



## **FINANCE COMMITTEE**

### **AGENDA PACKAGE**

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**August 18, 2021**

**2:00 p.m.**

**Dial-in Info 877-668-4493 or 650-479-3208**

**Meeting Number 180 881 0427#**

**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 10, 2021  
SUBJECT: FMPA Finance Committee Meeting  
August 18, 2021 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 [180 881 0427#] PASSWORD 8553**  
**(If you have trouble connecting via phone or internet, please call 407-355-7767)**

*Chairperson Karen Nelson, Presiding*

## AGENDA

- 1. Call to Order, Roll Call, Declaration of Quorum.....4
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- 3. Public Comment (Individual public comments limited to 3 minutes).....6
- 4. Set Agenda (by vote).....7
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- b. Review of Risk Policy Compliance Reports (Liyuan Woerner).....**90**
- c. Review of AP Audit Report (Liyuan Woerner).....**107**
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LSH/bs

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 18, 2021**

**AGENDA ITEM 2 – RECOGNITION OF  
GUESTS**

**Finance Committee Meeting  
August 18, 2021**

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

**Finance Committee Meeting  
August 18, 2021**

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

**Finance Committee Meeting  
August 18, 2021**

**AGENDA ITEM 5 – APPROVAL OF  
MINUTES**

- a. Approval of Minutes – Finance  
Committee Minutes – Meeting  
Held June 3, 2021 & June 9,  
2021**

**Finance Committee Meeting  
August 18, 2021**



CLERKS DULY NOTIFIED.....May 26, 2021  
AGENDA PACKAGE SENT TO MEMBERS.....May 26, 2021

**MINUTES  
FINANCE COMMITTEE MEETING  
THURSDAY, JUNE 3, 2021  
FLORIDA MUNICIPAL POWER AGENCY  
8553 COMMODITY CIRCLE  
ORLANDO, FL**

**PARTICIPANTS  
PRESENT** Karen Nelson, Jacksonville Beach

**PARTICIPANTS  
PRESENT BY  
TELEPHONE** Barbara Mika, Fort Pierce  
Barbara Quinones, Homestead  
Jody Young, Bushnell  
Larry Mattern, Kissimmee  
Marie Brooks, Ocala  
James Braddock, Wauchula  
Jesse Perloff, Key West

**PARTICIPANTS  
ABSENT** Howard McKinnon, Havana  
Jim Williams, Leesburg  
Steve Langley, Mount Dora  
Dallas Lee, Newberry

**OTHERS  
PRESENT** Craig Dunlap, Dunlap & Associates, Inc.  
Mike Mace, PFM

**STAFF PRESENT** Jacob Williams, General Manager and CEO  
Jody Finklea, General Counsel and CLO  
Ken Rutter, Chief Operating Officer  
Linda Howard, Chief Financial Officer  
Sharon Adams, VP of HR & Shared Services  
Danyel Sullivan-Marrero, Controller  
Ed Nunez, Assistant Treasurer  
Sena Mitchell, Assistant Treasurer  
Steve Ruppel, Senior Financial Analyst  
Louis DeSimone, Financial Planning & Rates Analyst II  
Liyuan Woerner, Audit Manager  
Jason Wolfe, Financial Planning Rates and Budget Director  
Dan O'Hagan, Asst Gen. Counsel & Regulatory Compliance Counsel  
Sue Utley, Executive Assistant to CEO/Asst. Sec. Bd. Dir.  
Isabel Montoya, IT Specialist  
Bianca Scott, Administrative Specialist  
Melisa Inanc, PR Specialist

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

Karen Nelson, Jacksonville Beach, called the FMPA Finance Committee Meeting to order at 2:00 pm on Thursday, June 3, 2021. A speaker telephone was present for public attendance and participation in the Fredrick M. Bryant 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 amended. Barbara Quinones, Homestead, seconded the motion. Motion carried 8-0.

**ITEM 5 – APPROVAL OF THE MINUTES**

None

**ITEM 6 – CHAIRPERSON'S REMARKS**

None

**ITEM 7 – CFO REPORT**

None

**ITEM 8 – ACTION ITEMS**

**a. Review and Approval of the ARP FY 2022 Budget/FY 2023 Plan**

Jason Wolfe presented on the Review and Approval of the ARP FY 2022 Budget/FY 2023 Plan.

**MOTION:** Marie Brooks, Ocala, moved the Review and Approval of the ARP FY 2022 Budget/FY 2023 Plan for approval to the Board of Directors. Jody Young, Bushnell, seconded the motion. Motion carried 8-0.

**ITEM 9 – INFORMATION ITEMS**

None

**ITEM 10 – REPORTS**

None

**ITEM 11 – COMMENTS**

None

**ITEM 12 – ADJOURNMENT**

There being no further business, the meeting was adjourned at 2:30 p.m.

Approved: \_\_\_\_\_ Date \_\_\_\_\_ KN/bs

CLERKS DULY NOTIFIED.....June 2, 2021  
AGENDA PACKAGE SENT TO MEMBERS.....June 2, 2021

**MINUTES  
FINANCE COMMITTEE MEETING  
WEDNESDAY, JUNE 9, 2021  
FLORIDA MUNICIPAL POWER AGENCY  
8553 COMMODITY CIRCLE  
ORLANDO, FL**

<b>PARTICIPANTS PRESENT BY TELEPHONE</b>	Karen Nelson, Jacksonville Beach Jody Young, Bushnell Barbara Mika, Fort Pierce Jack Wetzler, Key West Larry Mattern, Kissimmee Jim Williams, Leesburg Steve Langley, Mount Dora Dallas Lee, Newberry Marie Brooks, Ocala
<b>PARTICIPANTS ABSENT</b>	Howard McKinnon, Havana Barbara Quinones, Homestead James Braddock, Wauchula
<b>OTHERS PRESENT</b>	Craig Dunlap, Dunlap & Associates, Inc. Jim Crawford, KUA
<b>STAFF PRESENT</b>	Jacob Williams, General Manager and CEO Jody Finklea, General Counsel and CLO Ken Rutter, Chief Operating Officer Linda Howard, Chief Financial Officer Sharon Adams, VP of HR & Shared Services Danyel Sullivan-Marrero, Controller Jim Arntz, Assistant Controller Gloria Reyes, Assistant Treasurer/Investments Steve Ruppel, Senior Financial Analyst Louis DeSimone, Financial Planning & Rates Analyst II Liyuan Woerner, Audit Manager Jason Wolfe, Financial Planning Rates and Budget Director Sue Utley, Executive Assistant to CEO/Asst. Sec. Bd. Dir. Isabel Montoya, IT Specialist Bianca Scott, Administrative Specialist Melisa Inanc, PR Specialist

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

Karen Nelson, Jacksonville Beach, called the FMPA Finance Committee Meeting to order at 2:00 pm on Wednesday, June 9, 2021. A speaker telephone was present for public attendance and participation in the Fredrick M. Bryant Board Room, at FMPA, 8553 Commodity Circle, Orlando, Florida. The roll was taken, and a quorum was declared, with 9

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. Jody Young, Bushnell, seconded the motion. Motion carried 9-0.

**ITEM 5 – APPROVAL OF THE MINUTES**

**a. Approval of Minutes – Finance Committee Minutes – Meeting Held May 19, 2021**

**MOTION:** Jack Wetzler, Key West, moved the approval of the minutes presented for the meeting held May 19, 2021. Jim Williams, Leesburg, seconded the motion. Motion carried 9-0.

**ITEM 6 – CHAIRPERSON'S REMARKS**

None

**ITEM 7 – CFO REPORT**

Linda Howard presented on the following items

1. Thank you for your diligence in making the meeting
2. We have several items we are working on for St. Lucie and we will keep you posted on the outcome

**ITEM 8 – ACTION ITEMS**

**a. Approval of Revised Coal Project Demand Billings**

Jason Wolfe presented on the approval of Revised Coal Project Demand Billings.

**MOTION:** Larry Mattern, Kissimmee, moved the approval of Revised Coal Project Demand Billings for recommendation for approval to the Board of Directors. Jack Wetzler, Key West, seconded the motion. Motion carried 9-0.

**ITEM 9 – INFORMATION ITEMS**

**a. Recommended Changes in Depreciation for Generations Units**

Danyel Sullivan-Marrero presented on changing the useful lives to be more accurate and generate more equity over the next ten years for Stanton, Stanton II, Tri-City, and St. Lucie. This would be effective for fiscal year 2021.

**b. FY 2021 Budget Status and Potential Amendments Needed**

Jason Wolfe presented on the FY 2022 Agency Budget. Projected to be 0.4 million under budget for this fiscal year. FY 2021 estimates are close to FY 2020 actuals. 770k in Capital Projects for FY 2022. Recommending to fund agency working capital at \$300,000 for FY 2022. Agency and Solar II don't need any changes.

**ITEM 10 – REPORTS**

None

**ITEM 11 – COMMENTS**

None

**ITEM 12 – ADJOURNMENT**

There being no further business, the meeting was adjourned at 2:22 pm.

Approved: \_\_\_\_\_ Date \_\_\_\_\_ KN/bs

**AGENDA ITEM 6 – CHAIRPERSON'S  
REMARKS**

**Finance Committee Meeting  
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**AGENDA ITEM 7 – CFO REPORT**

**Finance Committee Meeting  
August 18, 2021**





# 7 - CFO Report

Finance Committee

August 18, 2021



# Items of Note

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- St. Lucie debt transaction
  - Expected ratings
  - Challenges
- Gas prices on the rise
- Several policies at the upcoming meetings
- Internal audit working on St. Lucie audit
- Procurement training

**AGENDA ITEM 8 – ACTION ITEMS**

- a. Approval of Appendix C  
Investment Policy**

**Finance Committee Meeting  
August 18, 2021**



# FC 8a - Approval of Investment Policy and Changes

Finance Committee

August 18, 2021

# Investment Policy

## *Major Areas Covered*

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- Investment Objectives
- Allowable Investments
- Benchmarking
- Internal Controls
- Reporting
- Oversight Structure

# Origination Transaction Policy Changes

## *Record Keeping, Reporting and Administrative Updates*

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Section	Changes Made
5.5 Diversification	Clarification for both Municipal and Corporate debt includes Bonds and Notes.
Glossary of Terms	Added two Terms: Free Receipt and Municipal Note
Throughout	Administrative updates

# Recommended Motion

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- Move approval of the recommended changes as presented to the Investment Risk Management Policy and recommend approval to the Board of Directors and Executive Committee.

**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 are prohibited unless specifically approved by the EC or BOD.
- ❖ The CFO shall establish benchmarks against which portfolio performance shall be compared regularly.

## INVESTMENT RISK MANAGEMENT POLICY

(Continued)

- ❖ 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 Policy, given the current objectives, diversification, cashflow needs, and maturity requirements. Selection of securities shall be made using either competitive offers, 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 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.

**INVESTMENT RISK MANAGEMENT POLICY**

(Continued)

<b>Fund/Account</b>	<b>Invested to Mature as Shown</b>
<b><i>Operations and Maintenance Fund</i></b>	
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.
<b><i>Debt Service Fund</i></b>	
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.
<b><i>Construction Fund or Proceeds Fund</i></b>	Not later than when needed for payments to be made from such fund.
<b><i>Reserve and Contingency Fund</i></b>	
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.
<b><i>General Reserve Fund</i></b>	
1. General Reserve Account	Within 5 years or when needed to make payments.
<b><i>Decommissioning</i></b>	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 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

**INVESTMENT RISK MANAGEMENT POLICY**

(Continued)

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.

<b>Diversification by Investment Type:</b>	<b>Percentage at time of purchase:</b>
US Treasury Obligations	100%
Municipal Bonds and Notes	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	

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

## INVESTMENT RISK MANAGEMENT POLICY

(Continued)

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 218.415. 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 Internal 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 Internal 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

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 Internal 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.

# INVESTMENT RISK MANAGEMENT POLICY

## Glossary of Terms

(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,

## INVESTMENT RISK MANAGEMENT POLICY

### Glossary of Terms

(Continued)

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:** 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.

## INVESTMENT RISK MANAGEMENT POLICY

### Glossary of Terms

(Continued)

**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

## INVESTMENT RISK MANAGEMENT POLICY

### Glossary of Terms

(Continued)

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:** a trade where delivery of the financial Instrument is made to a client or Counterparty without receiving payment

**FREE RECEIPT:** a trade where receipt of the financial instrument is made without the simultaneous exchange of associated payment.

**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.

## INVESTMENT RISK MANAGEMENT POLICY

### Glossary of Terms

(Continued)

**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.

**MUNICIPAL NOTE:** A municipal note is debt issued by state and local governments to finance capital expenditures, such as construction projects. Municipal notes mature in one year or less, offer fixed income, and are exempt from income tax at the federal and/or state levels.

**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

## INVESTMENT RISK MANAGEMENT POLICY

### Glossary of Terms

(Continued)

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.



## INVESTMENT RISK MANAGEMENT POLICY

### Glossary of Terms

(Continued)

**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

**INVESTMENT RISK MANAGEMENT POLICY**

**Glossary of Terms**

(Continued)

**highlighted.** Table of ratings categories; partial listing of upper portion of complete table as herein needed:

<b>Moody's</b>		<b>S&amp;P</b>		<b>Fitch</b>	
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term
<b>Aaa</b>	<b>P-1</b>	<b>AAA</b>	<b>A-1+</b>	<b>AAA</b>	<b>F1+</b>
<b>Aa1</b>	<b>P-1</b>	<b>AA+</b>	<b>A-1+</b>	<b>AA+</b>	<b>F1+</b>
<b>Aa2</b>	<b>P-1</b>	<b>AA</b>	<b>A-1+</b>	<b>AA</b>	<b>F1+</b>
<b>Aa3</b>	<b>P-1</b>	<b>AA-</b>	<b>A-1+</b>	<b>AA-</b>	<b>F1+</b>
A1	<b>P-1</b>	A+	<b>A-1</b>	A+	<b>F1</b>
A2	<b>P-1</b>	A	<b>A-1</b>	A	<b>F1</b>
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.

## INVESTMENT RISK MANAGEMENT POLICY

### Glossary of Terms

(Continued)

**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.

# Investment Risk Management Policy

## Appendix A

### Allowable Investments by Project

#### 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 rated A without regard to any gradation of that rating by a numerical, symbol or other such modifier, by all rating agencies.

# Investment Risk Management Policy

## Appendix A

### Allowable Investments by Project

(Continued)

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

<b>Authorized Investments</b>		<b>Credit Rating/Security/Collateral</b>
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.	

# Investment Risk Management Policy

## Appendix B

### Flow of Funds Under the Resolution

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.

**Investment Risk Management Policy**  
**Appendix C**  
**Reporting Calendar**

<b>Florida Municipal Power Agency Risk Management Reporting Calendar Investment Risk Management Reporting Requirements</b>				
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

**AGENDA ITEM 8 – ACTION ITEMS**

- b. Approval of Appendix F  
Contract Management Policy**

**Finance Committee Meeting  
August 18, 2021**





# **FC 8b - Approval of Contract Management Risk Management Policy and Changes**

Finance Committee

August 18, 2021

# Investment Policy

## *Major Areas Covered*

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- Contract Approval
- Internal Controls
- Reporting
- Oversight Structure

# Origination Transaction Policy Changes

## *Record Keeping, Reporting and Administrative Updates*

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Section	Changes Made
Throughout	Administrative updates

# Recommended Motion

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- Move approval of the recommended changes as presented to the Contract Management Risk Management Policy.

**FLORIDA MUNICIPAL POWER AGENCY**  
**RISK MANAGEMENT POLICY - APPENDIX F**  
**CONTRACT MANAGEMENT POLICY**

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# **CONTRACT MANAGEMENT RISK MANAGEMENT POLICY FOR FLORIDA MUNICIPAL POWER AGENCY**

This Contract Management Policy (the “Policy”) and any effective subordinate procedures establish the governance, framework and controls under which Florida Municipal Power Agency (“FMPA”) may engage in activities to identify, measure and minimize future business risk resulting from the negotiation and execution of contracts or agreements as defined in Section 2.0 of this Policy. This Policy is Appendix F 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 Section 5.0 of this Policy, which will control, transfer, or mitigate these risks to avert an adverse impact on the reliability of power supply, financial position or reputation of the Agency.

The following summarizes the Policy of the EC and BOD:

- ❖ FMPA shall follow all applicable federal, state and local laws concerning the negotiation and execution of contracts or agreements (Section 4.3).
- ❖ Authority is delegated to the General Manager to create procedures and ensure their administration pursuant to this policy (Section 3.0).
- ❖ Contracts are subject to the requirements of FMPA Risk Management Policies related to contract management, including but not limited to Appendix E Credit Risk Management Policy and the approved FMPA Procurement Policy of the HR Policy and Procedures Handbook (Section 4.0).
- ❖ All new contracts committing a financial or operational obligation upon the Agency with a term equal to or greater than seven years shall be approved by the appropriate governing body before being executed (Section 4.5).

**CONTRACT ADMINISTRATION POLICY**  
**RISK MANAGEMENT POLICY**  
(Continued)

- ❖ Terms and conditions of all contracts in force shall be monitored on an ongoing basis by the respective responsible Executive Officer for which the contract pertains. Each respective Officer shall also keep the Office of the Chief Legal Officer informed regularly on all contract matters (Section 5.0).
- ❖ Deviations from this Policy shall be reported to the Finance Committee (“FC”) as prescribed in Section 4.1 of the FMPA Risk Management Policy (Section 8.0).

## **2.0 Scope**

The Interlocal Agreement establishing the Agency grants FMPA the authority to enter into any contract or agreement necessary, including, but not limited to, contracts or agreements for the purchase, sale, prepayment, exchange, interchange, wheeling, pooling, transmission, distribution or storage of 1) electrical capacity or energy from any source, 2) all generation related fuel, and 3) any contracts or agreements establishing a financial or commodity transaction pursuant to a risk mitigation strategy/program approved by the applicable governing body. FMPA may also enter into contracts or agreements in its own name to employ agents or contractors, to acquire, construct, manage, maintain or operate buildings, works or improvements, and to acquire, hold, or dispose of property.

