inventory position and the continued forward price curve reflecting increasing market value in each subsequent month. Although the FGT Zone 3 cash market prices during much of July did reflect a premium over the prompt month (i.e., August 2020) NYMEX futures contract, the premium was not large enough to ensure a no-risk re-injection of that gas at a lower net cost versus the value of the withdrawal. FMPA's optimized storage position, as of July 31, 2020, is long 485,919 Dths of storage inventory (97% full) and short a total of 485,000 Dths of financial hedges (short 235,000 Dths of September 2020 futures and short 250,000 Dths of February 2021 futures). FMPA's overall net optimized storage position increased in value by $42,391 during the month of July 2020 as the market value of the inventory reflects the increasing value of each subsequent month of the NYMEX forward curve.

Following the lowest prompt month NYMEX natural gas settle price ($1.482/Dth) in 25 years at the end of June 2020, the August 2020 NYMEX contract traded between $1.60 and $1.90/Dth during July before expiring at $1.845/Dth. The 'heat dome' that persisted across much of the United States during July 2020 was the key driver behind increased gas demand and the uptick in natural gas prices. Modest strengthening of the cash market relative to prompt-month futures prices helped to curb some of the marginal storage injection opportunities in the daily marketplace during July and slowed the overall pace of storage injections for the United States.

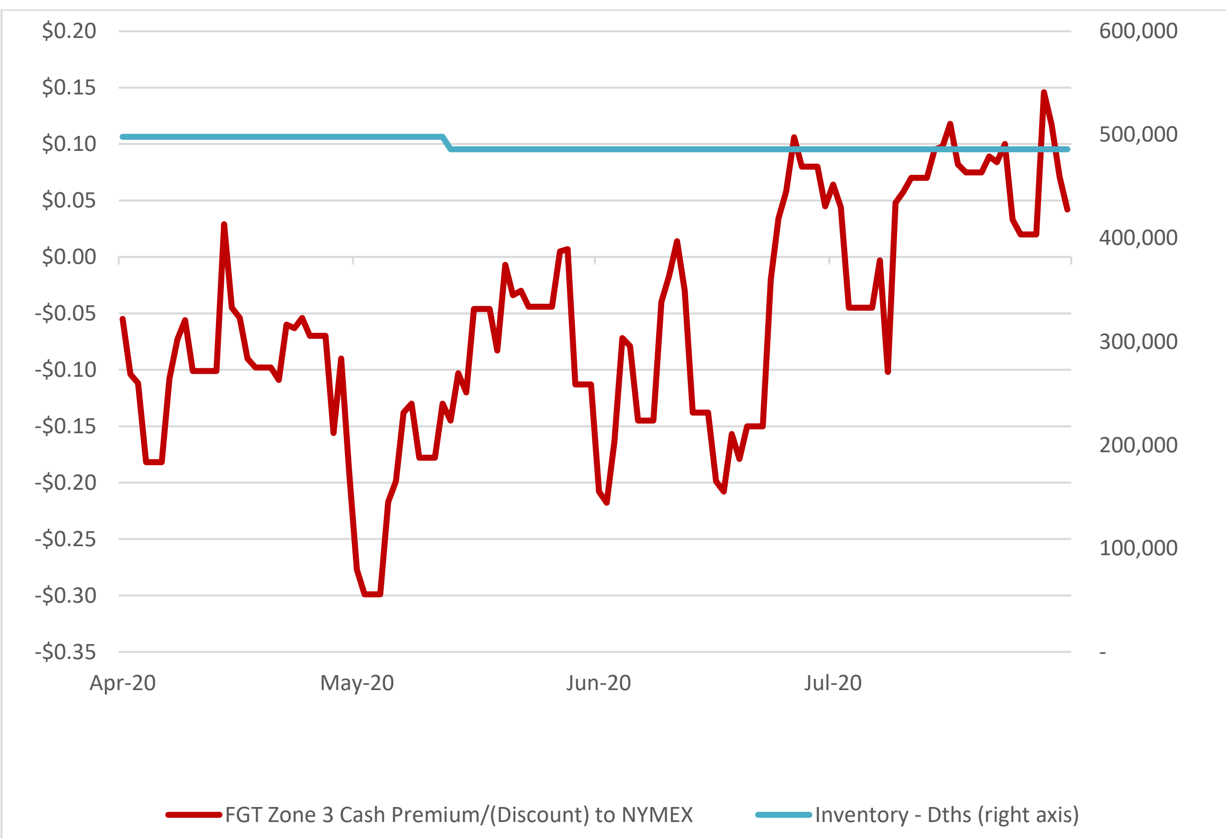
As of July 24, 2020, the EIA estimates that working gas in storage for the lower 48 states stands at 3,241 Bcf. The surplus of current year gas inventory relative to the prior-year and 5-year historical average stands at 24 percent and 15 percent, respectively. This is down from inventory surpluses of 30 percent and 18 percent for the prior-year and 5-year historical average, respectively, from one month ago. However, as illustrated below, the current inventory remains at the upper end of the prior 5-year range.



