

**St. Johns River Power Park System
Employees' Retirement Plan**

Financial Statements

**For the Year Ended
September 30, 2020**

**St. Johns River Power Park System
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Financial Statements
September 30, 2020**

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**St. Johns River Power Park System
Employees' Retirement Plan
Statement of Fiduciary Net Position (unaudited)
September 30, 2020**

| | |
|--|------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 3,272,810 |
| Investments at fair value: | |
| Bonds and notes | 67,508,927 |
| Mutual funds | 52,926,027 |
| Equities | 45,736,348 |
| Total investments | <u>166,171,302</u> |
| Accrued interest and dividends | 421,311 |
| Receivable from brokers | 103,671 |
| Employee receivable | 67,754 |
| Total assets | <u>170,036,848</u> |
| Liabilities | |
| Due to brokers | 55,573 |
| Due to revenue fund | 1,196 |
| Total liabilities | <u>56,769</u> |
| Fiduciary net position available for benefits | <u><u>\$ 169,980,079</u></u> |

**St. Johns River Power Park System
Employees' Retirement Plan
Statement of Changes in Fiduciary Net Position (unaudited)
September 30, 2020**

| | |
|--|-----------------------|
| Additions | |
| Contributions | |
| Employer | \$ 13,307,093 |
| Member | 18,705 |
| Total contributions | <u>13,325,798</u> |
| Investment income | |
| Net gains | 5,494,620 |
| Interest | 1,837,811 |
| Dividends | 992,262 |
| Other income | 25,188 |
| Less investment expenses: | |
| Investment management fees | (337,131) |
| Trustee fees | (134,643) |
| Net investment income | <u>7,878,107</u> |
| Total additions | <u>21,203,905</u> |
| Deductions | |
| Benefits paid directly to participants | 13,150,108 |
| Administrative fees | 86,331 |
| Total deductions | <u>13,236,439</u> |
| Net change in net position | 7,967,466 |
| Net position, beginning of year | 162,012,613 |
| Net position, end of year | <u>\$ 169,980,079</u> |

**St. Johns River Power Park System
Employees' Retirement Plan
Notes to Financial Statements (unaudited)**

1. Description of Plan

The following description of the St. Johns River Power Park System Employees' Retirement Plan (Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

The Plan is a single employer contributory defined benefit plan that covers former employees of the St. Johns River Power Park System (SJRPP). SJRPP previously operated a coal-fired power plant that was jointly owned and operated by JEA (80% ownership interest) and Florida Power & Light (FPL) (20% ownership interest). As part of the Asset Transfer Agreement with FPL related to the shutdown of SJRPP (shutdown agreement), JEA assumed all obligations of the Plan. The Plan provides for pension, death and disability benefits. As there are no longer any active employees at SJRPP, the Plan will not have any new participants. The Plan is subject to provisions of Chapter 112, Florida Statutes and the oversight of the Florida Division of Retirement. A three member Pension Committee (Committee), made up of the JEA Treasurer (Chair), JEA Controller, and JEA Manager of Electric Generation Planning, governs the Plan.

As of September 30, 2020, the Plan reported fiduciary net position available for benefits of \$169,980,079. The Plan had assets of \$170,036,848, which include investments of \$166,171,302, cash and cash equivalents of \$3,272,810, accrued interest and dividends of \$421,311, a broker receivable of \$103,671, and an employee receivable of \$67,754, offset by total liabilities of \$56,769.

Membership in the Plan consisted of the following at October 1, 2020:

| | |
|---|-----|
| Inactive plan members or beneficiaries currently receiving benefits | 385 |
| Inactive plan members entitled to but yet receiving benefits | 74 |
| Active participants | 5 |
| Total participants | 464 |

Plan members are required to contribute 4% of their annual salary in accordance with the provisions of IRC Section 414(h). The Plan requires funding of contributions from SJRPP be made according to an actuarial valuation. All employer contributions are irrevocable. The Plan pays all investment related administrative costs directly while the employer pays all other administrative costs and receives reimbursement from the Plan.

The Plan's funding policy provides for biweekly employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due.