The By-Laws of the Agency state that within the constraints of the Agency budget the BOD may authorize any officer, employee, or agent of FMPA to enter into any contract, or execute and deliver any instrument in the name of and on behalf of the Agency. The By-Laws of the EC state that the EC may authorize any officer, representative, or agent of the Agency to enter into any contract or execute and deliver any instrument in the name of and on behalf of the All-Requirement Power Supply Project. The General Manager or applicable Executive Officer, as approved by the BOD or the EC, may execute contracts on behalf of FMPA and affix the Seal of the Agency. The administration and monitoring of contracts and/or agreements with a term of one year or longer are the focus of this FMPA Risk Management Policy. The administration and monitoring of contracts and/or agreements of a shorter term duration are the responsibility of the Manager responsible for the function/purpose for which the contract/agreement was executed to the extent not specifically addressed by FMPA’s Risk Management Policy. The General Manager, in consultation with the Chief Legal

**CONTRACT ADMINISTRATION POLICY  
RISK MANAGEMENT POLICY  
(Continued)**

Officer, has ultimate responsibility for the administration of FMMPA's contract management policies.

### **3.0 Types of Risk**

This Policy establishes minimum standards to support an Agency-wide atmosphere of proper control levels under which FMMPA may enter into and administer contracts. The General Manager, in consultation with the Chief Legal Officer, will cause procedures to be written that identify risks in the areas noted below and provide ways to measure, control and mitigate FMMPA's exposure to those risks. While not intended to be a comprehensive listing of risks encountered by FMMPA during the normal course of the business cycle, the following provides insight into the major areas of risk exposure related to contract management for FMMPA.

#### **3.1 Operational Risk**

The risk that internal practices, policies, or systems will not perform as intended. An example of operational risk would be if a failure in FMMPA's system of internal controls that allowed a contract to be negotiated and executed without the involvement of all affected or required areas of responsibility within FMMPA. This failure in the control system could cause physical, financial and/or reputational harm to FMMPA.

#### **3.2 Legal Risk**

The risk that the Agency may enter into an unauthorized deviation from any legal commitments bound through legislation or contract. An example of legal risk would be for FMMPA entering into a contract that is later found to be illegal or in conflict with the governing documents of the Agency. This unlawful contract could lead the counterparty to bring legal action against FMMPA or result in legal action from other parties. Such an event would expose the Agency to financial and/or reputational damage.

#### **3.3 Reputational Risk**

The risk that Members and/or the public will negatively perceive the Agency. An example of reputation risk would be for FMMPA entering into a contract with terms and conditions that were detrimental to the Agency based on what was known at the time



**CONTRACT ADMINISTRATION POLICY  
RISK MANAGEMENT POLICY  
(Continued)**

of execution. A negative perception resulting from the execution of this contract by Members and/or the public could cause reputational and/or financial harm.

## **4.0 Contract Execution Approval**

All FMPA contracts are subject to the requirements of this Policy, regardless of the department or division of origination with the exception of FMPA approved Policies that specifically state otherwise such as agreements associated with generator maintenance. This includes adhering to the requirements of the Credit Risk Policy and approved FMPA Procurement Policy of the HR Policy and Procedures Handbook.

### **4.1 Office of the Chief Legal Officer**

FMPA's Chief Legal Officer has the responsibility for the legal review and approval of all contracts, agreements and other legally binding instruments for FMPA. Staff shall consult with the Office of the Chief Legal Officer before and/or during contract negotiations with any third party. The Chief Legal Officer shall be kept informed of all negotiations and will participate in such negotiations as appropriate. No proposed contract, nor any proposed contract amendment, may be submitted to the EC or BOD for approval prior to receiving "sign-off" from the Office of the Chief Legal Officer, in final or substantive form.

### **4.2 Enabling Agreements**

Master Agreements or enabling agreements establish the general terms and conditions that govern any subsequent commodity or derivative product transaction with a counterparty. These Master Agreements are a prerequisite for doing business in today's commodity marketplace. They, by their very nature, only define general terms and conditions and do not commit FMPA to any form of financial or physical obligation. As such, FMPA is authorized to execute these types of enabling agreements without individual EC approval. However, these agreements must be reviewed and approved for legal content by the Office of the Chief Legal Officer prior to the execution of any such Master Agreement. Types of these enabling agreements include utility

**CONTRACT ADMINISTRATION POLICY  
RISK MANAGEMENT POLICY  
(Continued)**

interchange agreements, NAESB form contracts, EEI form contracts, and ISDA form contracts.

### **4.3 Governing Authority**

All contracts/agreements must adhere to the terms and conditions of the following FMPA governing authorities:

- Applicable federal laws and regulations (FERC, NERC, etc.)
- Florida State Statute
- FMPA's Interlocal Agreement
- The By-Laws of the EC and BOD

### **4.4 Negotiation**

Favorable business parameters and requirements should be discussed internally by staff (including, as appropriate, the Office of the Chief Legal Officer) before negotiating with third parties. Contract negotiations shall be led by the appropriate Executive Officer with support from the Office of the Chief Legal Officer. The Executive Officer may designate staff to represent FMPA in any contract, agreement or Master Agreement negotiation. The following are required support functions for contract negotiations:

#### **4.4.1 Audit Rights**

Internal Audit staff shall review contracts concerning full or partial ownership of assets to ensure needed of audit rights are addressed and any impacts relating to existing contract audit rights are identified. The Internal Audit Manager shall be consulted as to any needed audit right parameters.

#### **4.4.2 Risk Management**

The Agency Risk Director shall be made aware of negotiations for any contract/agreement with a base term equal to or greater than 7 years or with a notional value in excess of \$1.0 million regardless of term.

#### **4.4.3 Insurance Requirements**

Some types of contracts or other forms of agreements may require ensuring that the Agency is adequately protected in the event of accident, equipment failure, or other forms of incidents that might result in an FMPA liability, financial loss or claim. It is the responsibility of the negotiating staff

**CONTRACT ADMINISTRATION POLICY  
RISK MANAGEMENT POLICY  
(Continued)**

member(s) to consult with the Treasurer and Risk Director to ensure adequate indemnity and/or insurance requirements are stipulated in the terms and conditions of such agreements. No such agreement or contract shall be submitted for approval or executed without review of such indemnity and/or insurance requirements.

#### **4.5 Approval and Execution**

Upon the completion of negotiations, the responsible staff member shall complete the approval and execution process. All contracts, agreements, and/or Master Agreement will be reviewed and approved by the Office of the Chief Legal Officer prior to execution. Contracts/agreements with a term equal to or greater than 7 years or exceeding the parameters defined in Section 4.1 of Appendix K Origination Transaction Policy must be presented to the appropriate governing body for approval. Contracts/agreements that obligate the Agency to pay more than the respective total non-fuel Operations and Maintenance Budget and total Project Capital Budget require governing body approval. Non budgeted items over the GM's then current approved spending authority must be reported to the appropriate governing body.

### **5.0 Contract Administration**

Each Executive Officer shall cause all executed contracts within their respective purview to be monitored on an ongoing basis and maintain a list of all executed and unexpired contracts with a term of one year or longer. The listing will include all Master Agreements and identify the type and counterparty of each. All Non-Disclosure/Confidentiality agreements will also be included in this listing. This list shall include any date specific obligations of either FMPA or counterparty and identify which entity is accountable for such obligation. This listing is to be updated annually at a minimum. Monitoring will also include maintaining awareness of existing contractual relationships, terms and conditions, termination clauses, collateral posting obligations and any relevant current events which may impact the contract and/or related obligations.

This listing will be provided to the Internal Audit Manager at the beginning of each fiscal year.

## **6.0 Internal Controls**

The General Manager, in consultation with the Office of the Chief Legal Officer, shall cause to be established a system of documented internal controls by which FMPA may enter into and administer contracts, agreements and Master Agreements, pursuant with this Policy and in accordance with all policies and procedural guidelines established in FMPA's Risk Management Policy, all governing authorities and any other associated procedures established.

### **6.1 Records Retention**

Each Executive Officer shall cause originals of executed contracts within their respective purview to be appropriately and safely retained.

### **6.2 Contract Compliance**

The Internal Audit Manager shall maintain a list of contracts containing audit rights. This list shall be reviewed annually for completeness. Annual audit plans should consider these audit rights to ensure that adequate reviews of contract compliance are completed and consistent with each respective right.

### **6.3 Policy Compliance**

Each Executive Officer with executed contracts within their respective purview shall advise the Internal Audit Manager of any compliance issues when discovered. Any compliance issues that remain unresolved in excess of forty-five days will be presented to the FC by the Internal Audit Manager at the next regularly scheduled meeting.

## **7.0 Reporting**

### **7.1 Operation and Effectiveness Report**

An annual report on the operation and effectiveness of this Policy shall be presented to the FC as described in Section 7.0 of the FMPA Risk Management Policy.

**CONTRACT ADMINISTRATION POLICY  
RISK MANAGEMENT POLICY  
(Continued)**

## **7.2 Manager Risk Environment Reporting**

Each manager shall report on the current risk environment affecting FMPA's contracts and/or agreements to the Treasurer and Risk Director, as needed, and conclude any necessary discussions before presenting items to the FC or respective governing body.

## **7.3 Master Agreement Listing**

On an annual basis as an attachment to the Operation and Effectiveness Report referenced in Section 7.1, a report will be included in the Agenda Packet of the FC that lists all Master Agreements with which a commodity transaction can be confirmed.

## **8.0 Oversight Structure**

The Agency Treasurer and Risk Director shall cause any material deviations from this Policy to be reported according to the guidelines set forth in Section 4.1 of the FMPA Risk Management Policy. Each manager responsible or Executive Officer responsible for negotiating/executing contracts/agreements affecting FMPA's risk exposure shall report on such current risk environment to the Treasurer and Risk Director and conclude any necessary discussion before presenting items to the appropriate governing body for approval.

## Appendix A

<b>Florida Municipal Power Agency                      Risk Management Reporting Calendar                      Contract Administration Policy</b>				
Reporting Item	Frequency of Report	Responsible Party	Policy Section Reference	Policy Category Reference
Contracts Presented for Approval	As Needed	Respective Responsible Manager	Section 4.5	Approval and Execution
Update Executed Contracts List	Annually	Respective Responsible Executive Officer	Section 5.0	Contract Administration
Review of Audit Rights	As Needed/Annually	Internal Audit Manager	Section 6.2	Contract Compliance
Policy Operation and Effectiveness	Annually	Internal Audit Manager	Section 7.1	Operation and Effectiveness
Master Agreement Listing	Annually	Internal Audit Manager	Section 7.3	Master Agreement Listing
Deviations from Policy	As Needed	Agency Risk Director	Section 8.0	Oversight Structure

**AGENDA ITEM 8 – ACTION ITEMS**

- c. Approval of Appendix J  
Accounting and Internal  
Controls Policy**

**Finance Committee Meeting  
August 18, 2021**





# **FC 8c - Approval of Accounting and Internal Controls Risk Management Policy and Changes**

Finance Committee

August 18, 2021

# Accounting Policy

## *Major Areas Covered*

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- Accounting Functions
- Internal Controls
- Reporting
- Oversight Structure

# Origination Transaction Policy Changes

## *Record Keeping, Reporting and Administrative Updates*

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Section	Changes Made
Throughout	Administrative updates

# Recommended Motion

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- Move approval of the recommended changes as presented to the Accounting and Internal Controls Risk Management Policy.

**FLORIDA MUNICIPAL POWER AGENCY**  
**RISK MANAGEMENT POLICY - APPENDIX J**  
**ACCOUNTING AND INTERNAL CONTROLS POLICY**  
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# **ACCOUNTING AND INTERNAL CONTROLS RISK MANAGEMENT POLICY FOR FLORIDA MUNICIPAL POWER AGENCY**

This Accounting and Internal Controls 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 accounting processes and asset control. This Policy is Appendix J 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 staff is hereby authorized to put mechanisms into place, such as those more fully described in Sections 4.0 through 6.0 of this Policy, which will control, transfer, or mitigate these risks to avert an adverse impact on the financial position of the Agency.

The following summarizes the Policy of the EC and BOD:

- ❖ All funds, property and securities of the Agency shall be recorded in accordance with prudent utility practice, generally accepted accounting principles, and all requirements set forth by law and/or regulation as required in Section 2.0.
- ❖ An independent external audit of the Agency’s financial statements shall be completed each year by a certified public accountant as detailed in Section 5.0.
- ❖ Authority is delegated to the Chief Financial Officer (“CFO”) to establish a system of documented internal controls to safeguard assets and assure reliability of financial reporting and compliance with applicable laws and regulations as detailed in Section 6.0.

**ACCOUNTING AND INTERNAL CONTROLS  
RISK MANAGEMENT POLICY  
(Continued)**

- ❖ Authority is delegated to the CFO to create procedures to facilitate the management of all accounting functions and to implement this Policy as described in Section 3.0.
- ❖ The CFO shall render to each regular meeting of the EC and BOD a report on the financial condition of the Agency as detailed in Section 7.2.
- ❖ The Internal Audit Manager shall report deviations from the requirements of this Policy to the Finance Committee (“FC”).

## **2.0 Scope**

This Policy creates a framework that enables the CFO to cause full and accurate records of all transactions of the Agency to be maintained in accordance with all applicable accounting standards, general laws, regulations, bond covenants and other standards or requirements as set forth in the Agency’s Interlocal Agreement and/or By-laws.

The CFO manages the Finance Division within FMPA and is responsible for causing this Policy to be adhered to throughout the Division.

This Policy applies to all material accounting transactions into which FMPA enters. Transactions include, but are not limited to, all project and member revenue billings, sales for resale, accounts receivable, inventory, fixed assets, expenditures, and accounts payable.

The materiality standard for this Policy is FASB Statement of Financial Accounting Concepts No. 8, Qualitative Characteristics of Accounting Information. It states: “The omission or misstatement of an item is material if, in the light of the surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item.”

## **3.0 Types of Risk**

This Policy establishes minimum standards to support an Agency-wide atmosphere of proper control levels to safeguard the Agency’s assets. The CFO will cause 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. The FMPA Risk Management Policy identifies ten risks

**ACCOUNTING AND INTERNAL CONTROLS  
RISK MANAGEMENT POLICY  
(Continued)**

that compose FMPA's common risk framework. While not intended to be a comprehensive listing of risks encountered by FMPA during the normal course of the business cycle, the framework provides insight into the major areas of risk exposure for FMPA. The following selected risks in the framework are those risks presented by typical financial and contractual transactions.

**3.1 Administrative Risk:**

The potential of financial loss due to deficiencies in internal control structure and management reporting due to human error, fraud or system failure. An example of administrative risk that would affect financial transactions might occur when a failure in the system of controls allows a single employee to falsify or misrepresent a transaction, or other types of fraud. This failure in the control system could cause financial and/or reputation loss to FMPA.

**3.2 Reputational Risk:**

The potential losses incurred when stakeholders or the public negatively perceive an organization. An example of reputational risk might occur if a prior year's audit report is restated due to a material misstatement. Such a restatement could cause negative perception of the Agency by stakeholders such as member cities, bondholders and credit rating agencies, which could result in a financial loss.

**4.0 Accounting Department**

The Accounting Department is responsible for ensuring that all funds, property and securities of the Agency are recorded in accordance with prudent utility practice, generally accepted accounting principles, bond covenants, and all requirements set forth by law and/or regulation. These activities will be governed by accounting procedures and the following practices.

**4.1 Basis of Accounting:**

FMPA has chosen to follow accounting pronouncements as set forth in the Governmental Accounting Standards Board (GASB). All FMPA Projects' general ledgers and subsidiary ledgers are to be maintained with the Uniform System of



**ACCOUNTING AND INTERNAL CONTROLS  
RISK MANAGEMENT POLICY  
(Continued)**

Accounts of the Federal Energy Regulatory Commission and in conformity with generally accepted accounting principles using the accrual basis of accounting.

The Agency has elected to follow the accounting methods for regulatory operations of GASB 62. This accounting guidance, referred to herein as “GASB 62”, relates to the deferral of revenues and expenses to future periods in which the revenues are earned or the expenses are recovered through the rate-making process.

The Controller shall present all current and any new proposed GASB 62 transactions for approval by the FC prior to the end of each fiscal year.

**4.2 Accounting Cycle:**

As established in Article I, Section 4 of the Interlocal Agreement, FMPA’s fiscal year will commence October 1 and end September 30. During the fiscal year-end processing, the year-end closing time will be extended to facilitate the financial statement audit.

After the last day of the month, Accounting staff shall begin month end processing to close out all accounts and prepare any required month end reports and financial statements. Accounting staff will complete month end closing no later than 30 days after the last day of the previous month.

**4.3 Inventory:**

- The Internal Audit Manager shall cause a physical count of inventory to be conducted at least every other year at ARP generation facilities under FMPA control. Such count shall include a review for obsolescence.
- The Power Generation Fleet Director shall maintain procedures which detail the following for material assets: setting of minimum and maximum inventory levels and appropriate turnover ratios, and controls over changing such levels.
- Allowable inventory levels for natural gas and fuel oil storage are set in the Fuel Portfolio Risk Management Policy, Appendix A of the FMPA Risk Management Policy.

**ACCOUNTING AND INTERNAL CONTROLS  
RISK MANAGEMENT POLICY  
(Continued)**

**4.4 Accounts Payable:**

- FMPA shall strive to pay all presented invoices by the due date.
- Spending authority levels for all staff are approved during the annual budget process.
- All invoices shall be routed through an electronic A/P system.
- Invoices showing a credit only shall also be approved by the appropriate manager.
- Monthly financial statements presented to any governing body shall include a list showing any outstanding invoices greater than 60 days past receipt of invoice in A/P system including a brief description of the cause for any invoices greater than 90 days past receipt of invoice.

**4.5 Accounts Receivable:**

- The Credit Risk Policy and Contract Management Risk Policy, Appendix E and F respectively, of the FMPA Risk Management Policy define responsibilities for contract initiation and management.
- The Accounting Department is responsible for the collection process of accounts receivable but not the administration and management of contracts.
- The Accounting Department is responsible for Project Participant and power sales billing.
- The Controller will issue Project Participant invoices by the 10th calendar day of each month, using estimates if necessary, to ensure adherence to the respective Bond Resolution requirements of receiving payment by the 25<sup>th</sup> day of the billing month.
- Monthly financial statements presented to any governing body shall include a list showing any outstanding accounts receivable greater than 60 days past due and also include a brief description of the cause for any accounts receivable greater than 90 days due.
- Accounts receivable greater than 12 months old at year-end shall be evaluated for potential write-off. All write-offs must be approved by the General Manager

**ACCOUNTING AND INTERNAL CONTROLS  
RISK MANAGEMENT POLICY  
(Continued)**

and CEO. Write-offs above the General Manager's spending authority level must also be approved by the appropriate governing body prior to write-off.

