



**INTERIM FINANCIAL**  
R E P O R T



SIX MONTHS ENDED  
March 2014

# Orlando Utilities Commission

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The unaudited statements presented in this interim financial report have been prepared in accordance with generally accepted accounting principles and follow the standards outlined by the Governmental Accounting Standards Board. It is management's assertion that the management discussion and supporting statements do not omit information necessary for a fair presentation nor do they improperly include untrue statements of a material fact or statements of a misleading nature.

## Management's Discussion and Analysis

Income before contributions for the six months ended March 31, 2014 was \$35.5 million, \$6.6 million higher than budget and \$18.0 million higher than prior year.

### Operating Revenues:

**Variance to Budget** – Operating revenues for the six months ended March 2014 were \$2.7 million lower than budget. This variance was primarily due to lower than budget fuel and retail energy revenues of \$8.2 million and \$0.7 million, respectively. These variances were offset by higher resale energy revenues of \$5.8 million, which was driven by higher pool sales in January and February. Additionally, chilled water revenues were \$1.1 million higher than budget.

**Variances to Prior Year** – Operating revenues were \$32.1 million higher than the prior year. Retail energy revenues were \$7.4 million higher than prior year as a result of a 5.0 percent increase in consumption. Consistent with retail electric revenues, resale electric revenues earned through the St. Cloud inter local agreement were \$2.4 million higher than prior year. Additionally, agreements executed with the City of Winter Park and the City of Lake Worth began in January 2014 increasing resale revenue by \$2.4 million. Fuel revenues increased \$18.2 million due to increased consumption as well as higher purchased power costs. Chilled water revenues were \$0.7 million lower than the prior year due to a one time customer settlement in fiscal year 2013.

### Operating Expenses:

**Variances to Budget** – Operating expenses were \$8.1 million or 2.3 percent lower than budget. The variance was primarily driven by lower than expected fuel for generation and purchased power expenses of \$8.2 million due to decreased purchased power costs.

**Variances to Prior Year** – Operating expenses were \$16.1 million or 4.8 percent higher than prior year due to increased fuel for generation and purchased power costs of \$18.2 million offset by offset by lower capacity payments of \$1.0 million. Unit department expenses were \$2.3 million higher than the prior year as a result of fewer vacant positions and increased outside services costs. Depreciation and amortization costs were \$3.8 million lower than the prior year due to the ongoing implementation of the depreciation study.

### Non-Operating Income and Expenses:

**Variance to the Budget and Prior Year** – Net non-operating expenses were \$1.1 million lower than budget and \$1.9 million lower than prior year. The variance to budget was primarily due to higher than expected rental income, a Medicare subsidy and favorable interest rates on variable rate debt. The prior year variance was due to lower interest expense as a result of the January 2013 bond refunding.

### Contributions in Aid of Construction:

Contributions in aid of construction were lower than budget and prior year by \$5.7 million and \$1.8 million, respectively. These variances were due to the timing of system development contributions for water infrastructure projects.

### Dividend Payment:

The dividend agreement with the City of Orlando is based on 60% of budgeted income before contributions. The budgeted amount for fiscal year 2014 is \$48.6 million and is paid in equal amounts over the year. The amount paid for the six months ended March 2014 was \$24.3 million.

## **Utility Plant:**

Utility plant increased \$38.9 million as of March 2014 compared to March 2013. Capital acquisitions for major projects including the completion of two large transformer projects and the installation of digital meters contributed to the increase in utility plant in service in excess of systematic depreciation charges.

## **Restricted and Internally Designated Assets:**

Restricted and internally designated assets of \$522.8 million were \$10.7 million less than that of the prior year. The change was due to the planned utilization of fuel stabilization funds of \$24.0 million offset by increased debt service requirements of \$3.1 million and higher deposits and advances associated with the collection of system development costs and customer deposits of \$5.9 million and \$4.3 million, respectively.

## **Current Assets:**

Current assets were \$68.0 million lower than prior year. Operating cash and investments decreased \$33.3 million as a result of utilizing cash from operations to fund a larger portion of utility plant additions offset by cash provided from operations. Fuel for generation inventory decreased \$10.9 million from that of the prior year. In addition, prepaid and other expenses were lower than prior year primarily due to lower collateral deposit requirements of \$7.5 million and decreased hedge derivative instruments of \$21.9 million. These decreases were offset by an increase in customer and miscellaneous accounts receivable of \$4.3 million.