1. Description of Plan (continued)

Effective February 25, 2013, a Plan amendment closed the Plan to all new employees hired on or after February 25, 2013. The Plan provisions continue only for those employees who have either, as of February 24, 2013, reached age 60 with 5 years of service or completed 20 years of service regardless of age (Tier 1). All other participants had their benefit accruals frozen and had established individual Cash Balance Accounts as of February 25, 2013 (Tier 2). The provisions applicable to Tier 1 govern distributions of the Frozen Tier 1 Benefits.

| Employee Group | Eligibility Requirement for Participation in Tier (as of February 24, 2013) | Benefit Changes Made |
|----------------|--|---|
| Group A | Active employees Age 60 with 5 Years of Service (YOS), or Age 55 with 20 YOS, or 30 YOS regardless of age. | None, Future Benefits Accrue as Stated under Current Defined Benefit (DB) Plan – Tier 1. |
| Group B | 20 and have not yet attained Age 55. | Removal of the BACKDROP benefit; All other DB Plan Provisions the same as Group A - Tier 1. |
| Group C | A Participant who accrued Tier One Benefits in the Plan prior to February 25, 2013, but who does not meet the definition of a Group A or Group B Employee is a Group C employee. Effective February 25, 2013, the Tier One Benefits of Group C employees were frozen. Group C Employees became eligible to accrue Tier Two Benefits effective February 25, 2013. | Effective February 25, 2013, the Tier One Benefits of Group C employees were frozen. Group C Employees became eligible to accrue Tier Two Benefits (a.k.a. Cash Balance Account) effective February 25, 2013. |
| Group D | A Participant who is newly hired or rehired on or after February 25, 2013. Group D employees are only eligible to accrue Tier Two Benefits. | Employees receive annual pay credits to their Cash Balance accounts. |

All participants who have met the criteria below are entitled to a monthly plan benefit beginning on the first day of the month following the participant's normal retirement date equal to the accrued monthly benefit date.

- Five or more years of vesting service (a year in which an employee has completed 1,000 hours of employment) and have attained age 65
- 20 years of vesting service and have attained age 55
- 30 years of vesting service

The Plan permits early retirement for participants who have attained the age of 55 and completed ten years, but less than 20 years of vesting service. Early retirement benefits begin the month after the early retirement date. A participant may elect, in writing, to defer the commencement of their benefits until a later date after the early retirement date up to the normal retirement date. As a result of the plant shutdown announced March 17, 2017, all employees age 55 actively employed on the plant shutdown date are eligible to retire immediately regardless of the accrued service without a benefit reduction.

1. Description of Plan (continued)

BACKDROP benefits are calculated as if the retiree elected to retire up to 5 years earlier. The benefit is based upon the final average earnings (FAE) and Benefit Service as of the beginning of the BACKDROP period and is equal to the accumulation of the retirement benefits that the participant would have received over the BACKDROP period plus interest. Each year, interest is credited or debited to the BACKDROP based upon the Plan's Actuarial rate of return for that year. The rate is guaranteed to be no less than (4)% and no more than 4% per annum.

Termination benefits are available to any participant who terminated employment other than by retirement or death, after completion of five years of vesting service. The termination benefit is the accrued benefit determined as of the date of termination and payment of that benefit commences monthly on the first month after the participant has attained age 65.

If an active participant becomes totally and permanently disabled, the participant is eligible for retirement if they have attained the age of 55 and completed ten years of vesting service.

If a participant should die while in active service, but after early retirement their surviving spouse is entitled to a benefit based on the participant's years of service to the date of death. This benefit is payable on the first day of the month the participant is retirement eligible and is based on the 75% joint and survivor's form of payment as of the date of commencement of the benefit.

Benefit terms provide a 1% annual cost-of-living increase for participants retired on or after October 1, 2003, beginning each October 1 following the fifth anniversary of payment commencement.

When JEA and FPL agreed to shutdown the coal plant, the following modifications were made to the Plan.

- Participants with at least 30 years of service, who only had Tier 1 defined benefits under the Plan, were allowed to receive their accrued benefit at plant closure. Participants who were at least age 55 were allowed to receive their accrued benefit at plant closure, without any application of early payment reduction factors
- Participants who have not reached age 55 may draw their pension benefits upon reaching age 55, with no early payment reduction factors. If the participant had at least 10 years of service but less than 30 years, they can draw at 88% of the Tier 1 benefit that they would have drawn at age 65 and, if less than 10 years of service, they can draw at 78% of the Tier 1 benefit that they would have drawn at age 65.
- For participants having both Tier 1 and Tier 2 benefits, those benefits must be taken at the same time. If a participant only has Tier 2 benefits, they can receive those benefits as soon as they reach the age of 55.
- An alternative refund option was offered to those employees who were under age 55 and did not have 30 years of service where they could choose to forfeit their entire benefits under the Plan and instead receive a refund, without interest, consisting of their total participant contributions made during participation in the Plan.

2. Summary of Significant Accounting Policies

A. Basis of presentation

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

B. Cash and cash equivalents

The Plan's cash and cash equivalents include cash on hand, bank demand accounts, money market mutual funds, and short-term liquid investments purchased with an original maturity of 90 days or less.

C. Investment valuation and income recognition

Investments in U.S. Treasury, federal agency, corporate bonds, mortgage/asset-backed securities, other fixed income securities, and common stock are recorded at fair value as determined by quoted market prices. Investments in money market mutual funds are recorded at cost, which approximates fair value. Realized gains and losses on sales of investments are calculated using the average cost for the fund.