#### **4.6 Capitalization Threshold:**

Capital purchases are approved as part of the annual budgets approved by the governing bodies. The following thresholds will be used for capitalizing assets:

- Building, structures, facilities and other improvements exceeding \$25,000 in costs. Capitalization should include all costs related directly to the acquisition or construction (materials, labor, overhead during construction, attorney and engineering fees, permits).
- Equipment includes vehicles, office equipment, computer equipment and other equipment having a value of \$5,000 (each) or more and a useful life expectancy of two or more years. Capitalization should include all set-up and labor costs related to preparing the equipment for operations such as the initial installation cost.
- The purchase and/or development of new computer software or major modifications/upgrades to existing software which costs less than \$25,000 shall be expensed. Software over \$25,000 shall be capitalized.
- All capital lease arrangements for land, buildings, structures and equipment shall be capitalized in accordance with GASB 87.
- As of 10/1/2020, interest shall not be capitalized on any construction project in compliance with GASB 89.

#### **5.0 External Audit:**

Article VI, Section 5 of the Interlocal Agreement states: "The EC and BOD, as appropriate, shall at least once per year cause an independent external audit to be made of the Agency's books and accounts by a certified public accountant." This Policy further requires that the audit be performed by a CPA firm licensed to practice within the State of Florida.

**ACCOUNTING AND INTERNAL CONTROLS  
RISK MANAGEMENT POLICY  
(Continued)**

The purpose of the audit is to determine if the Agency's financial statements and associated disclosures fairly present, in all material respects, the financial position and results of operations for the year then ended, in conformity with accounting standards generally accepted in the United States.

**5.1 Auditor Qualification:**

The selected audit firm shall have a well-established audit practice with adequate technical training and proficiency to perform the required audit, as defined in the Statements on Auditing Standards No. 1.

**5.2 Selection of Auditor:**

Qualified accounting firms will be invited to submit a proposal for audit services to be considered for selection. The proposal must document the firm's qualifications, applicable experience, and fee structures. The CFO shall provide submitted proposals to the FC. The FC shall select a firm to be recommended to the EC and BOD for final approval. The CFO will present the recommendation to the EC and BOD for approval.

The selected firm shall provide services for no more than one five-year base term. The selected firm may provide services beyond the base term for no more than two individual one-year extensions. At the end of any contract term (either base or extension), the incumbent firm will not be precluded from submitting a proposal for the subsequent competitive selection process.

**5.3 Auditor Communications:**

The auditor selected is required to conduct an entrance conference with the FC prior to commencing the fiscal year-end audit. The entrance conference should include observations made during the interim audit and their anticipated audit plan for year-end.

**ACCOUNTING AND INTERNAL CONTROLS  
RISK MANAGEMENT POLICY  
(Continued)**

The selected auditor is required to conduct an exit conference with the FC to provide results of the year-end audit prior to the presentation of such results to the governing bodies.

At the discretion of the FC, an entrance and exit conferences can be conducted as executive sessions, meaning that FMPA staff can be excused from the conference by the FC Chairperson.

## **6.0 Internal Controls:**

The CFO shall cause to be established a system of documented internal controls to safeguard assets, assure reliability of financial reporting, and assure compliance with applicable accounting laws and regulations, consistent with this Policy and associated Procedures, and in accordance with all policies and procedural guidelines established in the FMPA Risk Management Policy. FMPA shall use a cost-benefits analysis when making decisions regarding the implementation of internal controls.

The Internal 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 Internal Audit Manager identifies areas of concern, the documented internal controls weakness(s) will be communicated to the CFO and FC as appropriate.

### **6.1 System of Controls**

The system of internal controls includes the Employee Manual issued by the Agency to all employees. The FMPA Employee Manual includes an Executive Code of Ethics, employee conduct standards, outside employment guidelines, conflict of interest rules, and the Whistle Blower Act.

Further internal controls shall be established in accounting procedures to address separation of transaction authority from accounting and record-keeping, limitations on expenditures beyond budget authorizations, and safekeeping of records. Operational controls to prevent unauthorized access to financial and accounting

**ACCOUNTING AND INTERNAL CONTROLS  
RISK MANAGEMENT POLICY  
(Continued)**

computer systems shall include password controls and reviews of authorized users, as detailed in the Information Technology Risk Management Policy, Appendix O of the FMPA Risk Management Policy.

**6.2 Policy and Procedure Compliance:**

The Internal Internal Audit Manager shall cause compliance with this Policy and associated procedures to be monitored on an annual basis. Any unresolved compliance issues will be presented to the FC by the Internal Audit Manager.

**6.3 Procurement Review:**

The Internal Audit Manager shall cause an annual review of FMPA's Procurement Procedure requirements, including Agency issued credit cards. Any findings will be reported to FMPA's CFO and General Manager and CEO. At the sole discretion of the Agency Risk Director, the findings may be reported directly to the Chairman of the FC if deemed appropriate.

**6.4 Continuing Education:**

Accounting managers and other appropriate staff shall complete at least 8 hours of continuing education annually (each fiscal year) or more as required by State Regulations, in subject courses of study related to accounting, auditing and/or finance.

## **7.0 Reporting**

The CFO is responsible for causing completion of the following reporting requirements:

**7.1 Annual Report on Late Fees:**

The Controller shall report to the FC during December of each year the amount of interest paid for late fees during the preceding fiscal year, if any.

**7.2 Financial Statements:**

In accordance with Article IV, Section 5 of the Interlocal Agreement creating FMPA and Article IV Section 7 of the Second Revised and Restated By-Laws of FMPA

**ACCOUNTING AND INTERNAL CONTROLS  
RISK MANAGEMENT POLICY  
(Continued)**

(“FMPA Bylaws”), the CFO shall cause to be provided to the EC and BOD, at regular meetings or other times as directed, a statement of the financial condition of the Agency and a report of the financial transactions of the Agency. These financial statements shall include the items required by Section 4.4 and 4.5 of this Policy.

In accordance with Article VIII of the FMPA Bylaws, the General Manager shall, no later than the annual BOD meeting normally scheduled in July, present a full and accurate report of the operation of the Agency during the preceding fiscal year, a statement of the assets and liabilities of the Agency as of the end of such fiscal year, and any other information having a significant bearing on the condition and operation of the Agency. This Policy delegates responsibility to the CFO to cause financial statements and accompanying notes to be presented for approval no later than the January EC and BOD meetings. Approved annual reports shall be posted on FMPA’s public facing website.

In compliance with the Agency’s bond covenants, insurance, swaps and other related debt documents, the CFO shall cause to be filed an annual report within 180 days after the close of the fiscal year to applicable bond trustees. The submittal should include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets for the year then ended, and a Statement of Cash Flows for each Project. In addition to the basic financial statements and accompanying elucidatory notes, the annual report may also present supplemental information.

**7.3 Management Letter Comments:**

The CFO shall cause to be reported to the FC no later than August 31st of each year the status of management’s response to any Management Letter Comments provided by the external auditor in the prior fiscal year’s annual audit report.

**7.4 Oversight Structure**

The Internal Audit Manager shall cause any material 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

**ACCOUNTING AND INTERNAL CONTROLS  
RISK MANAGEMENT POLICY  
(Continued)**

Policy shall be presented to the FC as described in Section 7.0 of the FMPA Risk Management Policy. Finance Division directors/managers shall report on the current risk environment affecting FMPA's material financial transactions to the Risk Management Team and conclude any necessary discussion before moving items to the appropriate governing body.



## Appendix A

<b>Florida Municipal Power Agency                      Risk Management Reporting Calendar                      Accounting and Internal Controls Reporting Requirements</b>				
Reporting Item	Frequency of Report	Responsible Party	Policy Section Reference	Policy Category Reference
GASB 62 Transactions	Annually	Controller	Section 4.1	Basis of Accounting
Accounts Payable Past Due	Monthly as needed	Controller	Section 4.4	Accounts Payable
Accounts Receivable Past Due	Monthly as needed	Controller	Section 4.5	Accounts Receivable
Entrance/Exit Conference	Annually	CFO/External Auditor	Section 5.3	Auditor Communications
Procurement and Credit Card Review	Annually	Internal Audit Manager	Section 6.3	Procurement Review
Late Fees Report	Annually	Controller	Section 7.1	Annual Report on Late Fees
Financial Statements	Regular EC/BOD meetings	CFO	Section 7.2	Financial Statements
Audited Annual Financials	Annually by January	CFO	Section 5.0	Financial Statements
Annual Bond Trustee Report	Annually	CFO	Section 7.2	Financial Statements
Management Letter Comments Status	Annually	CFO	Section 7.3	Management Letter Comments
Deviations from Policy	As Needed	Internal Audit Manager	Section 7.4	Oversight Structure
Policy Operation and Effectiveness	Annually	FC	Section 7.4	Oversight Structure

**AGENDA ITEM 9 – INFORMATION  
ITEMS**

**a. FY 2021 Interim Audit Update**

**Finance Committee Meeting  
August 18, 2021**



# FC 9a - FY 2021 Interim Audit Update

Finance Committee

August 18, 2021

# FY 2021 Interim Audit

*Completed by Purvis Gray & Company July 26<sup>th</sup> thru 29th*

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- Purvis Gray utilized a new software platform, Suralink, to receive and organize documents that increased efficiency for FMPA
- Conducted interviews with twelve members of management
- Discussed potential effects of GASB 87 regarding leases with any implementation required in 2022
- Sampled payroll & accounts payable disbursements (Oct – June) with no findings or comments
- Discussed changes in depreciable lives for generation units

# Why Change Our Estimates?

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- Changes do not affect rates
- Originally useful life estimates were very conservative and associated with bond retirement dates, except for Stanton II
- Based on maintenance schedules and capital improvements, the units will last longer than our current useful life estimates reflect
- Extending the useful lives beyond the related bond retirement dates will create equity in the assets
- Increased equity should be received positively by the rating agencies
- When borrowings for capital improvements, the useful life is more accurately shown
- Stanton Unit 1 has been excluded since its repowering status is unknown at this time

# Changes in Estimated Useful Lives of Generation Units

*Effects over the next ten years*

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## Stanton II

**Reduce useful life  
to 2035  
-1 Year**

Will Decrease Net Book Value  
by an average of (\$400K)  
annually

## St. Lucie

**Increase useful life  
to 2043  
+17 Years**

Will Increase Net Book Value  
by an average of \$2M  
Annually

## ARP

### Changes in useful lives

Cane Island 2 & 3 (2030)	+5 years
Cane Island 4 (2046)	+12 Years
Treasure Coast (2043)	+12 Years
Stanton II	- 1 Year

Will Increase Net Book Value  
by an average of \$15M

**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.

**Scope of Interim Procedures performed during the week of July 26, 2021**

1. Planning:
  - a. Completed planning procedures for risk assessment (including review of FMPA's entity, overall industry, and operational environment), review of board and finance committee minutes, client acceptance, required communications, fraud risk inquiries, 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.
      - b. Reviewed plans for new procurement software utilization and training
    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
      - b. Other Project Billings (St. Lucie and Stanton II)
      - c. PPA Billings
        - i. Bartow
        - ii. Reedy Creek
        - iii. Homestead
        - iv. Winter Park
        - v. TECO
        - vi. Williston
    2. Cash and Investments
    3. Agency Cost Allocations
    4. Financial Close and Reporting Process
    5. Journal Entries and initial testing
    6. Vero Beach Transaction Accounting
3. Met with management personnel to discuss new items in their respective departments to determine potential audit impact for final fieldwork:
  - a. Chief Financial Officer
  - b. Controller

- c. Treasury and Risk Director
  - d. Engineering Services Director
  - e. Resource and Strategic Planning Manager
  - f. Business Development and System Operations Director
  - g. Power Generation Fleet Director
  - h. Chief Operations Officer
  - i. Financial Planning Rates and Budget Director
  - j. VP Public Relations and Member Services
  - k. VP of Human Resources and Shared Services
  - l. Audit Manager
4. Held Exit Conference with Management via MS Teams Wednesday, August 4, 2021:
- a. Discuss above items performed
  - b. Communicated planned inventory procedures: PGC will perform the count at the Cane Island site and contract audit will complete observations at Treasure Coast.
  - c. Scheduled for on-site year end field work Monday, November 1, 2021
  - d. Discuss process and timing of third-party confirmations
  - e. Discuss documentation requests for the year end field work “Prepared By Client” – use of Suralink
  - f. Contract Audit to perform bond and investment compliance procedures and MPS tie outs
  - g. Discuss status of policy/procedure recommendations from the prior year audit:
    - i. Per discussions with FMPA, the Agency Cost Allocation have been updated and implemented
  - h. Census data for OPEB will be reviewed during year-end fieldwork
  - i. Coordination with IT will be done between interim and year-end fieldwork
  - j. Current Year Interim Discussion Items
    - i. PGP Impairment – year-end review will be needed to determine the necessity of final write offs.
    - ii. Update of useful lives of assets in the calculation of depreciation, to match anticipated asset life.
    - iii. 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.
    - iv. GASB 87, Leases, which is effective for the fiscal year ending September 30, 2022,
      - 1. With particular emphasis on the initial determination /applicability to the Solar Projects
      - 2. PPA Agreements (potentially have additional lease terms?)
    - v. Solar Projects overall status, including the Duke network upgrade for Whistling Duck Location (determination by Duke was initially anticipated by the end of August 2021)
    - vi. New Pooled Loan Program Loan for Homestead and anticipated future activity, including potential member loans and consideration of expansion of the total program lending capacity.
    - vii. Bond Issues – 2021A for capital projects and the 2021B bond for liquidity replacing the Line of Credit and the planned St. Lucie 2011B refunding and 2011A forward delivery refunding.
    - viii. Proposed changes in the external PPA billing process, including a potential change from MS Access to MS Excel, and the necessity of data integrity of the billing data as well as non-finance concurring review and approval of billing by individuals familiar with the input data and calculation.
    - ix. Initial review of components of short-term and long-term Member Billing (“Participant to receive”) True-up



**AGENDA ITEM 9 – INFORMATION  
ITEMS**

**b. Review of Risk Policy  
Compliance Reports**

**Finance Committee Meeting  
August 18, 2021**



# FC 9b – Review of Risk Policy Compliance Reports

Finance Committee

August 18, 2021

# Compliance Covered

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- Investment Policy
- Contract Management Policy
- Accounting and Internal Control Policy

# Review Result

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- One recommended change:
  - Investment Policy - as discussed earlier by Rich
    - Section 5.5 Diversification
- No changes for Accounting and Internal Control & Contract Management Policies.
- Based on our review, one exception noted for Contract Management Policy.
  - Contract authorization without proper approval
  - More training for staff

FMPA Risk Management Department  
Policy Compliance Review  
**Investment Risk Management Policy (Appendix C)**

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This Policy compliance review is conducted by the Internal Audit Department (IAD) to assess the status of risk management practices for the time period noted below. The Internal Audit Department completes this form and submits to responsible manager(s) for additional information and comment. Documentation or attestation of compliance may be required during this review. The final form is submitted to the appropriate Executive Officer and the CEO prior to being presented to the Finance Committee (FC) as an information item.

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**Review period:** July, 2020 to June, 2021

**Responsible Manager(s):** Rich Popp, Treasurer and Risk Director / Linda Howard, CFO

<i>Policy Compliance:</i> Indicate whether the following items required in the Investment Risk Management Policy were completed during the review period.			
REQUIREMENT	YES	NO	EXPLANATION
Investments conformed to all legal requirements including bond resolutions. (Section 2.0)	X		
The CFO/Treasurer caused Treasury Procedures to be written. (Section 3.0)	X		
Investments were made only in authorized securities as listed in Appendix A. (Section 5.0)	X		Verified
Investments were made only in securities with required rating per Appendix A. (Section 5.0)	X		Verified
The Treasurer reported to Internal Audit Manager securities that fell below the initial required rating after purchase. (Section 5.0)	X		
The Treasurer caused a list of qualified and authorized financial institutions to be maintained and annually reviewed. (Section 5.1)	X		
Records of securities chosen by competitive bid were maintained. (Section 5.2)	X		
Securities were invested so maturities match Policy requirements. (Section 5.3)	X		
Investments were diversified per Policy requirements and exceptions were reported by the Treasurer to the Internal Audit Manager. (Section 5.5)	X		
Diversification exceptions approved by CFO were reported to the FC within 5 business days. (Section 5.5.1)			N/A, there were no exceptions

FMPA Risk Management Department  
 Policy Compliance Review  
**Investment Risk Management Policy (Appendix C)**

<i>Policy Compliance continued:</i>			
REQUIREMENT	YES	NO	EXPLANATION
Investments were transacted only on Delivery Versus Payment (DVP) basis. (Section 6.0)	X		
Custodial or Trustee institution provided updated copy of their most recent SSAE 16 and Treasurer provided to Internal Audit Manager (Section 6.0)	X		Verified
CFO caused appropriate benchmarks for portfolio performance to be established. (Section 7.0)	X		
CFO caused internal controls to be established. (Section 8.0)	X		
Treasury staff disclosed any conflicts of interest. (Section 8.1)	X		
External parties were sent a copy of the Policy and confirmed receipt in writing. (Section 8.3)	X		Verified
Treasurer produced investment reports for at least each meeting of the Board of Directors and Executive Committee. (Section 9.0)	X		
Investment staff completed 8 hours of CPE. (Section 8.3)	X		Verified

<i>Internal Control Assessment:</i> Evaluate the effectiveness of the current process in achieving the following control objectives. Use a scale of 1 to 4 as defined on attached page.					
OBJECTIVE	1	2	3	4	EXPLANATION
Controls are in place to identify and assess risks related to investments and the management of financial assets.			X		
Safety of investments is given highest consideration in investment selection decisions.			X		
Investments/purchases limited to authorized staff.			X		
Controls are in place within Treasury software to ensure security of information and separation of duties.			X		
The “prudent person” rule guides investment staff as the standard of prudence for investment decisions.			X		

FMPA Risk Management Department  
Policy Compliance Review  
**Investment Risk Management Policy (Appendix C)**

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Are there any concerns related to investment risk management which should be brought to the attention of the CEO as part of this review? Yes  No  If yes, describe below.

Policy needs to be updated for administrative changes.

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Are there internal control concerns related to investment risk management which require immediate attention? Yes  No  If yes, describe below including any change to risk inventory controls score.

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Rate the overall functioning of investment risk management practices using a scale of 1 to 4 as defined on attached page.

1	2	3	4	EXPLANATION
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

**Additional comments from responsible Manager(s):**

Are there any emerging risks or environmental changes which impact investment risk management? Yes  No  If yes, describe below including any proposed changes to risk inventory.

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Other comments:


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Rating scale for Policy compliance reviews:

- 1 = Risk management practices not in place.
- 2 = Risk management practices in place are not effective in meeting Policy requirements.
- 3 = Risk management practices in place meet Policy requirements.
- 4 = Risk management practices in place exceed Policy requirements.