## **Other Assets:**

Other assets were \$27.1 million higher than that of March 2013. This increase was related to the Board approved deferral of the impaired electric and water meters, net of amortization, of \$1.4 million and \$3.3 million, respectively. In addition, as a result of Duke Energy's decision to close the Crystal River 3 (CR3) plant, OUC's Board approved the deferral of property, plant, equipment and supplies in the amount of \$15.3 million net of \$3.2 million received for insurance proceeds. OUC continues to work with Duke Energy to estimate and understand the nature and extent of OUC's potential impacts related to the retirement of CR3.

## **Deferred Outflows of Resources:**

Deferred outflows of resources decreased \$15.7 million since March 2013. This change was driven by a decrease in the fair value of interest rate swap derivatives and fuel hedge assets of \$11.5 million and \$4.2 million, respectively.

## **Payables from Restricted and Current Assets:**

Restricted and current payables were \$10.2 million higher than that of March 2013. This change was the result of an increase in customer deposits and accrued interest payable in the amounts of \$4.4 million and \$1.6 million, respectively. Additionally, vendor payables including fuel for generation and purchased power payables increased \$8.1 million. These variances were offset by a decrease in fuel hedge losses of \$5.8 million.

## **Other Liabilities:**

Other liabilities were \$11.2 million lower than that of the prior year. This change was primarily driven by the utilization of fuel stabilization funds in the amount of \$24.0 million, as a result of planned usage and the continued systematic recognition of the deferred gain from the fiscal year 1999 sale of IRP of \$4.0 million. These variances were offset by increased unapplied contributions in aid of construction of \$11.4 million and long term fuel hedge derivative instruments of \$5.4 million.

**Long-term Debt:**

Long-term debt, net decreased \$71.9 million as a result of the payment of outstanding principal on October 1, 2013 of \$52.0 million. In addition, fair value derivative instrument losses associated with interest rate swap agreements decreased \$20.0 million. The remaining variance was due to systematic amortization of bond costs.

OUC's credit ratings:

Fitch Investors Service	AA
Moody's Investors Service	Aa2
Standard & Poor's	AA

**Deferred Inflows of Resources:**

For the period ending March 2014, deferred inflows of resources decreased \$8.0 million from that of March 2013 due to fair value changes for fuel hedge agreements.

## **Cash Flows:**

OUC's cash and cash equivalents as of March 2014 were \$155.7 million, \$5.2 million higher than that of the beginning of the fiscal year and \$23.3 million higher than the prior year.

Cash provided by operating activities for the six months ended March 2014 was \$20.0 million higher than the prior year. The primary drivers of this variance were cash received from customer of \$23.5 million and cash paid for fuel and purchased power of \$6.2 million. These variances were offset by increased unit department expenses of \$6.6 million and cash paid for salaries of \$2.9 million.

Cash used in non-capital related financing activities during fiscal year 2014 was \$24.3 million; an amount consistent with the prior year.

Cash used in capital financing activities was \$6.7 million higher than that of the prior year. The primary driver of this change was increased spending for capital related projects of \$7.7 million.

Investing activities for the six month period ended March 2014 provided cash of \$57.5 million, \$157.2 million higher than prior year. This variance was primarily due to an increase in investment instruments with maturities less than three months.

## **Capital Plan:**

At March 31, 2014 capital expenditures of \$71.6 million were \$18.7 million or 20.7 percent under budget.

Electric Production capital expenditures of \$27.5 million were \$5.8 million lower than budgeted expectations.

Electric Transmission, Electric Delivery and Lighting capital expenditures at March 2014 were \$20.8 million, net of contributions. Capital spending was over budget \$0.7 million. This was offset by higher than expected contributions in aid of construction of \$4.2 million.

Water capital expenditures at March 2014 were \$6.2 million, net of contributions in aid of construction of \$3.2 million. Water projects were under budget by \$2.5 million and contributions in aid of capital were \$0.1 million below budget expectations.

Chilled Water capital spending has been delayed and only small projects have been completed through March 2014.

Support Services capital expenditures at March 2014 were \$17.0 million or \$5.2 million under budget. Lower spending on information technology projects and AMI meters were driving the variance.