D. Payment of benefits

The Plan's benefit payments to participants are recorded upon distribution.

E. Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

3. Cash and Investments

Cash balances are amounts on deposit with the Plan's trust bank, as well as amounts held in various money market funds as authorized in the Investment Policy Statement (Policy). All investments shall comply with the Policy as approved by the Committee, and with the fiduciary standards set forth by the Employee Retirement Income Security Act and requirements set forth by the Florida Statutes. The trust bank balances are collateralized and subject to the Florida Security for Public Deposits Act of Chapter 280, *Florida Statutes*.

3. Cash and Investments (continued)

The Plan follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investments are presented at fair value, which is based on available or equivalent market values. The money market mutual fund is a 2a-7 fund registered with the SEC and, therefore is presented at actual pooled share price, which approximates fair value.

At September 30, 2020, the Plan's cash and cash equivalents consist of the following:

| | | |
|--|-----------|-------------------------|
| Cash on hand | \$ | 784 |
| Cash equivalents: | | |
| Wells Fargo Treasury Plus Money Market Account | | <u>3,272,026</u> |
| Total cash and cash equivalents | \$ | <u>3,272,810</u> |

The Policy specifies investment objectives and guidelines for the Plan's investment portfolio and provides asset allocation targets for various asset classes.

At September 30, 2020, investments controlled by the Plan that represent 5% or more of the Plan's net position were the Alliance Domestic Passive Collective Trust with a basis of \$14,867,724 and a fair market value of \$52,926,027. This investment represent 31% of the fiduciary net position available for benefits.

Risk

In accordance with GASB Statement No. 40, investments also require certain disclosures regarding policies and practices with respect to the risks associated with them (see discussion in the following paragraphs).

Interest rate risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. Generally speaking, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to interest rate risk, the Plan's fixed income portfolio manager monitors the duration of the fixed maturity securities portfolio as part of the strategy to manage interest rate risk. As of September 30, 2020, the average modified duration of the managed fixed securities portfolio was 4.9 years.

Credit risk

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to real or perceived changes in the ability of the issuer to repay its debt. The Plan's rated debt instruments as of September 30, 2020 were rated by Standard & Poor's and/or an equivalent nationally recognized statistical rating organization.

The fixed income managers limit their investments to securities with an investment grade rating (BBB or equivalent) and the overall weighted average composite quality rating of the managed fixed income portfolio was Aa3.

3. Cash and Investments (continued)

Custodial credit risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All the Plan's investments are held by the Plan's directed trustee and custodian in the Plan's name, or by an agent in the Plan's name.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. The Policy specifies an overall target allocation of 55% equities and 45% fixed income, including cash. The Policy further specifies target allocations for the equity investments among several asset classes.

The fair value of the asset classes and portfolio as of September 30, 2020 and specific target allocations are as follows:

| | Fair Value | Actual Percent | Target Percent |
|------------------------------|-----------------------|---------------------------|---------------------------|
| U.S. Government & agencies | \$ 22,316,649 | 13% | N/A |
| Corporate bonds and notes | 45,192,278 | 27% | N/A |
| Money market / cash | 3,272,810 | 2% | N/A |
| Total fixed income | <u>70,781,737</u> | <u>42%</u> | <u>45%</u> |
| S&P 500 Index Fund | 52,926,027 | 31% | 28% |
| S&P 400 Mid-Cap Index Fund | 20,012,706 | 12% | 11% |
| Small and Mid-Cap Value Fund | 12,438,232 | 7% | 8% |
| International equities | <u>13,285,410</u> | <u>8%</u> | <u>8%</u> |
| Total equities | <u>98,662,375</u> | <u>58%</u> | <u>55%</u> |
| Total | <u>\$ 169,444,112</u> | | |

The Policy allows the percentage allocation to each asset class to vary by plus or minus 5% depending upon market conditions.

For the year ended September 30, 2020, the annual money-weighted rate of return on pension plan investments was 4.86%. This reflects the changing amounts actually invested.

Foreign currency risk

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair market value of the investment or a deposit. The Plan is exposed to foreign currency risk through investments in international equity mutual funds. Investments in international equities are limited by the Policy's target asset allocation for that asset class. The target for international equities is 8% of the total portfolio. The international fund comprised 8% of total investments as of September 30, 2020.

4. Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

SJRPP categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset or liability.