FMPA Risk Management Department  
Policy Compliance Review  
**Investment Risk Management Policy (Appendix C)**

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Standard of compliance:

Completion of this review indicates that the Risk Management Reviewer has verified existence of applicable procedures or process documentation and believes them to be reasonably sufficient and up-to-date.

*Liyuan Woerner*

44E87DB4176AB1D6637A461E1078F68E readysign

**Internal Audit Manager Signature**

**07/29/2021**

**Date**

*Rich Popp*

8F3C20F5CA44E0B613D0640B6D5585E8 readysign

**Risk Director Signature**

**07/29/2021**

**Date**

*Rich Popp*

8F3C20F5CA44E0B613D0640B6D5585E8 readysign

**Responsible Manager Signature**

**07/29/2021**

**Date**

*Linda Howard*

5AE53B26C3F0655BA5AB8662036AC034 readysign

**Responsible Executive Officer Signature**

**07/29/2021**

**Date**



**FMPA Risk Management Department  
Policy Compliance Review  
Contract Administration Policy (Appendix F)**

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This Policy compliance review is conducted by the Internal Audit Department (IAD) to assess the status of risk management practices for the time period noted below. The Internal Audit Department completes this form and submits to responsible manager(s) for additional information and comment. Documentation or attestation of compliance may be required during this review. The final form is submitted to the appropriate Chief Officer and the CEO prior to being presented to the Finance Committee (FC) as an information item.

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**Review period: June 2020 to July 2021**

**Responsible Manager(s): Jody Finklea (General Counsel – Chief Legal Officer)**

<i>Policy Compliance:</i> Indicate whether the following items required in the Contract Administration Policy were completed during the review period.			
REQUIREMENT	YES	NO	EXPLANATION
General Manager (in consultation with General Counsel) caused procedures to be established (Section 3.0)	X		
Staff consulted with General Counsel before entering into contract negotiations. (Section 4.1)		X	Exception noted on contract authorization without proper approval.
All proposed contracts or amendments were approved by General Counsel before submitted to governing body. (Section 4.1)	X		
Internal Audit Manager was consulted for audit rights parameters (Section 4.2.1)	X		
Agency Risk Director made aware of all negotiations for contracts with base term greater than 7 years or with a present value over \$1 million. (Section 4.2.2)	X		
Agency Risk Director reviewed all contract language involving insurance requirements. (Section 4.2.2)	X		
Contracts with a term greater than 7 years were approved by appropriate governing body. (Section 4.3)	X		
Contracts with value greater than dollar value in approved budget were approved by appropriate governing body. (Section 4.3)	X		
All contracts, agreements, and/or Master Agreement will be reviewed and approved by the Office of the Chief Legal Officer prior to execution. (Section 4.5)	X		

FMPA Risk Management Department  
 Policy Compliance Review  
**Contract Administration Policy (Appendix F)**

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*Internal Control Assessment:* Evaluate the effectiveness of the current process in achieving the following control objectives. Use a scale of 1 to 4 as defined on attached page.

OBJECTIVE	1	2	3	4	EXPLANATION
Controls are in place to identify and assess risks related to contract administration activities.		X			Contract authorization without proper approval, controls being addressed.
Applicable laws concerning negotiation and execution of contract are followed.			X		
Contracts comply with all Risk Management Policies (such as Credit and Origination).			X		
Favorable business parameters and requirements are discussed internally prior to negotiations.			X		

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Are there any concerns related to contract administration risk management which should be brought to the attention of the CEO as part of this review? Yes  No  If yes, describe below.

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Are there internal control concerns related to contract administration risk management which require immediate attention?  
 Yes  No  If yes, describe below including any change to risk inventory controls score.

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FMPA Risk Management Department  
Policy Compliance Review  
**Contract Administration Policy (Appendix F)**

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Rate the overall functioning of contract administration risk management practices using a scale of 1 to 4 as defined on attached page.

1	2	3	4	EXPLANATION
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

**Additional comments from responsible Manager(s):**

Are there any emerging risks or environmental changes which impact contract administration risk management?

Yes  No  If yes, describe below including any proposed changes to risk inventory.

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Other comments:

Based on our review, we are going to have additional training and develop processes to catch the non-compliance regarding contract management (i.e up-coming procurement training).

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*Liyuan Woerner*

44E87DB4176AB1D6637A461E1078F68E readysign

**Internal Audit Manager Signature**

07/29/2021

**Date**

*Rich Popp*

8F3C20F5CA44E0B613D0640B6D5585E8 readysign

**Risk Director Signature**

07/29/2021

**Date**

*Jody Lamar Finklea*

2C7AB8800AD89576D5433AF26466FE7F readysign

**Chief Legal Officer Signature**

07/30/2021

**Date**

*Linda Howard*

5AE53B26C3F0655BA5AB8662036AC034 readysign

**Chief Executive Officer Signature**

07/30/2021

**Date**

FMPA Risk Management Department  
Policy Compliance Review  
**Contract Administration Policy (Appendix F)**

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Rating scale for Policy compliance reviews:

- 1 = Risk management practices not in place.
- 2 = Risk management practices in place are not effective in meeting Policy requirements.
- 3 = Risk management practices in place meet Policy requirements.
- 4 = Risk management practices in place exceed Policy requirements.

Standard of compliance:

Completion of this review indicates that the Risk Management Reviewer has verified existence of applicable procedures or process documentation and believes them to be reasonably sufficient and up-to-date.

FMPA Risk Management Department  
Policy Compliance Review  
**Accounting & Internal Controls Policy (Appendix J)**

This Policy compliance review is conducted by the Internal Audit Department to assess the status of risk management practices for the time period noted below. The Internal Audit Department completes this form and submits to responsible manager(s) for additional information and comment. Documentation or attestation of compliance may be required during this review. The final form is submitted to the appropriate Executive Officer and the CEO prior to being presented to the Finance Committee as an information item.

**Review period:** August 2020 to July, 2021

**Responsible Manager(s):** Danyel Sullivan-Marrero, Controller

<i>Policy Compliance:</i> Indicate whether the following items required in the Accounting & Internal Controls Risk Management Policy were completed during the review period.			
REQUIREMENT	YES	NO	EXPLANATION
CFO established procedures for Policy. (Section 3.0)	X		
All current and proposed new Regulatory Assets and Liabilities transactions presented to FC for approval prior to each fiscal year end. (Section 4.1)	X		Included monthly in financial statement package that is approved on the BOD consent agenda.
Staff shall complete month end closing no later than 30 days after the last day of the previous month, the year-end closing time will be extended to facilitate the financial statement audit. (Section 4.2)	X		
Internal Audit Manager caused a physical inventory count to be conducted every other year at ARP generation facilities. (Section 4.3)	X		Stock Island partial inventory count was completed in September 2020. CI inventory test completed by external in August 2020. TCEC partial inventory count was completed in September 2020.
Generation Fleet Director shall maintain procedures which detail the following for material assets: setting of minimum and maximum inventory levels and appropriate turnover ratios, and controls over changing such levels. (Section 4.3)	X		
Credit invoices were approved by appropriate manager. (Section 4.4)	X		When credit invoices are periodically received, each one is routed for approval by the applicable manager.
Monthly financial statements included report of outstanding accounts payable beyond Policy limits. (Section 4.4)	X		Controller sends monthly a late payment report to CFO.

FMPA Risk Management Department  
Policy Compliance Review  
**Accounting & Internal Controls Policy (Appendix J)**

Project Participants were invoiced by the 10 <sup>th</sup> of each month. (Section 4.5)	X		
Monthly financial statements included report of outstanding accounts receivable beyond Policy limits. (Section 4.5)	X		

*Policy Compliance continued:*

REQUIREMENT	YES	NO	EXPLANATION
Outstanding accounts receivable evaluated for write-off at year-end. (Section 4.5)	X		
Write-offs were approved by CEO, or appropriate governing body if over spending authority. (Section 4.5)	X		
Independent audit of books and accounts was conducted once per year by qualified CPA firm. (Section 5.0)	X		Purvis Gray & Company
Independent auditor selection process was completed no less than every 5 years and followed Policy process. (Section 5.2)	X		An RFP was performed in 2019 for the FYE 2019 Audit. Purvis Gray & Co. was selected by the FC & approved by the B.O.D.
External auditor conducted entrance and exit conferences with FC in executive session each year. (Section 5.3)	X		August 19 <sup>th</sup> , 2020 & December 9 <sup>th</sup> 2020
CFO caused a documented system of internal controls to be established. (Section 6.0)	X		
The Internal Audit Manager shall cause an annual review of FMPA's Procurement Policy requirements, including Agency issued credit cards. (Section 6.3)	X		
Manager and accounting staff completed 8 hours of CPE. (Section 6.4)	X		Manager and staff have taken college, CPA review, attended seminars and in-house training which exceeds the CPE minimum. Verified. Details provided to Internal Audit.
Controller reported interest paid for late fees to the FC during December following the close of each fiscal year. (Section 7.1)	X		Recommend change to FC, was reported to the BOD. December 10 <sup>th</sup> , 2020
CFO caused a statement of the financial condition of the Agency to be presented to the Board of Directors and Executive Committee at regular meetings. (Section 7.2)	X		At each meeting held, a financial statement agenda item is included in the meeting packet.

FMPA Risk Management Department  
Policy Compliance Review  
**Accounting & Internal Controls Policy (Appendix J)**

The CFO presented the last completed annual report to the Board of Directors and Executive Committee by January each year. (Section 7.2)	X		Annual Report/Audited FS was presented January 21st, 2021.
The last completed annual report was filed within 180 days after close of the fiscal year to applicable bond trustees. (Section 7.2)	X		Annual Report/Audited FS filed with all applicable trustees during January 2021.
<i>Policy Compliance continued:</i>			
<b>REQUIREMENT</b>	<b>YES</b>	<b>NO</b>	<b>EXPLANATION</b>
CFO reported the status of management letter comments to the FC no later than August 31 <sup>st</sup> each year. (Section 7.3)	X		August 19th, 2020

<i>Internal Control Assessment:</i> Evaluate the effectiveness of the current process in achieving the following control objectives. Use a scale of 1 to 4 as defined on attached page.					
<b>OBJECTIVE</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>EXPLANATION</b>
Controls are in place to identify and assess risks related to accounting processes and asset control.			X		
All transactions are recorded in accordance with GAAP, GASB pronouncements, and prudent utility practice.			X		
Access/authorization controls are in place to maintain the integrity of the chart of accounts.			X		
Access to accounting computer systems and spreadsheets is limited to the appropriate individuals.			X		
Duties are appropriately segregated in the closing process.			X		
All invoices are paid by due date and routed through the electronic accounts payable system.			X		

Are there any concerns related to accounting and internal controls risk management which should be brought to the attention of the CEO as part of this review? Yes  No  If yes, describe below.

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Are there internal control concerns related to accounting and internal controls risk management which require immediate attention? Yes  No  If yes, describe below including any change to risk inventory controls score.

FMPA Risk Management Department  
Policy Compliance Review  
**Accounting & Internal Controls Policy (Appendix J)**

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Rate the overall functioning of accounting and internal controls risk management practices using a scale of 1 to 4 as defined on attached page.

1	2	3	4	EXPLANATION
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

**Additional comments from responsible Manager(s):**

Are there any emerging risks or environmental changes which impact accounting and internal controls risk management?

Yes  No  If yes, describe below including any proposed changes to risk inventory.

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**Other comments:**

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FMPA Risk Management Department  
Policy Compliance Review  
**Accounting & Internal Controls Policy (Appendix J)**

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Rating scale for Policy compliance reviews:

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- 2 = Risk management practices in place are not effective in meeting Policy requirements.
- 3 = Risk management practices in place meet Policy requirements.
- 4 = Risk management practices in place exceed Policy requirements.

Standard of compliance:

Completion of this review indicates that the Risk Management Reviewer has verified existence of applicable procedures or process documentation and believes them to be reasonably sufficient and up-to-date.

<i>Liyuan Woerner</i> <small>44E87DB4176AB1D6637A461E1078F68E ready sign</small>	<u>07/29/2021</u>
<b>Internal Audit Manager Signature</b>	<b>Date</b>
<i>Rich Popp</i> <small>8F9C20F56744E0B613D0640B6D5585E8 ready sign</small>	<u>07/29/2021</u>
<b>Risk Director Signature</b>	<b>Date</b>
<i>Danyel Sullivan Marrero</i> <small>EAFEF209E311B97564AF076A5BEE900F3 ready sign</small>	<u>07/29/2021</u>
<b>Responsible Manager Signature</b>	<b>Date</b>
<i>Linda Howard</i> <small>5AF5DB26C9F0655DA5AB8662096AC004 ready sign</small>	<u>07/30/2021</u>
<b>CFO Signature</b>	<b>Date</b>

**AGENDA ITEM 9 – INFORMATION  
ITEMS**

**c. Review of AP Audit Report  
Finance Committee Meeting**

**August 18, 2021**



# **FC 9c – Accounts Payable Audit Report 2021**

Finance Committee

August 18, 2021

# Accounts Payable Audit

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- Objective and Scope:
  - Ensure adequate Policies and procedures are in place for proper internal controls
- Audit Methodology:
  - Review policies and procedures
  - Document understanding
  - Obtain sample transactions
  - Perform analytical audit procedures
  - Testing selected samples

# Audit Finding and Recommendations

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- No exception noted
- No recommendations



# **Operational Audit**

## **Accounts Payable Review**

### **FY 2021**

Audit Performed By:  
Trent Lewis, MBA  
Veda Sharma, MSA, CGAP  
Liyuan Woerner, MBA, CPA

## Table of Contents

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<b>AUDIT FINDINGS AND RECOMMENDATIONS.....</b>	<b>5</b>

## **EXECUTIVE SUMMARY**

The purpose of the Accounts Payable (A/P) review was to determine whether there were adequate internal controls in place to ensure that the A/P process works effectively. We reviewed information for fiscal year 2021, for the period October 2020 through July 2021.

Based on our audit procedures, we noted a great improvement of the AP process and controls regarding the timing of the invoice submission and approval process, no exceptions were noted.



## **BACKGROUND INFORMATION**

The FMPA Accounting Department has direct responsibility over the Accounts Payable (A/P) function. The A/P responsibilities are currently shared among the A/P Coordinator, Accountant III and the Controller. However, most of the A/P functions are performed by the A/P Coordinator including inputting and processing invoices, coding invoices, invoice retention, invoice routing for approval and release to the Treasury Department for payment. The Accountant III is responsible for creating vendors within Acumatica and performing monthly account reconciliations. The Controller has overall oversight and review responsibilities over the A/P function. The Accounting department utilizes the Acumatica accounting system (for invoice retention, approval and routing electronically). The Treasury department processes the approved invoices and releases the funds for payments.

## **AUDIT OBJECTIVE AND SCOPE**

The objective of the Accounts Payable (A/P) review was to determine the following:

1. Comprehensive written policies and procedures governing all department activities have been established;
2. Transactions are processed in a timely manner and in accordance with Agency's policies and procedures;
3. Appropriate documentation is in place to support transactions;
4. Adequate internal controls have been implemented to limit exposure to unauthorized or inappropriate transactions;
5. Initiatives have been implemented to provide services in the most cost-effective and efficient manner;
6. The Accounting Department explores continual improvement opportunities and strives for quality services to internal/external clients.

The scope of this audit is limited to FMPA A/P transactions from October 1, 2020 to June 30, 2021.

## **AUDIT METHODOLOGY**

We utilized a risk-based approach from planning to testing in the A/P review. To obtain a thorough understanding of the A/P process, we compiled information through walkthroughs, research, interviews, observations, and analytical data reviews.

The following steps were taken to accomplish the audit objective:

- Obtained and reviewed applicable FMPA policies, procedures, and any other supporting documents related to the A/P process
- Interviewed personnel related to the A/P function to document our understanding of the A/P process, including any internal controls or weaknesses.
- Determined whether there was adequate segregation of duties in the process and adequate Management oversight for overall review controls.
- Obtained and reviewed a sample of A/P reconciliations to ensure that monthly account balances were reconciled and were properly reviewed by Management.
- Performed analytical reviews of the A/P transaction detail to determine whether there were any duplicate payments, credits or other unusual items.
- Performed testing on a sample of A/P transactions to determine whether payments were supported by adequate documentation, processed timely with the necessary approvals and within policy guidelines.

## **AUDIT FINDINGS AND RECOMMENDATIONS**

Based on our audit procedures, no exceptions identified. We will continue to monitor A/P process and report review results next year.