**Orlando Utilities Commission**  
**Statements of Revenues, Expenses and Changes in Net Positions**

Dollars in thousands

	Actual Year to Date March 2014	Budget Year to Date March 2014	Variance to Budget		Actual Year to Date March 2013	Variance to Prior Year	
<b>Operating revenues</b>							
Retail energy	\$ 161,735	\$ 162,394	\$ (658)	-0.4%	\$ 154,289	\$ 7,446	4.8%
Resale energy	40,560	34,782	5,778	16.6%	33,711	6,849	20.3%
Fuel	139,508	147,749	(8,241)	-5.6%	121,280	18,228	15.0%
Electric revenues	341,803	344,925	(3,122)	-0.9%	309,280	32,523	10.5%
Water revenues	30,871	31,025	(154)	-0.5%	30,528	343	1.1%
Other revenues							
Lighting services	6,382	6,290	92	1.5%	6,196	186	3.0%
Chilled water revenues	13,855	12,781	1,073	8.4%	14,553	(697)	-4.8%
Service fees & other revenues	12,910	13,475	(565)	-4.2%	13,190	(280)	-2.1%
<b>Total operating revenues</b>	<b>405,821</b>	<b>408,496</b>	<b>(2,676)</b>	<b>-0.7%</b>	<b>373,746</b>	<b>32,075</b>	<b>8.6%</b>
<b>Operating expenses</b>							
Fuel for generation and purchased power	139,508	147,749	(8,241)	-5.6%	121,280	18,228	15.0%
Capacity payment	15,453	15,269	184	1.2%	16,481	(1,028)	-6.2%
Unit department expenses	109,478	109,684	(206)	-0.2%	107,190	2,287	2.1%
Depreciation and amortization	57,631	57,611	20	0.0%	61,406	(3,775)	-6.1%
Payments to other governments and taxes	26,360	26,283	77	0.3%	26,019	341	1.3%
<b>Total operating expenses</b>	<b>348,430</b>	<b>356,595</b>	<b>(8,165)</b>	<b>-2.3%</b>	<b>332,376</b>	<b>16,054</b>	<b>4.8%</b>
<b>Non-operating income and (expenses)</b>							
Interest income	2,670	2,643	27	1.0%	2,882	(213)	-7.4%
Other income	4,965	4,206	759	18.0%	5,421	(456)	-8.4%
Interest expense	(29,524)	(29,860)	336	1.1%	(32,134)	2,611	8.1%
<b>Total non-operating income and (expenses)</b>	<b>(21,890)</b>	<b>(23,011)</b>	<b>1,122</b>	<b>4.9%</b>	<b>(23,832)</b>	<b>1,942</b>	<b>8.1%</b>
<b>Income before contributions</b>	<b>35,501</b>	<b>28,890</b>	<b>6,611</b>	<b>22.9%</b>	<b>17,538</b>	<b>17,964</b>	<b>102.4%</b>
<b>Revenue from contributions in aid of construction</b>	<b>3,418</b>	<b>9,121</b>	<b>(5,703)</b>	<b>-62.5%</b>	<b>5,212</b>	<b>(1,795)</b>	<b>-34.4%</b>
<b>Dividend payments</b>	<b>(24,311)</b>	<b>(24,311)</b>	<b>-</b>	<b>0.0%</b>	<b>(23,500)</b>	<b>(810)</b>	<b>-3.4%</b>
<b>Increase in net positions</b>	<b>14,608</b>	<b>\$ 13,699</b>	<b>\$ 908</b>	<b>6.6%</b>	<b>(749)</b>	<b>\$ 15,357</b>	<b>-2050.0%</b>
<b>Net positions - beginning of period</b>	<b>1,104,219</b>				<b>1,066,968</b>		
<b>Net positions - end of period</b>	<b>\$ 1,118,827</b>				<b>\$ 1,066,219</b>		

**Orlando Utilities Commission  
Statements of Net Position**

Dollars in thousands

	March 2014	March 2013	Variance to Prior Year	
<b>Assets</b>				
Utility plant	\$ 2,335,985	\$ 2,297,039	\$ 38,946	1.7%
Restricted and designated assets	522,848	533,527	(10,678)	-2.0%
Current assets	241,651	309,644	(67,994)	-22.0%
Other assets	71,285	44,161	27,124	61.4%
Deferred outflows of resources	21,652	37,396	(15,744)	-42.1%
<b>Total Assets and deferred outflows of resources</b>	<b>\$ 3,193,421</b>	<b>\$ 3,221,767</b>	<b>\$ (28,346)</b>	<b>-0.9%</b>
<b>Liabilities</b>				
Current liabilities - restricted	\$ 81,536	\$ 75,479	\$ 6,057	8.0%
Current liabilities - unrestricted	189,599	185,473	4,126	2.2%
Other liabilities	318,739	329,971	(11,231)	-3.4%
Long-term debt, net	1,481,878	1,553,813	(71,935)	-4.6%
<b>Total liabilities</b>	<b>2,071,753</b>	<b>2,144,737</b>	<b>(72,984)</b>	<b>-3.4%</b>
<b>Deferred inflows of resources</b>	<b>2,841</b>	<b>10,811</b>	<b>(7,970)</b>	<b>-73.7%</b>
<b>Net position</b>	<b>1,118,827</b>	<b>1,066,219</b>	<b>52,608</b>	<b>4.9%</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 3,193,421</b>	<b>\$ 3,221,767</b>	<b>\$ (28,347)</b>	<b>-0.9%</b>