- Level 1 – quoted prices (unadjusted) for identical assets or liabilities in active markets that are accessible at the measurement date
- Level 2 – Inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for an asset or liability

The table below summarizes the Plan's investments. Level 1 investments are valued using prices quoted in active markets for those securities. Level 2 investments are valued using direct market observations combined with quantitative pricing models to generate prices.

| | Level 1 | Level 2 | Total |
|------------------------------|----------------------|-----------------------|-----------------------|
| U.S. Government & agencies | \$ 22,316,649 | \$ - | \$ 22,316,649 |
| Corporate bonds and notes | - | 45,192,278 | 45,192,278 |
| Money market / cash | 3,272,810 | - | 3,272,810 |
| Total fixed income | <u>25,589,459</u> | <u>45,192,278</u> | <u>70,781,737</u> |
| S&P 500 Index Fund | - | 52,926,027 | 52,926,027 |
| S&P 400 Mid-Cap Index Fund | 19,561,892 | 450,814 | 20,012,706 |
| Small and Mid-Cap Value Fund | 11,056,359 | 1,381,873 | 12,438,232 |
| International equities | 117,549 | 13,167,861 | 13,285,410 |
| Total equities | <u>30,735,800</u> | <u>67,926,575</u> | <u>98,662,375</u> |
| Total | <u>\$ 56,325,259</u> | <u>\$ 113,118,853</u> | <u>\$ 169,444,112</u> |

5. Federal Income Taxes

The Plan obtained a determination letter on the plan documents as of March 4, 1986 and an updated determination letter as of August 21, 2003, in which the Internal Revenue Service stated that the Plan, as then designed, complied with the applicable requirements of the Internal Revenue Code (IRC). The Plan administrator believes the Plan has operated in accordance with the Plan documents and the IRC as a governmental pension plan. The Plan is not subject to the requirements of the Employee Retirement Income Security Act.

6. Actuarial method and assumptions

Accumulated plan benefits are those future periodic payments, including lump-sum distributions that are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees' who have died, and (c) present employees or their beneficiaries. Benefits under the Plan are based on employees' compensation during their last five years of credited service. The accumulated plan benefits for active employees are based on their average compensation during the five years ending on the date as of which the benefit information is presented (the valuation date).

Benefits payable under all circumstances – retirement, death, disability, and termination of employment – are included, to the extent they are deemed attributable to employee service rendered to the valuation date.

The annual required contribution was determined by actuarial valuation using the Individual Entry Age Actuarial Cost Method. Under this method, the cost of each participant's projected retirement benefit is funded through a series of annual payments, determined as a level of percentage of each year's earnings, from age at hire to assumed exit age. The actuarial accrued liability (AAL) less the fair value of plan assets is the unfunded actuarial accrued liability (UAAL). The actuarial demographic assumptions is based on the rates used by the Florida Retirement System for its July 1, 2020 actuarial valuation. The calculation uses the PUB-2010 base tables with the generational mortality using gender-specific MP-2018 mortality improvement projection scale and 2010 as the base year, a 6.00% investment rate of return (net of administrative expenses), and projected salary increases, depending on years of service per year and including an inflation component. The actuarial value of the assets is the same as the market value of plan investments, reduced by the value of a credit balance, if any. Refer to the supplemental schedules to review the actuarial assumptions in more detail. The actuarial assumptions used in the September 30, 2020 valuation were based on the results of an actuarial experience study for the years 2004 – 2012.

7. Funded Status and Funding Progress

The funded status of the Plan as of September 30, 2020, the most recent measurement date, is as follows:

| Fiduciary Net Position of Plan * | Actuarial Accrued Liability (AAL) Entry Age | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percent of Covered Payroll |
|---|--|--------------------------------|-------------------------|----------------------------|---|
| \$161,017,264 | \$167,694,945 | \$6,677,681 | 96% | \$467,042 | 1430% |

* This amount is calculated based on the fiduciary net position available for benefits of \$169,980,079 less the credit balance of \$8,962,815.

7. Funded Status and Funding Progress (continued)

Additional information as of the latest actuarial valuation follows:

| | |
|--------------------------------|------------------------|
| Valuation Date | 10/1/2020 |
| Actuarial cost method | Individual Entry Age |
| Amortization method | Goal-oriented |
| Remaining amortization periods | 1 |
| Asset valuation method | Market Value of Assets |
| Actuarial assumptions: | |
| Investment rate of return | 6.00% |
| Projected salary increases | 2.5% - 12.5% |
| Includes price inflation | 2.50% |
| COLAs | 1.00% |

8. Plan Termination

If the Plan terminates, the net position of the Plan will be allocated among participants and their beneficiaries in the following order:

Priority Class A: The portion of the participants' accrued benefits that are derived from participant contributions.

Priority Class B: In the case of benefits payable as an annuity, equally among participants and beneficiaries whose benefits were in pay status.

Priority Class C: Equally among active participants who are eligible for normal retirement but have not yet retired.

Priority Class D: Equally among all other vested accrued benefits of both active and terminated participants.

Priority Class E: All other non-vested accrued benefits under the Plan.