**AGENDA ITEM 9 – INFORMATION  
ITEMS**

**d. FY 2021 Budget Status  
and Anticipated  
Budget Amendments**

**Finance Committee Meeting**

**August 18, 2021**



# **FC 9d – FY 2021 Budget Status and Anticipated Budget Amendments**

Finance Committee

August 18, 2021

# Budget Amendment Needs Anticipated for FY 2021

Project	Current Approved Budget	% of Budget Spent to Date Through June	YTD Target Spend through June	Budget Status	Budget Amendment Anticipated?	Estimated Additional Spending Authority to Be Requested
Agency	\$15.8M	70%	75%		No	N/A
ARP	\$471M	75%	72%		Yes	\$50M
Stanton Project	\$17.5M	73%	72%		Yes	\$2M
Tri-City Project	\$6.5M	70%	72%		Yes	\$1M
Stanton II Project	\$46.3M	75%	74%		Yes	\$4M
St. Lucie Project	\$49.3M	70%	77%		No	\$0 - \$1M
Solar Project	\$0	0%	0%		No	N/A
Solar II Project	\$0	0%	0%		No	N/A
Pooled Loan Project	\$38k	34%	75%		Yes	\$600k

# Summary of Budget Amendment Drivers

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- ARP increase driven by fuel expense above budget
  - YTD Participant sales 3.1% above budget; 3<sup>rd</sup> party sales 15% above budget drive additional generation
  - Gas prices currently running well above budgeted levels
  - While \$ expenses above budget, \$/MWh Participant costs \$4.67/MWh (6%) below budget through June and expected to finish year below \$71.07/MWh budget
- Stanton, Tri-City, and Stanton II increases driven by fuel expense above budget due to generation above budget
- St. Lucie remains well below budget, but September refueling outage costs may push total expenses near approved spending authority
- Pooled Loan Project needs spending authority increase due to need to book Stanton II loan principal and interest costs as an expense



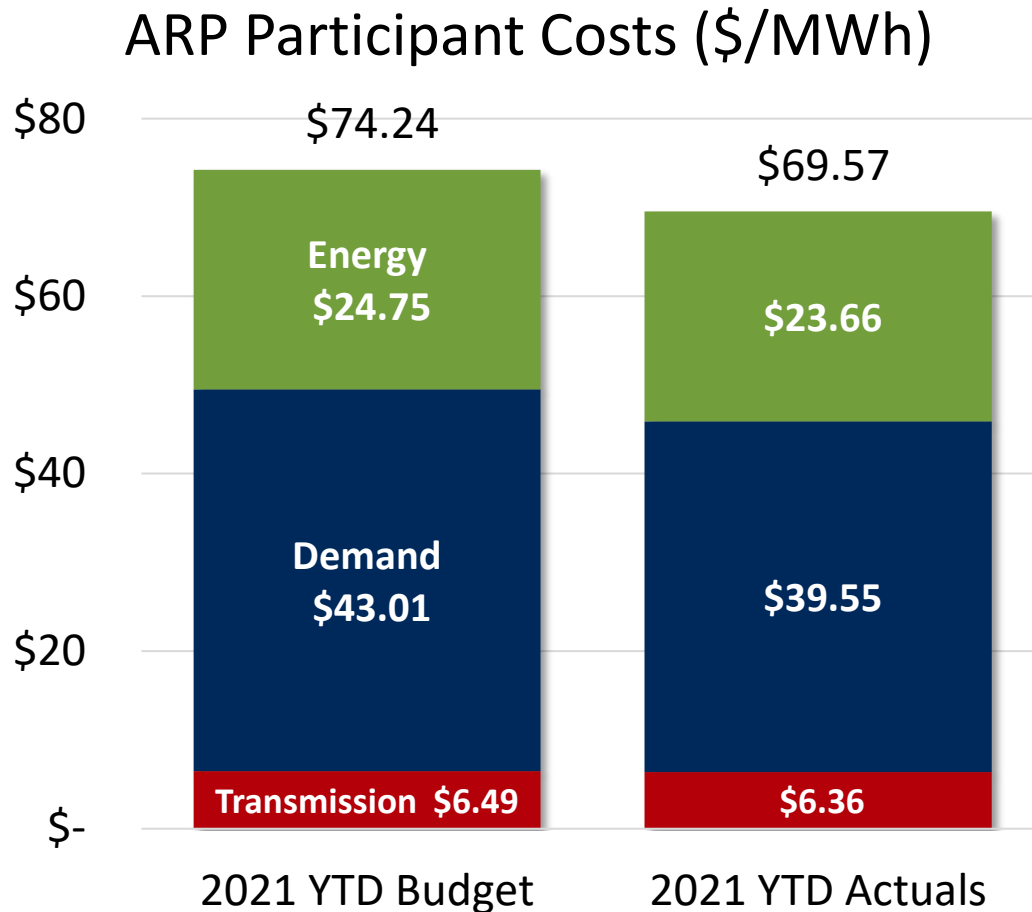
**ARP**



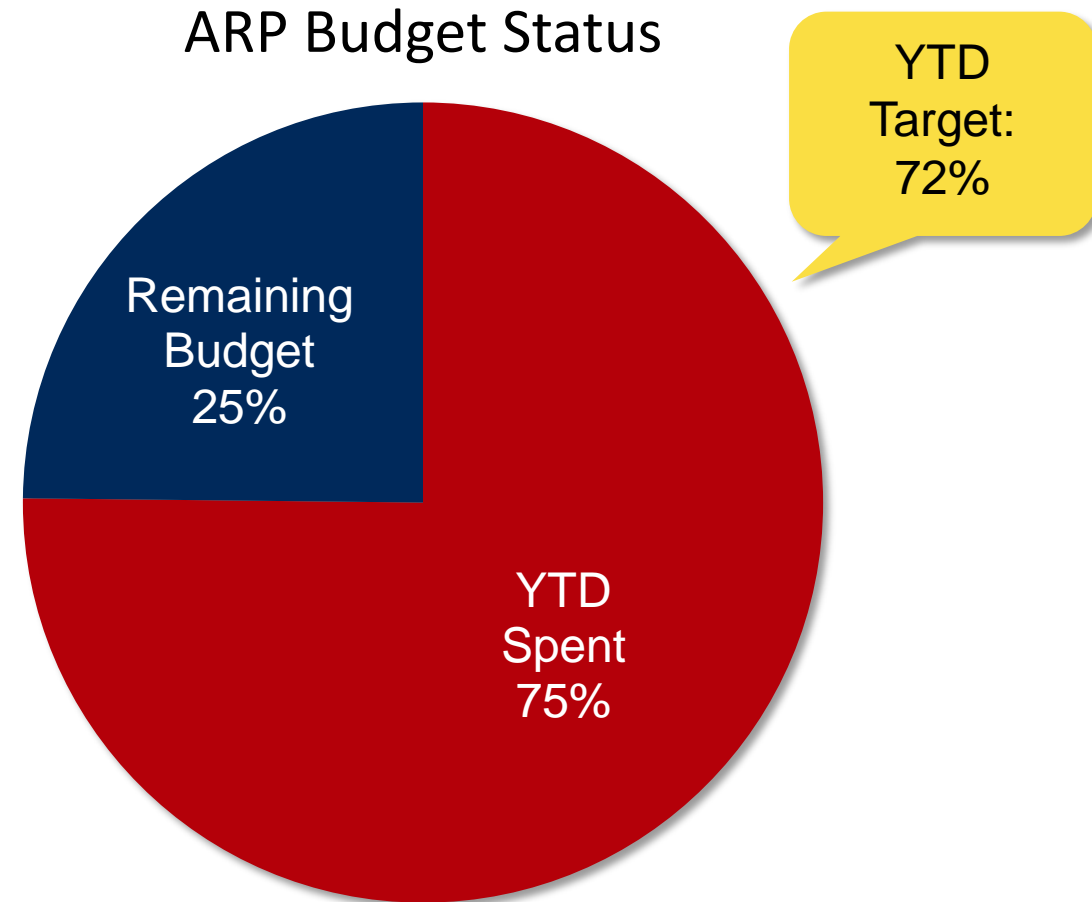


# YTD ARP Participant Costs ~\$4.67/MWh (6%) < Budget

*\$/MWh Savings Primarily Driven by MWh Sales 3.1% > Budget*



Results shown through June 2021

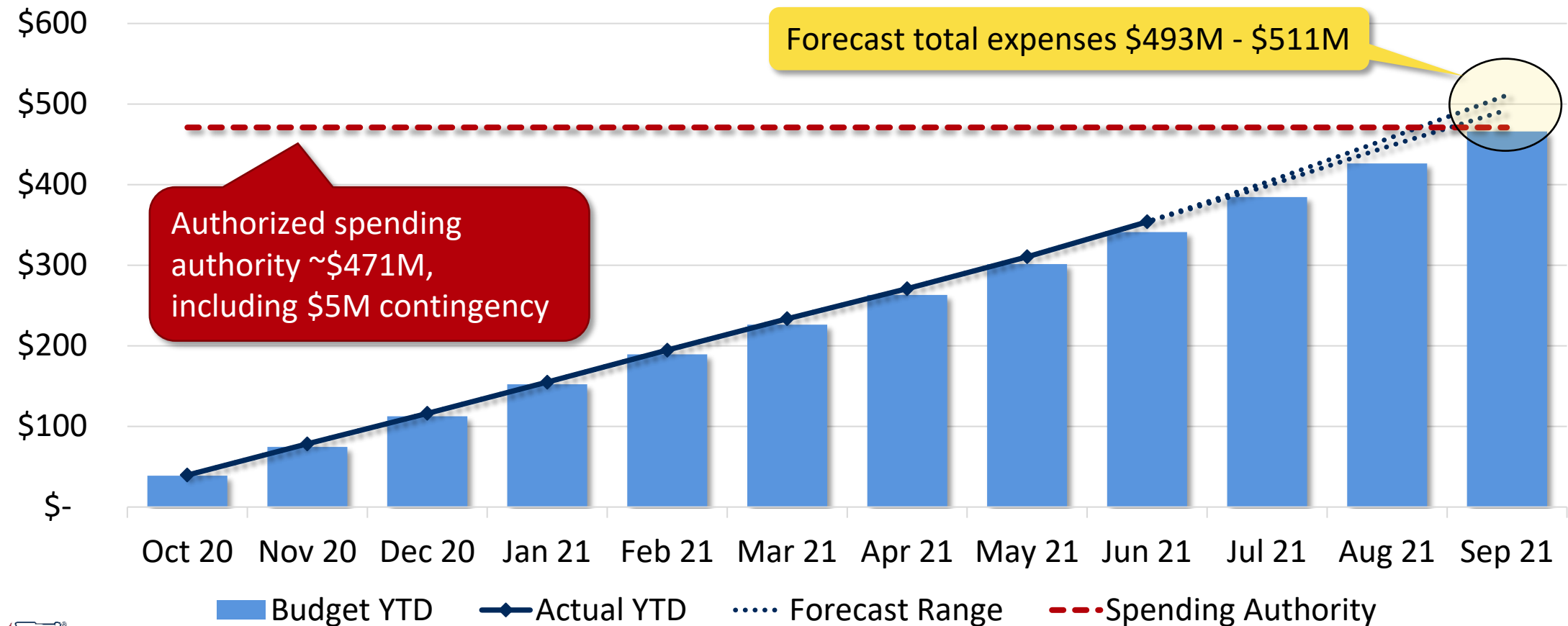


Note: remaining budget includes \$5M approved spending authority contingency

# ARP Forecasted \$22M to \$45M > Budget + Contingency

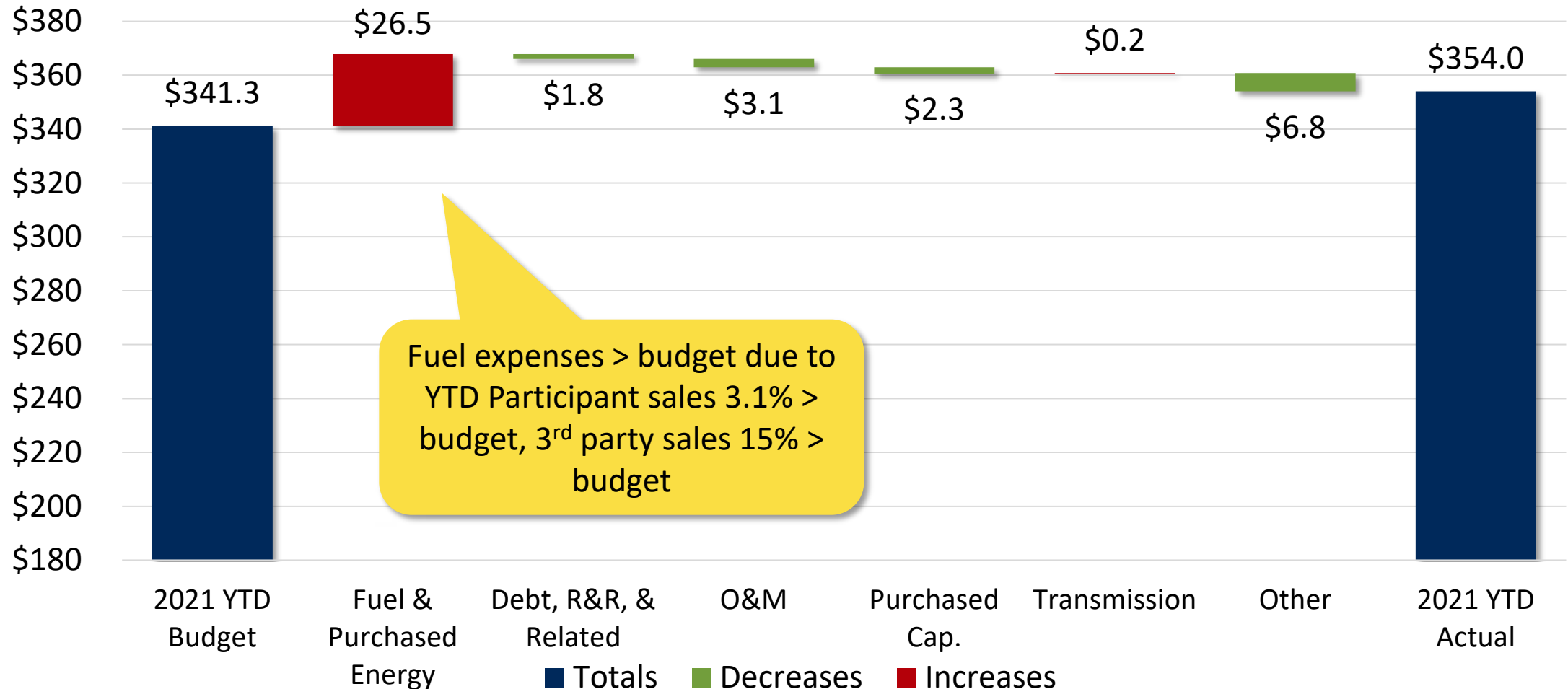
*Driven by Sales > Budget, Higher Summer Gas Curve*

ARP FY 2021 Cumulative Budget vs. Actual Expenses (\$Millions)



# ARP \$12.7M > Budget through June

ARP FY 2021 YTD Budget vs. Actual Expenses through June (\$Millions)





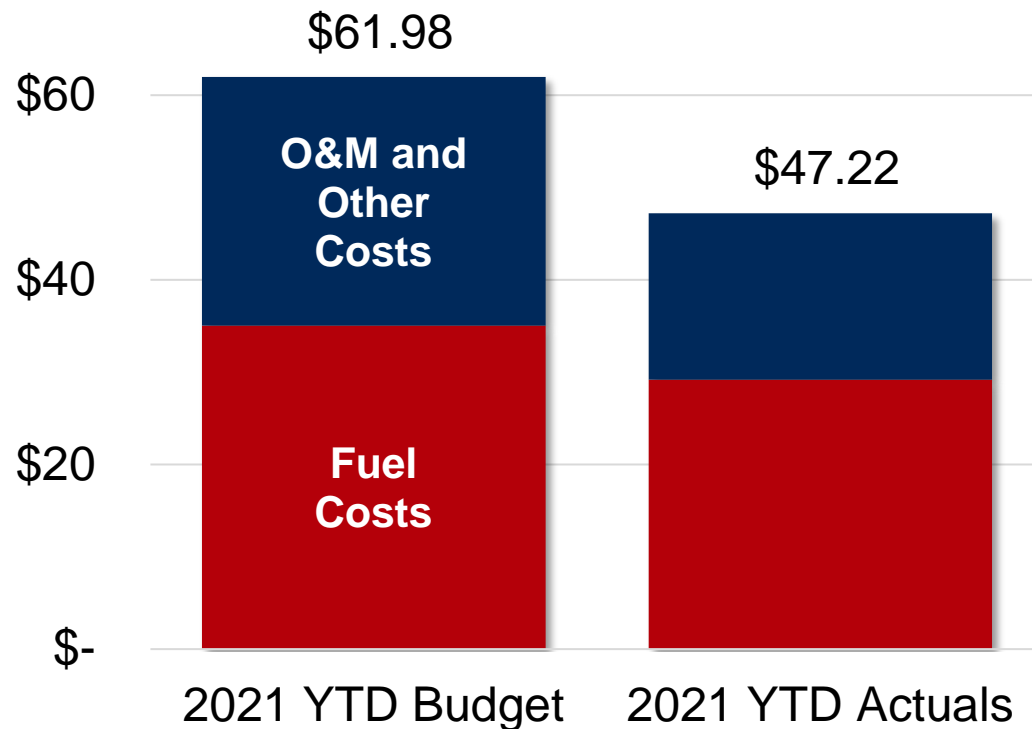
# Stanton Project



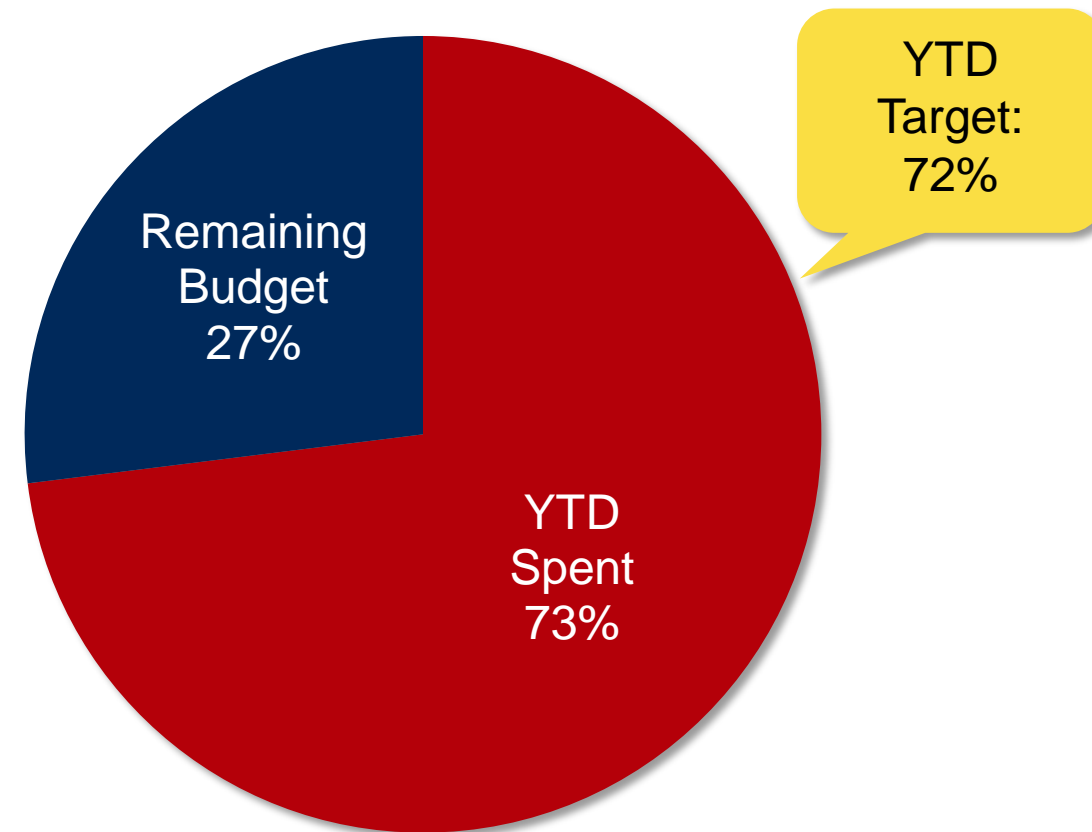
# Stanton YTD Part. Costs ~\$15/MWh (24%) < Budget