## FGT Zone 3 Cash Market vs NYMEX Prompt-Month Futures




## Cash Market Spread to NYMEX Prompt-Month vs FMPA Storage Inventory Level



### Summary of Existing Physical Inventory Position (7/31/2020)

| Total Inventory Volume | Total Inventory Cost | Inventory WACOG | Market Value | Marked to Market | Unrealized Gain/(Loss) |
|---|---|---|---|---|---|
| 485,919 | $1,215,617 | $2.50 | $1.90 | $921,545 | ($294,072) |

### Summary of Existing Financial and Forward Physical Risk Management Positions (7/31/2020)

| Delivery Month | Net Position (Dths) | Realized Gain/(Loss) to Date ($) | Open Equity ($) | Total Value ($) |
|---|---|---|---|---|
| Nov-19 | 0 | $8,168 | $0 | $8,168 |
| Dec-19 | 0 | $17,680 | $0 | $17,680 |
| Jan-20 | 0 | $96,755 | $0 | $96,755 |
| Feb-20 | 0 | $282,553 | $0 | $282,553 |
| Mar-20 | 0 | $623 | $0 | $623 |
| Apr-20 | 0 | $56,115 | $0 | $56,115 |
| May-20 | 0 | ($31,785) | $0 | ($31,785) |
| Jun-20 | 0 | $56,455 | $0 | $56,455 |
| Jul-20 | 0 | $91,098 | $0 | $91,098 |
| Aug-20 | 0 | ($73,548) | $0 | ($73,548) |
| Sep-20 | (235,000) | $0 | $29,860 | $29,860 |
| Oct-20 | 0 | $0 | $0 | $0 |
| Nov-20 | 0 | $0 | $0 | $0 |
| Dec-20 | 0 | $0 | $0 | $0 |
| Jan-21 | 0 | $0 | $0 | $0 |
| Feb-21 | (250,000) | $0 | ($88,170) | ($88,170) |
| Mar-21 | 0 | $0 | $0 | $0 |
| Apr-21 | 0 | $0 | $0 | $0 |

### Summary of Historical Value - Physical and Financial (December 2009 through July 2020)

| Optimization Activity | Net Position (Dths) | Total Realized Gain/(Loss) | Unrealized Gain/(Loss) | Total Storage Net Benefit |
|---|---|---|---|---|
| Current Physical/Financial Positions (7/31/2020) | 919 | $3,218,570 | ($352,382) | $2,866,188 |
| Fees & Commissions | | ($56,380) | | $2,809,808 |
| NJRES Capacity Release | | $477,598 | | $3,287,406 |
| Sale of Call Options (Jan 2015) | | $26,000 | | $3,313,406 |

# Schedule of FMPA Gas and Cash Flows Related to FGU Storage Services

| Month | Actual Injection Cost/ NYMEX Curve (7/31/2020) | Actual/ Anticipated Cash Flow ($) | Net Injection Volume (Dths) | Net Withdrawal Volume (Dths) | Running Inventory Balance at End of Month (Dths) | Running Inventory Cost Balance ($) | WACOG ($/Dth) |
|---|---|---|---|---|---|---|---|
| **Feb-20** | **$0.00** | **$0** | **0** | **0** | **497,948** | **$1,245,710** | **$2.502** |
| **Mar-20** | **$0.00** | **$0** | **0** | **0** | **497,948** | **$1,245,710** | **$2.502** |
| **Apr-20** | **$0.00** | **$0** | **0** | **0** | **497,948** | **$1,245,710** | **$2.502** |
| **May-20** | **$0.00** | **($30,093)** | **0** | **12,029** | **485,919** | **$1,215,617** | **$2.502** |
| **Jun-20** | **$0.00** | **$0** | **0** | **0** | **485,919** | **$1,215,617** | **$2.502** |
| **Jul-20** | **$1.50** | **$0** | **0** | **0** | **485,919** | **$1,215,617** | **$2.502** |
| *Aug-20* | *$1.85* | *$0* | *0* | *0* | *485,919* | *$1,215,617* | *$2.502* |
| *Sep-20* | *$1.80* | *$0* | *0* | *0* | *485,919* | *$1,215,617* | *$2.502* |
| *Oct-20* | *$1.96* | *$0* | *0* | *0* | *485,919* | *$1,215,617* | *$2.502* |
| *Nov-20* | *$2.42* | *$0* | *0* | *0* | *485,919* | *$1,215,617* | *$2.502* |
| *Dec-20* | *$2.79* | *($50,034)* | *0* | *20,000* | *465,919* | *$1,165,583* | *$2.502* |
| *Jan-21* | *$2.92* | *($562,879)* | *0* | *225,000* | *240,919* | *$602,704* | *$2.502* |
| *Feb-21* | *$2.88* | *($562,879)* | *0* | *225,000* | *15,919* | *$39,824* | *$2.502* |
| *Mar-21** | *$2.79* | *($39,824)* | *0* | *15,919* | *0* | *$0* | *$0.000* |
| *Apr-21* | *$2.56* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *May-21* | *$2.53* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Jun-21* | *$2.57* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Jul-21* | *$2.62* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Aug-21* | *$2.63* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Sep-21* | *$2.62* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Oct-21* | *$2.64* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Nov-21* | *$2.69* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Dec-21* | *$2.82* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Jan-22* | *$2.92* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Feb-22* | *$2.88* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Mar-22* | *$2.73* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *Apr-22* | *$2.36* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |
| *May-22* | *$2.32* | *$0* | *0* | *0* | *0* | *$0* | *$0.000* |

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Winter months

**Bold = actual data**

- Negative values reflect withdrawals of storage gas that have already been paid for.
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## AGENDA ITEM 11 – COMMENTS

**Finance Committee Meeting**
**August 19, 2020**

## AGENDA ITEM 12 – ADJOURNMENT

**Finance Committee Meeting**
**August 19, 2020**