**Orlando Utilities Commission**  
**Statements of Cash Flows**

Dollars in thousands

	March 2014	March 2013
<b>Cash flow from operating activities</b>		
Cash received from customers	\$ 419,239	\$ 395,711
Cash paid for fuel and purchased power	(133,733)	(139,982)
Cash paid for unit department expenses	(58,628)	(52,023)
Cash paid for salaries and benefits	(72,333)	(69,418)
Cash paid for other payments and taxes	(26,945)	(26,715)
<b>Net cash provided by operating activities</b>	<u>127,600</u>	<u>107,573</u>
<b>Cash flows from non-capital related financing activities</b>		
Dividend to the City of Orlando	(24,311)	(23,500)
<b>Net cash used in non-capital related financing activities</b>	<u>(24,311)</u>	<u>(23,500)</u>
<b>Cash flows from capital related financing activities</b>		
Utility plant net of contributions in aid of construction	(69,763)	(62,031)
Debt interest payments	(33,543)	(38,185)
Collateral deposits	400	4,000
Principal payments on long-term debt	(51,950)	(357,202)
Debt issuances	-	306,741
Debt issue expenses	(723)	(2,156)
<b>Net cash used in capital related financing activities</b>	<u>(155,579)</u>	<u>(148,833)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale and maturities of investment securities	193,288	183,964
Purchases of investment securities	(144,881)	(292,177)
Investments and other income received	9,057	8,525
<b>Net cash provided by / (used in) investing activities</b>	<u>57,464</u>	<u>(99,688)</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>	5,174	(164,448)
<b>Cash and Cash Equivalents - beginning of year</b>	150,545	296,872
<b>Cash and Cash Equivalents - current</b>	<u>\$ 155,719</u>	<u>\$ 132,424</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 57,391	\$ 41,370
<b>Adjustments to reconcile operating income to net cash provided by operating activities</b>		
Depreciation and amortization	57,631	61,407
Depreciation and amortization charged to fuel for generation and purchased power	1,085	1,172
Depreciation of vehicles and equipment charged to unit department expenses	973	1,270
<b>Changes in assets and liabilities</b>		
Decrease in receivables and accrued revenue	25,719	22,209
Decrease / (increase) in fuel and materials and supplies inventories	17,208	(5,001)
Decrease in accounts payable	(18,644)	(17,244)
(Decrease) / increase in deposits payable and deferred costs	(2,143)	1,730
(Decrease) / increase in stabilization and deferred revenue	(11,620)	660
<b>Net cash provided by operating activities</b>	<u>\$ 127,600</u>	<u>\$ 107,573</u>

## Orlando Utilities Commission Capital Plan

Dollars in thousands

	Adopted 2014 Plan	Year to Date March 2014 Budget	Year to Date March 2014 Actual	Variance to Budget	
Electric production business unit (1)	\$ 59,089	\$ 33,337	\$ 27,546	\$ 5,791	17.4%
Transmission business unit	40,604	19,050	15,964	3,086	16.2%
Transmission contributions	(10,030)	(5,015)	(8,347)	3,332	66.4%
Transmission business unit, net	30,574	14,035	7,617	6,418	45.7%
Electric delivery business unit	20,720	10,344	12,905	(2,561)	-24.8%
Electric delivery contributions	(1,600)	(800)	(1,192)	392	49.0%
Electric delivery business unit, net	19,120	9,544	11,713	(2,169)	-22.7%
Lighting business unit	4,365	2,170	2,042	128	5.9%
Lighting contributions	(100)	(50)	(571)	521	1042.0%
Lighting business unit, net	4,265	2,120	1,471	649	30.6%
Water business unit	23,706	11,908	9,404	2,504	21.0%
Water contributions	(6,511)	(3,256)	(3,177)	(79)	-2.4%
Water business unit, net	17,195	8,652	6,227	2,425	28.0%
Chilled water business unit	800	396	18	378	95.5%
Shared business unit	48,153	22,201	16,964	5,237	23.6%
Total OUC	\$ 179,196	\$ 90,285	\$ 71,556	\$ 18,729	20.7%

(1) - Totals are net of participant share.