*Sales 42% > Budget Lower \$/MWh Costs but Drive Higher Spending*

### Stanton Project Participant Costs (\$/MWh)



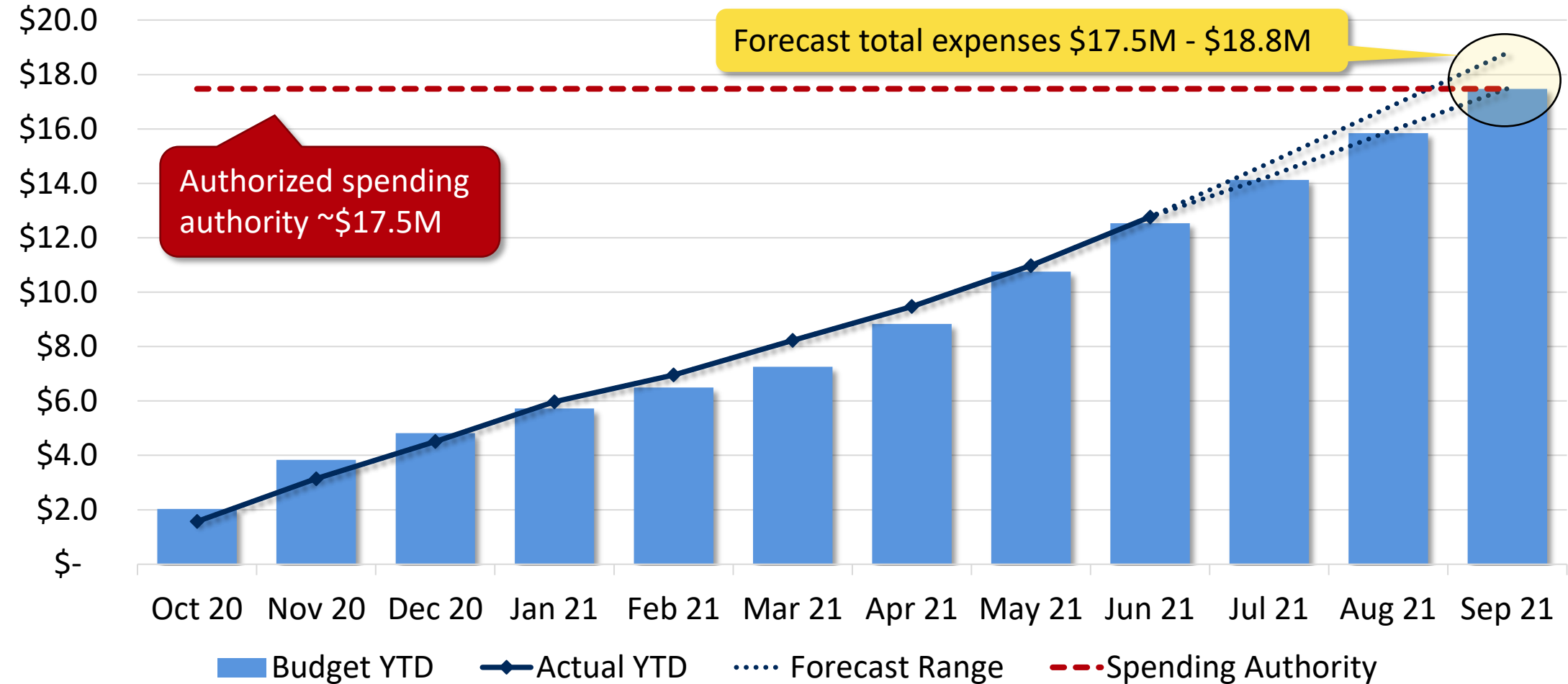
### Stanton Project Budget Status



*Results shown through June 2021*

# Stanton Project Forecasted up to \$1.3M > Budget

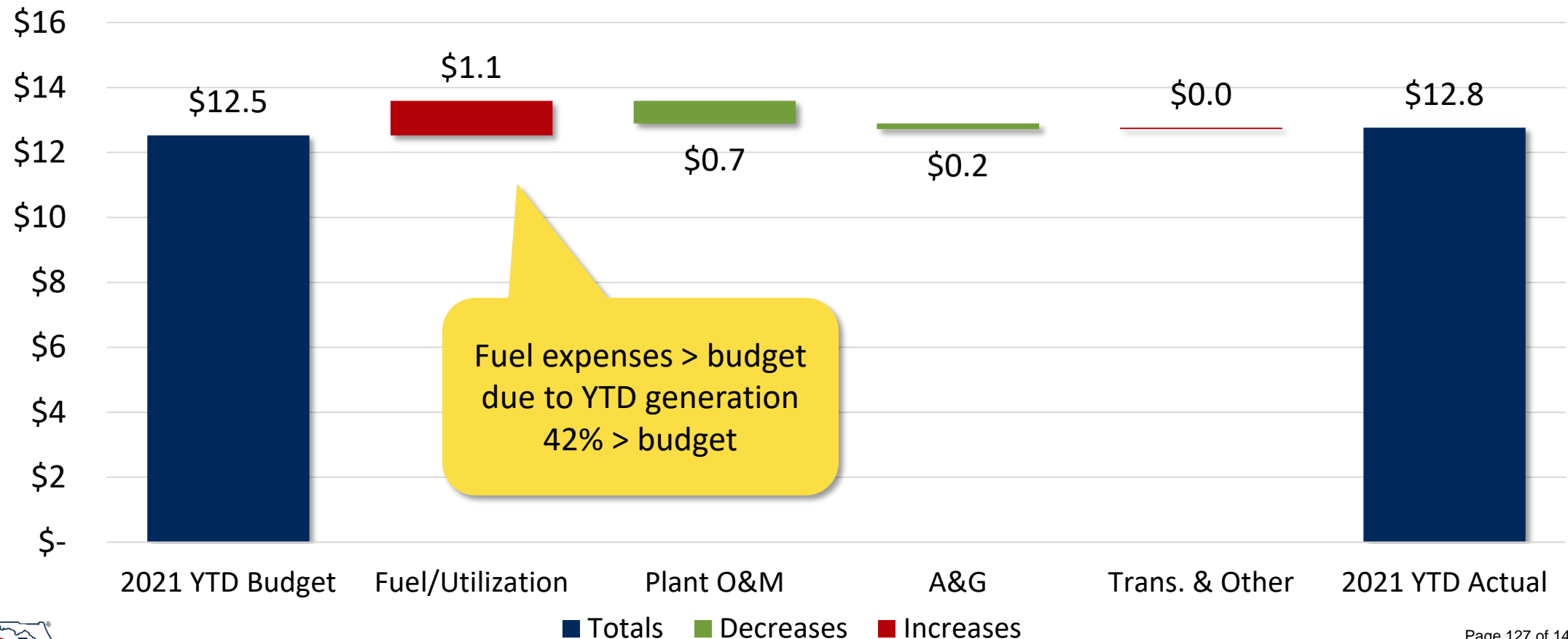
Stanton Project FY 2021 Cumulative Budget vs. Actual Expenses (\$Millions)



# Stanton Project \$0.3M > Budget through June

## *Fuel Expense > Budget Offsets O&M and Other Cost Savings*

Stanton Project FY 2021 YTD Budget vs. Actual Expenses through June (\$Millions)





# Tri-City Project

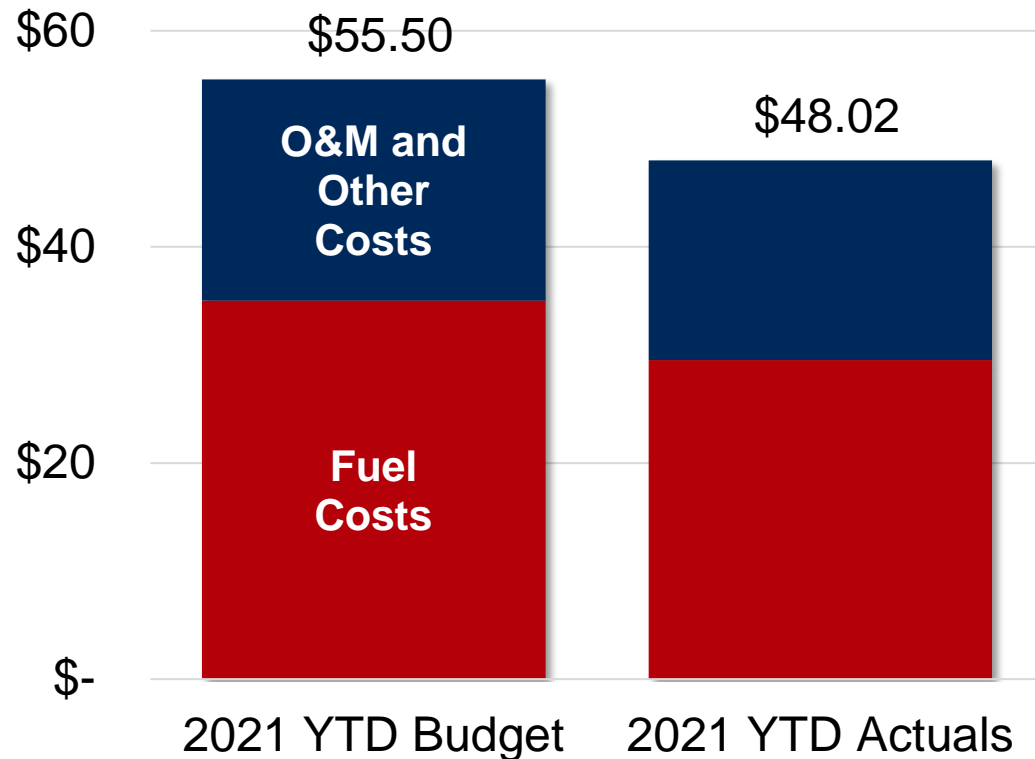




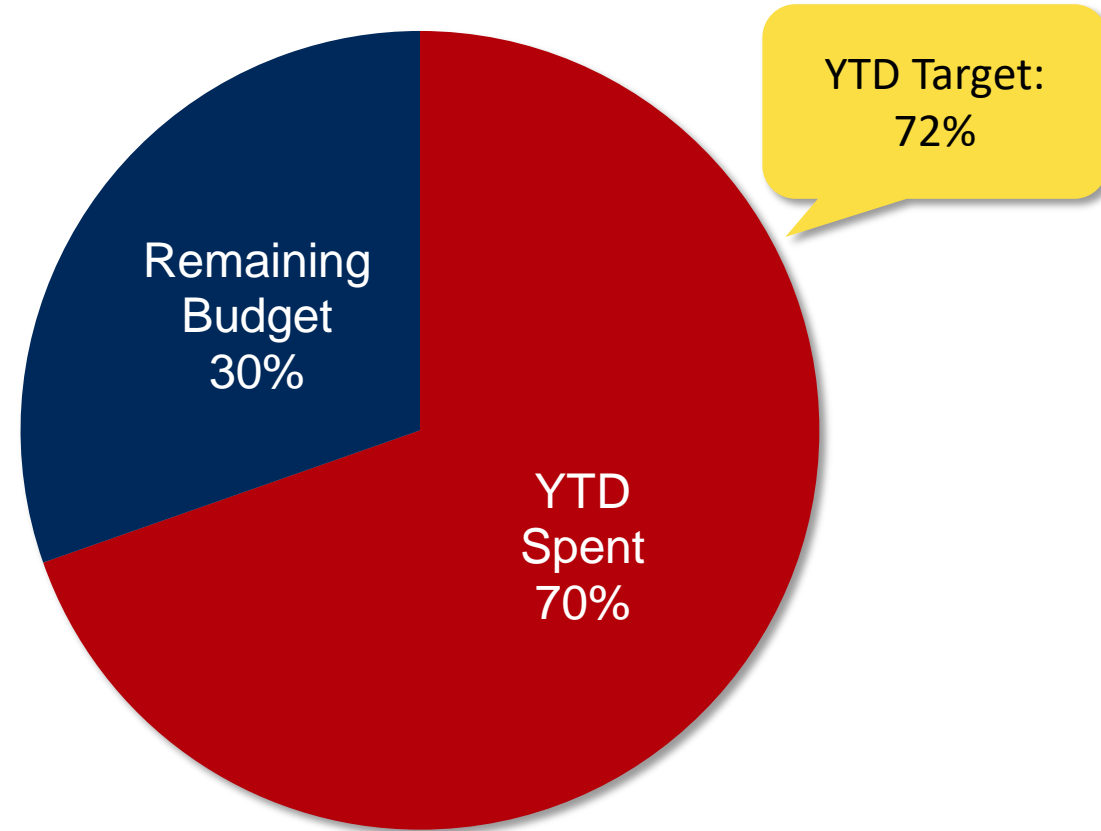
# Tri-City YTD Part. Costs ~\$7.50/MWh (13%) < Budget

*Sales 28% > Budget Driver Lower \$/MWh Costs*

Tri-City Project Participant Costs (\$/MWh)



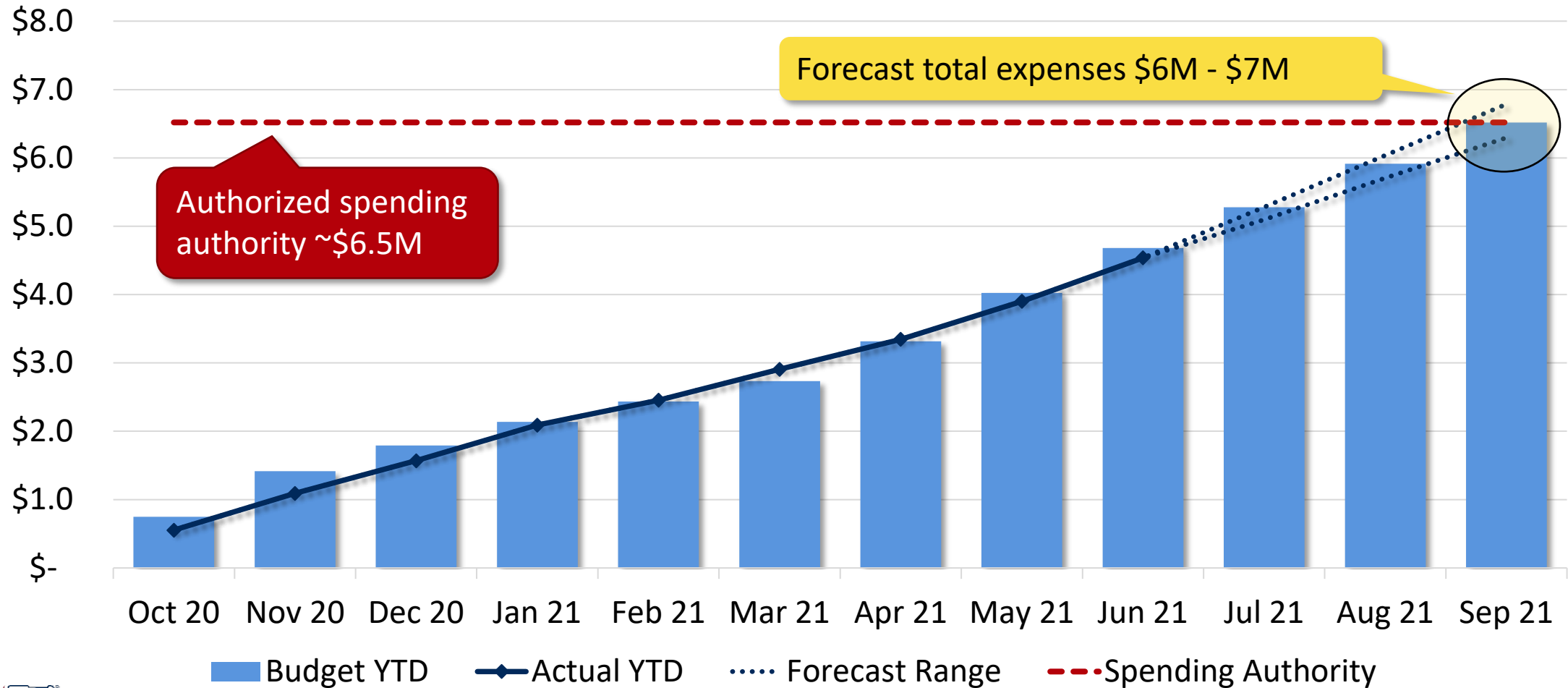
Tri-City Project Budget Status



Results shown through June 2021

# Tri-City Project Forecasted \$0.5M < Budget to \$0.5M > Budget

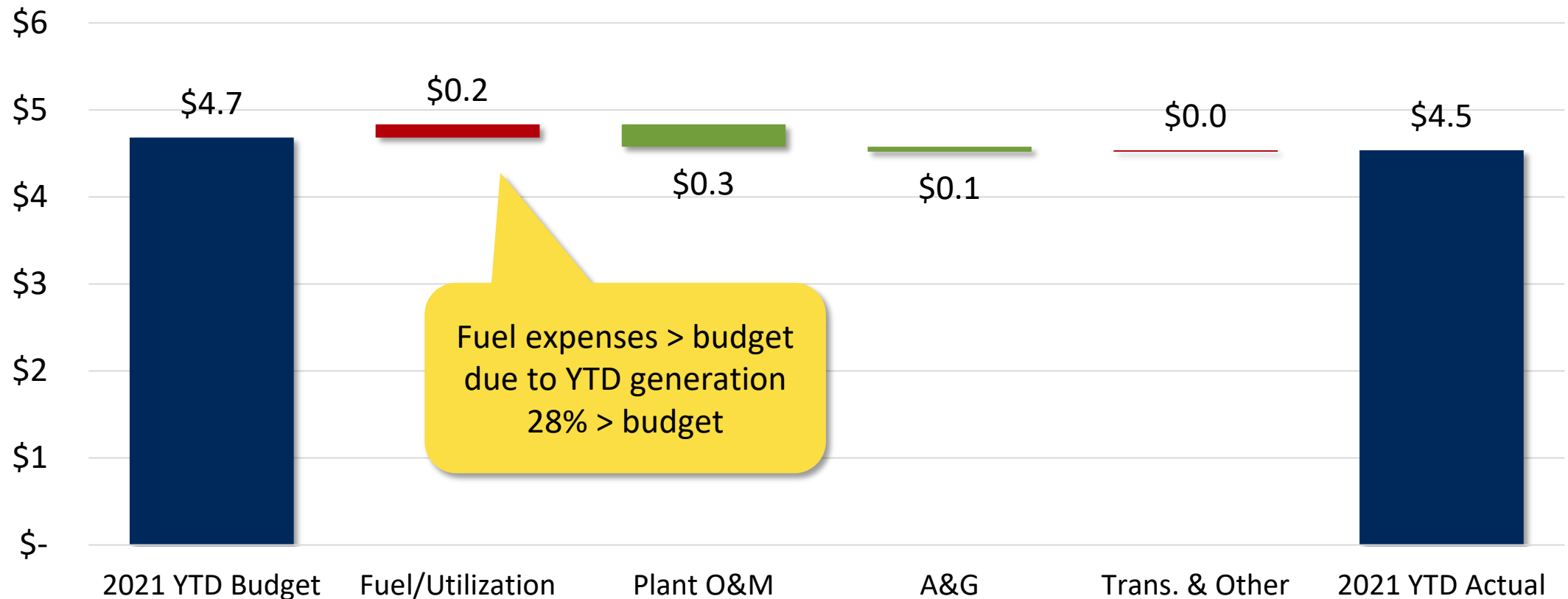
Tri-City Project FY 2021 Cumulative Budget vs. Actual Expenses (\$Millions)



# Tri-City Project \$0.2M < Budget through June

*Fuel Expense > Budget Offsets O&M and Other Cost Savings*

Tri-City Project FY 2021 YTD Budget vs. Actual Expenses through June (\$Millions)





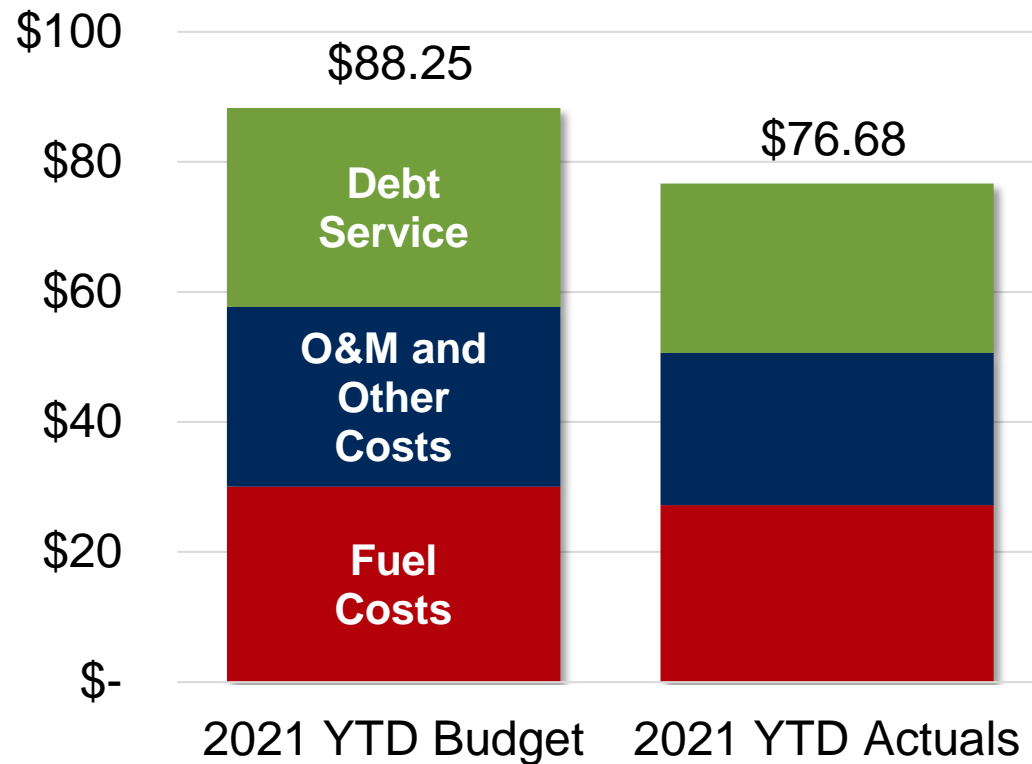
# Stanton II Project



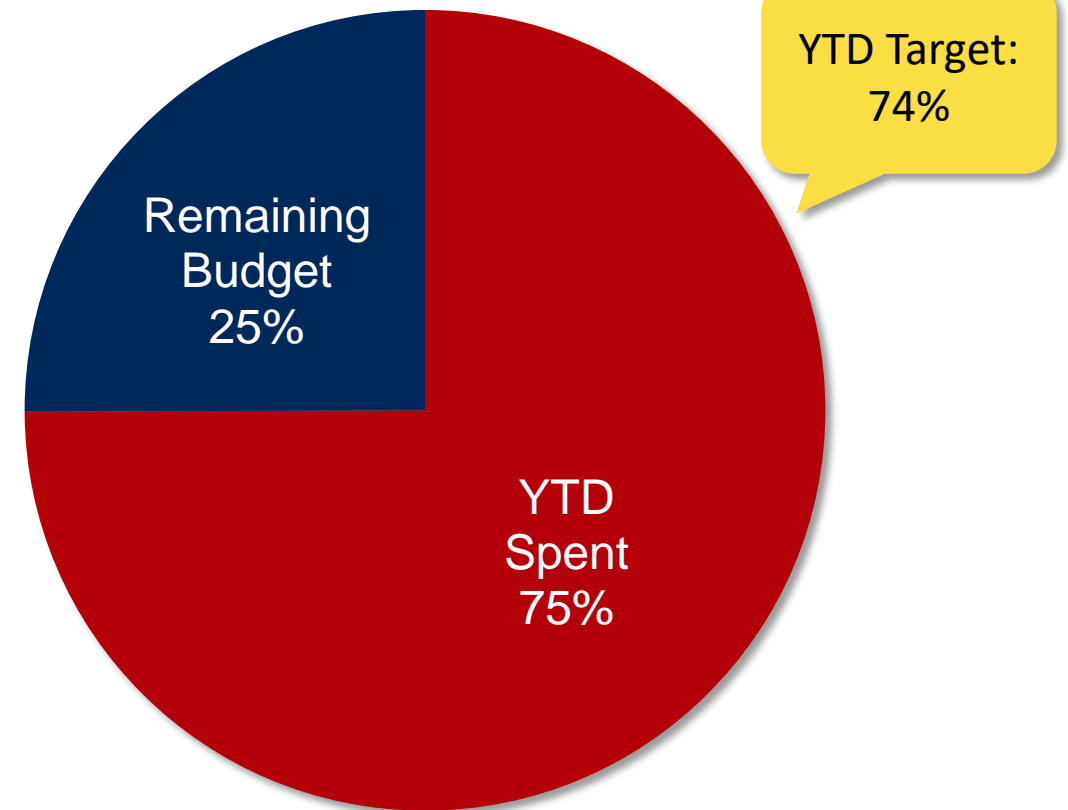
# YTD Stanton II Project Participant Costs < Target

*Sales ~17% > Budget Lower \$/MWh Costs but Drive Higher Spending*

### Stanton II Project Participant Costs (\$/MWh)



### Stanton II Project Budget Status

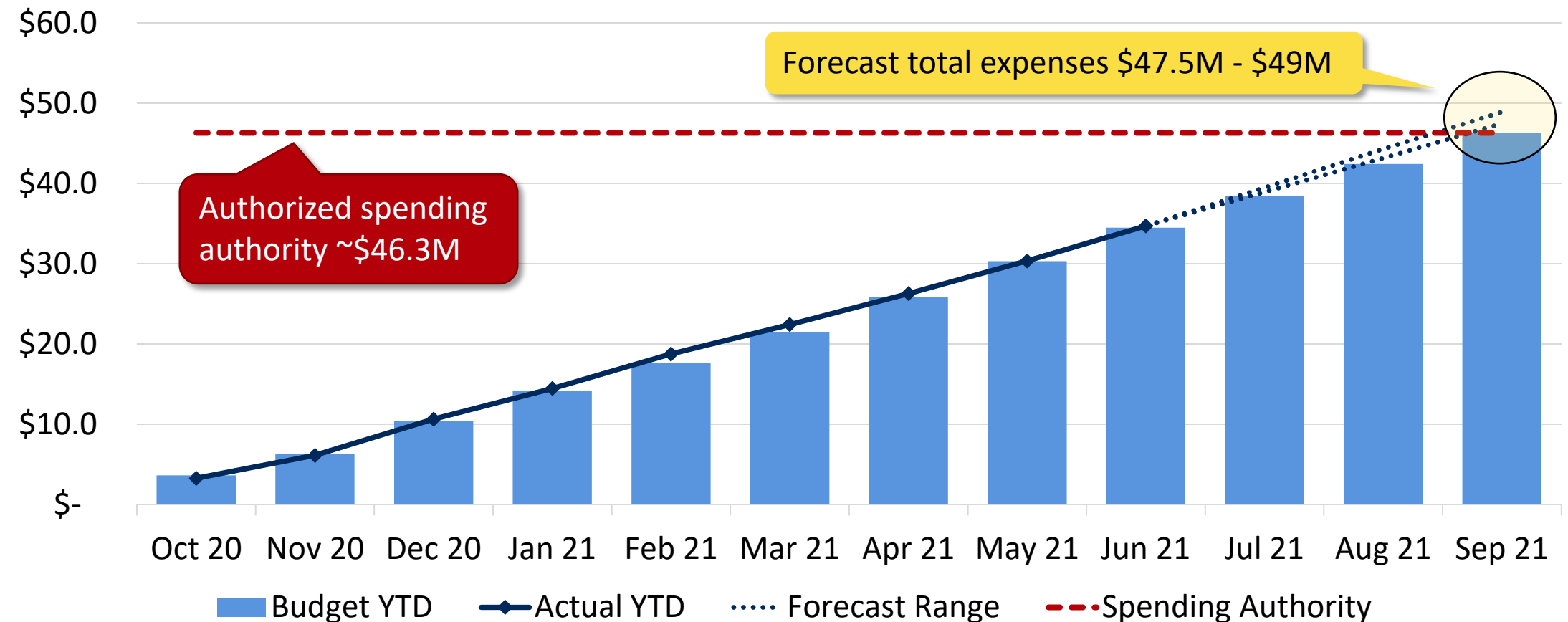


*Results shown through June 2021*

# Stanton II Project Forecasted \$1.2M to \$2.6M > Budget

## *Driven by Actual & Projected Generation > Budget*

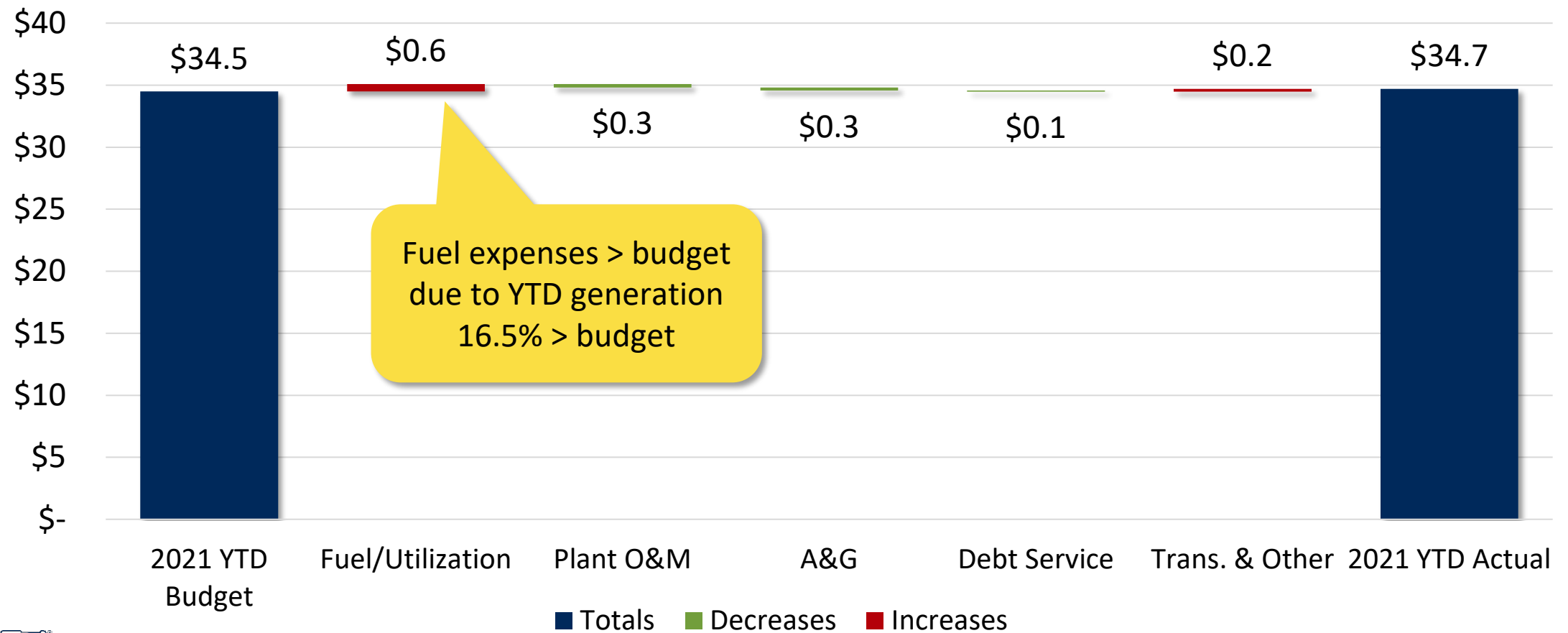
Stanton II Project FY 2021 Cumulative Budget vs. Actual Expenses (\$Millions)



# Stanton II Project \$0.2M > Budget through June

*Fuel Expense > Budget Offsets O&M and Other Cost Savings*

Stanton II Project FY 2021 YTD Budget vs. Actual Expenses through April (\$Millions)





# St. Lucie Project

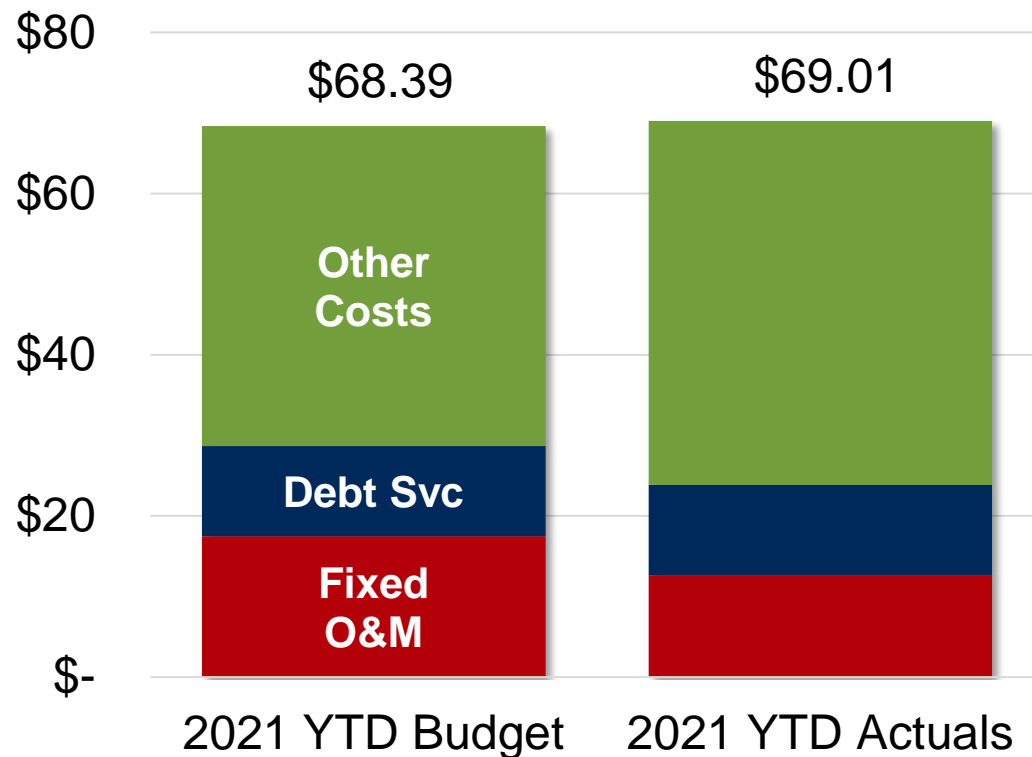




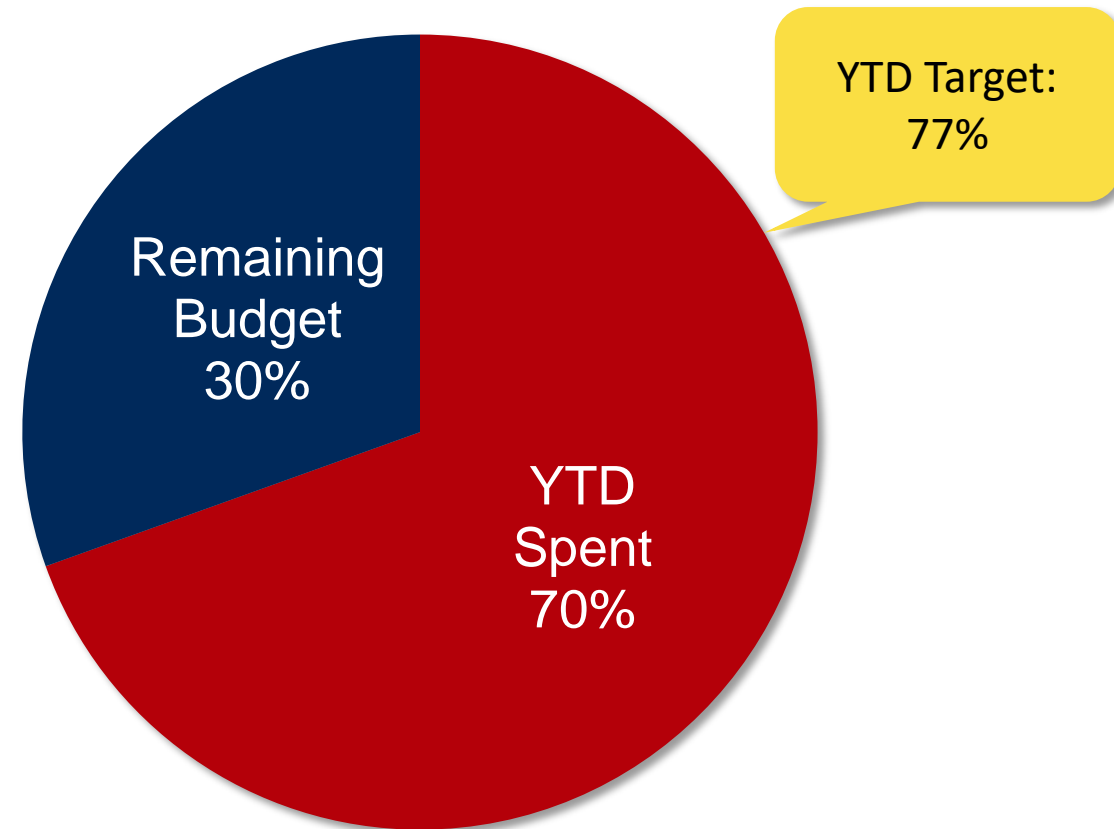
# St. Lucie YTD Participant Costs ~\$0.62/MWh > Budget

*Spending Should Increase in Q4 w/ Planned Refueling Outage*

St. Lucie Project Participant Costs (\$/MWh)



St. Lucie Project Budget Status



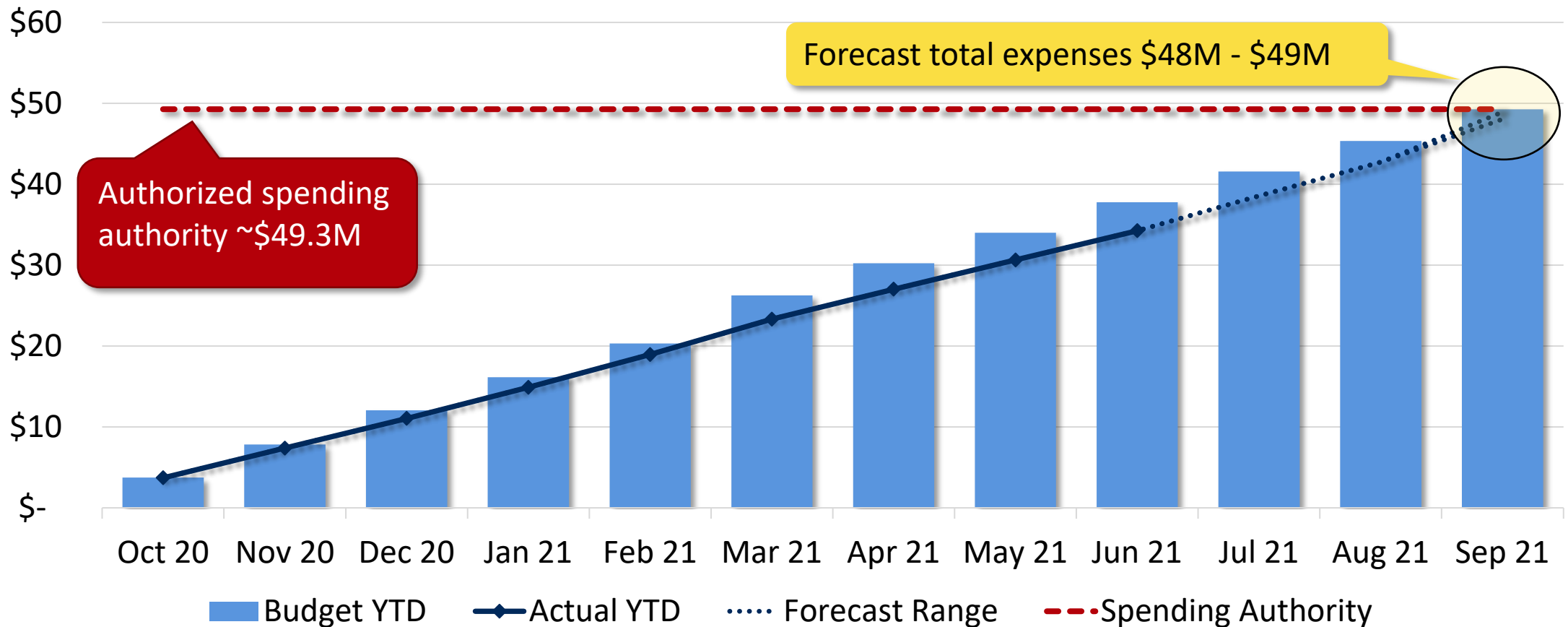
Note: "Other Costs" Include Deposits to General Reserve Fund to Pay Future Debt Costs

Results shown through June 2021

# St. Lucie Forecasted \$0.3M to \$1.2M < Budget

## *September Outage Costs Are Biggest Unknown*

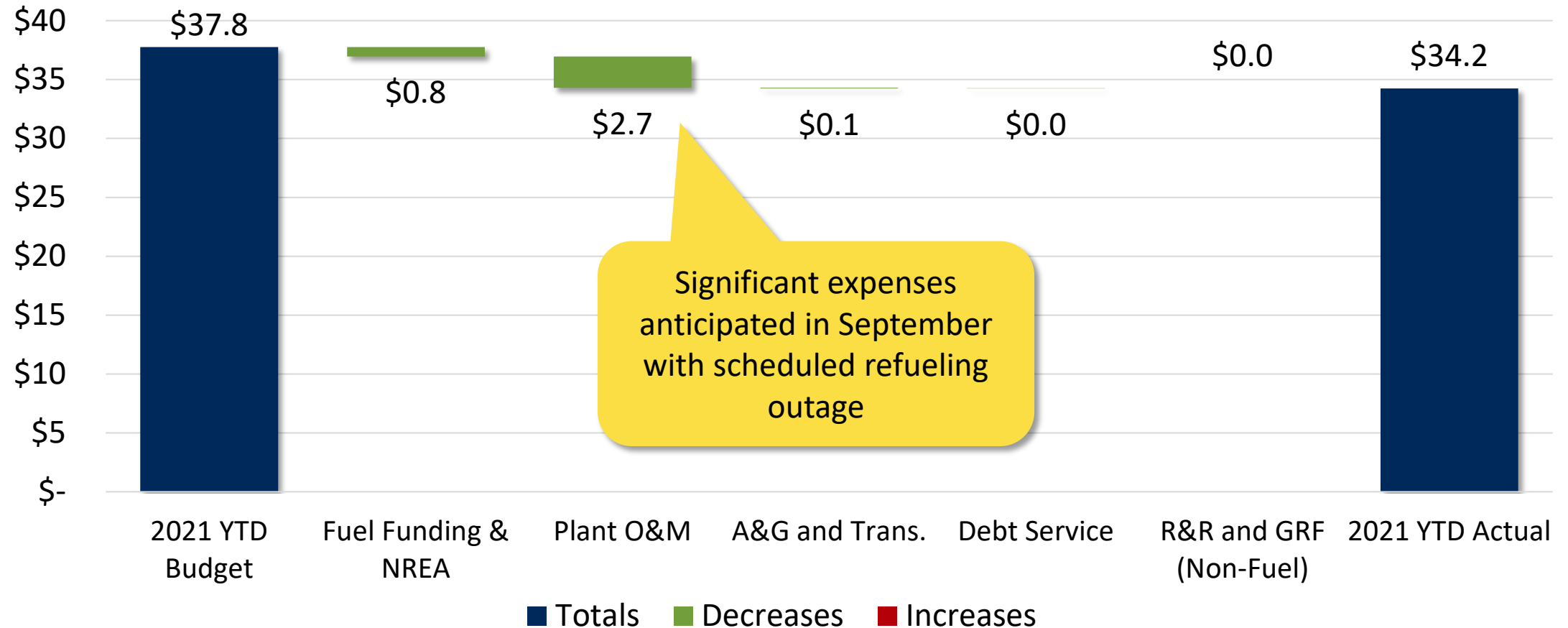
St. Lucie Project FY 2021 Cumulative Budget vs. Actual Expenses (\$Millions)



# St. Lucie Expenses Currently Well Below Budget

## *Expected to Catch up With September Refueling Outage Costs*

St. Lucie Project FY 2021 YTD Budget vs. Actual Expenses through June (\$Millions)





# Pooled Loan Project



# Budget Increase Needed for Pooled Loan Project

## *Need to Capture Debt Service Payments for Stanton II Pooled Loan*

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- In FY 2020, a pooled loan was issued to the Stanton II Project to refinance existing debt
- Under GASB rules, this must be treated as a conduit loan for the Pooled Loan Project, as both Projects are part of FMPA
  - Stanton II pays Pooled Loan Project, which then pays the bank
- Pooled loan principal and interest paid by Stanton II must also be captured as an expense of the Pooled Loan Project
- Additional spending authority of \$600k will be requested to account for these costs

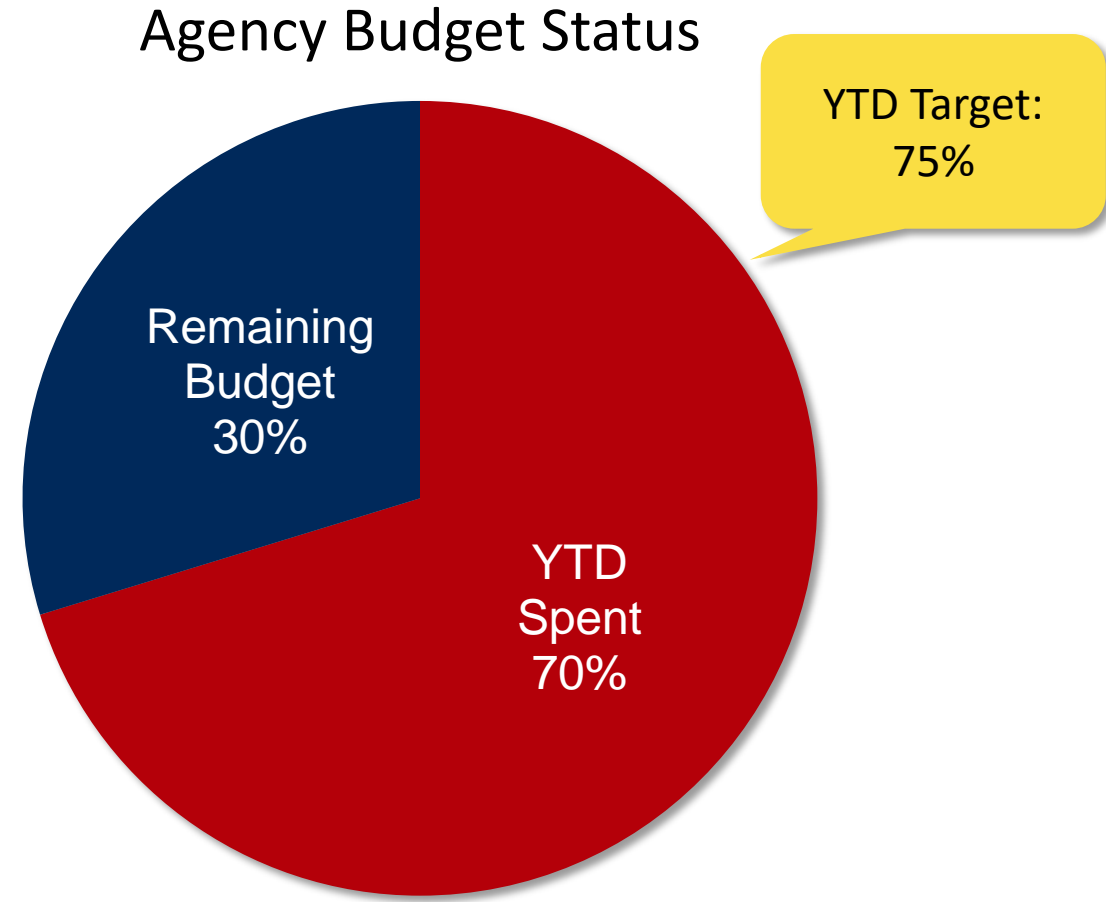
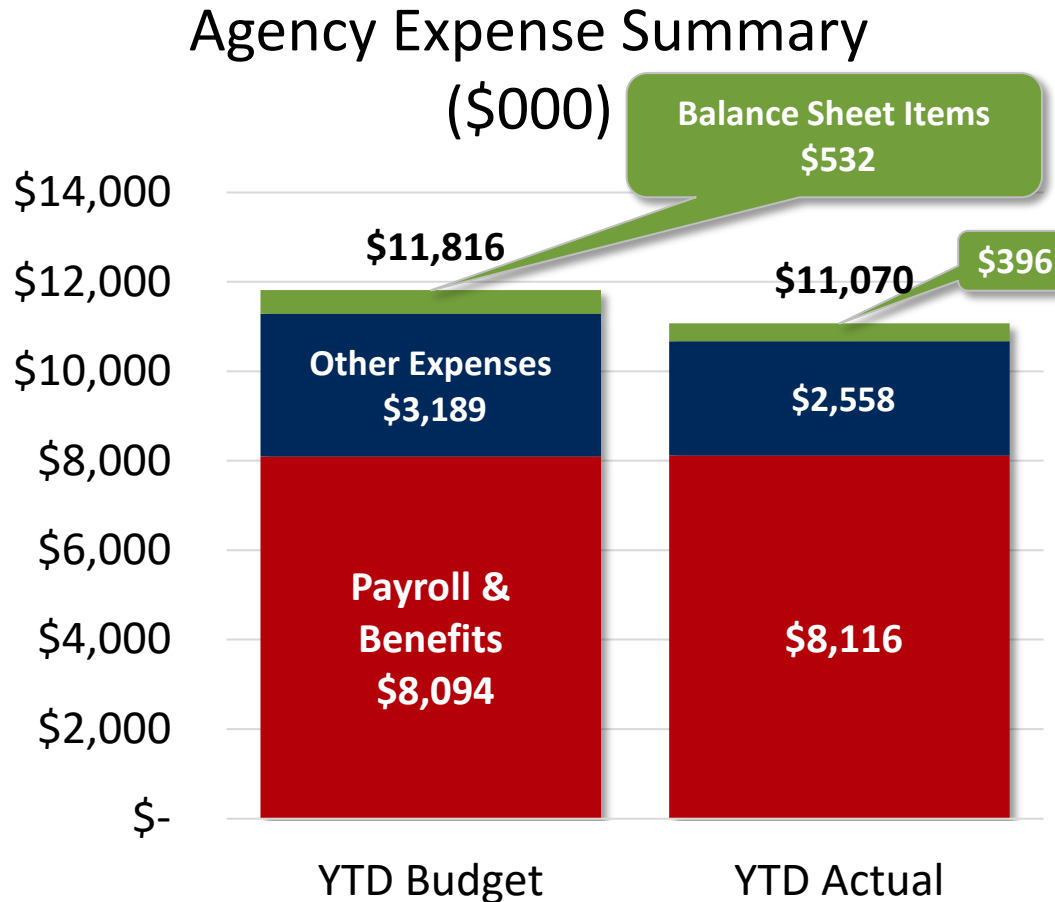


**Agency**



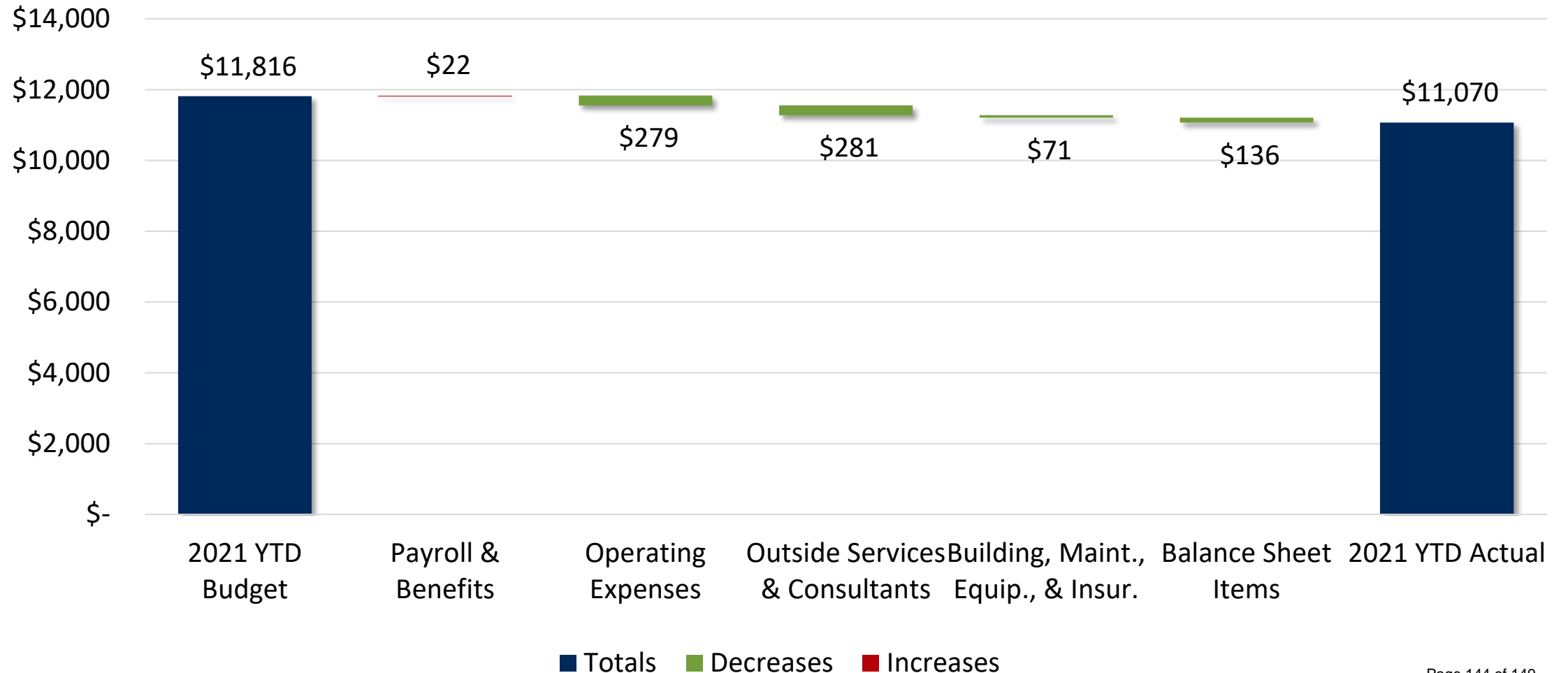
# YTD Agency Costs \$750k < Target

*Driven by Lower Operating Expenses and Outside Services*



# Payroll ~ Budget but Other Expenses < Budget

*Travel \$150k (58%) & Consultants \$300k (47%) < YTD Budget*





# Summary

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- Staff intends to seek September FC recommended approval of budget amendments for spending authority increases for:
  - ARP (for final approval by EC)
  - Stanton, Tri-City, Stanton II, and Pooled Loan Projects (for final approval by BOD)
- Staff may seek September FC recommended approval of budget amendment for spending authority increase for St. Lucie Project
- Only energy-related costs covered by additional approved spending authority would be collected in FY 2021 and only if actually incurred
- Agency and Solar and Solar II Projects not anticipated to require additional spending authority

# Recommended Motion

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- No motion requested. For information only.

**AGENDA ITEM 10 – REPORTS**

**Finance Committee Meeting  
August 18, 2021**

**AGENDA ITEM 11 – COMMENTS**

**Finance Committee Meeting  
August 18, 2021**

**AGENDA ITEM 12 – ADJOURNMENT**

**Finance Committee Meeting  
August 18, 2021**