



INTERIM FINANCIAL
R E P O R T



SIX MONTHS ENDED
March 2017

Orlando Utilities Commission

Table of Contents

Management’s Discussion and Analysis	3
Statements of Revenues, Expenses and Changes in Net Position based on Budget - Unaudited	7
Statements of Net Position - Unaudited	8
Statements of Cash Flows – Unaudited	9
Capital Plan	10

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, 2017 was \$27.4 million, \$2.7 million lower than budget and \$22.0 million lower than prior year.

Operating Revenues:

Variance to Budget – Operating revenues, for the six months ended March 2017, were \$12.8 million lower than budget. This variance was primarily due to lower than budgeted fuel and energy revenues of \$8.3 million and \$6.6 million, respectively as a result of lower than expected fuel costs and mild weather. In addition, lighting service revenues were slightly below budget due to lower conventional light sales as a result of the accelerated LED lighting exchange initiative. Offsetting these decreases were higher than budget chilled water revenues and water revenues of \$1.6 million and \$0.5 million, respectively, due to increased customer demand. Resale energy revenues were also higher than budget due to unexpected sales to the City of Lakeland of \$0.6 million offset by decreased sales to St. Cloud customers of \$0.4 million.

Variances to Prior Year – Operating revenues were \$7.1 million lower than that of the prior year primarily due to decreased retail energy revenues of \$6.8 million, as a result of milder weather in 2017 offset by customer growth.

Operating Expenses:

Variances to Budget – Operating expenses were \$11.7 million or 3.3 percent lower than budget primarily due to lower than expected fuel for generation and purchased power expenses of \$8.3 million. Unit/department expenses were \$3.3 million under budget. The variance was due to lower than expected salary and outside services costs, net of participant costs, of \$3.3 million and \$2.4 million, respectively. Offsetting these decreases were higher than budgeted costs related to a planned outage at SEC Unit A of \$3.1 million. Depreciation and amortization expenses are consistent with budget and payments to other governments and taxes were \$0.4 million higher than budget.

In October 2016, costs of \$3.5 million were incurred in response to the Hurricane Matthew storm recovery efforts. These costs were excluded from Unit/department as it is anticipated that they will be mitigated by Board approved stabilization fund recognition.

Variances to Prior Year – Operating expenses were \$15.9 million higher than that of the prior year. Contributing to the increase were higher Unit/department expenses of \$14.1 million primarily due to higher benefit costs of \$4.5 million and maintenance costs of \$10.0 million, resulting from planned generation facility outages. Additionally, depreciation and amortization expenses increased by \$2.8 million as a result of the capitalization of new assets.

Non-Operating Income and Expenses:

Variance to the Budget and Prior Year – Net non-operating expenses were \$1.7 million higher than budget and \$1.0 million lower than prior year. The variance to budget was primarily due to unfavorable market valuation adjustments of \$1.7 million. The variance to prior year was primarily due to a decrease in interest expense of \$3.0 million, as a result of the bond refunding activity and debt maturities in fiscal year 2016 and 2017, offset by unfavorable market valuation adjustments.

Contributions in Aid of Construction:

Contributions in aid of construction of \$8.5 million were \$1.1 million higher than budget and \$1.9 million higher than prior year due to the timing of system development contributions.

Dividend Payment:

The dividend agreement with the City of Orlando was based on 60.0 percent of annual budgeted income before contributions. The budgeted amount for fiscal year 2017 is \$59.1 million and is paid in equal amounts over the year. The amount paid for the six months ended March 2017 was \$29.5 million which was \$1.7 million higher than that of the prior year.

Utility Plant:

Utility plant increased \$44.4 million as of March 2017 compared to March 2016. Capital acquisitions for major projects, including the completion of several large transmission line upgrades and electric production upgrades, the Southeast pipeline water main extension project, the pond liner replacement project and the commencement of several technology projects including the Customer Care & Billing (CC&B) upgrade, expected to be completed later in 2017, contributed to the increase in utility plant in excess of systematic depreciation charges.

Restricted and Internally Designated Assets:

Restricted and internally designated assets of \$600.6 million were \$5.3 million higher than prior year. In October 2016, \$40.0 million were designated to mitigate future costs associated with the impacts from carbon constraints, as approved by the Board. In addition, designated funds increased \$22.9 million, since March 2016, as a result of customer deposits and a Board approved regulatory action to defer Rate Stabilization funds. These increases were offset by a decrease in Fuel Stabilization funds of \$30.9 million and the release of \$24.5 million of construction funds from the Series 2015A Bonds.

Current Assets:

Current assets of \$229.4 million were \$36.4 million lower than prior year. The decrease was primarily due to favorable market valuation changes of \$18.1 million for outstanding fuel hedges coupled a decrease in swap interest rate collateral deposits of \$16.5 million primarily due to the bond refunding which partially terminated the interest rate swap through 2020. Additionally, cash-on-hand as of March 2017 decreased \$21.5 million as a result of operations. Offsetting these decreases were increases in the fuel for generation coal inventory and receivables of \$5.2 million and \$6.7 million respectively. There was also an increase of \$7.2 million for storm restoration costs resulting from Hurricane Matthew. These costs are expected to be partially recovered under the Federal Emergency Management program. Unrecovered costs are expected to be mitigated through the use of stabilization funds, pending Board approval

Other Assets:

Other assets decreased \$1.6 million from the prior year. The decrease was due to the planned recognition of deferred pension costs of \$12.3 million as approved by the Board in October 2015. In addition, there was systematic amortization of prepaid costs of \$1.6 million. These decreases were offset by the refunding of the Series 2011A Bonds which required the application of a regulatory action to defer the recognition of the residual interest rate swap value of \$12.1 million to be recognized over the life of the outstanding bonds and the impacts of the market roll-down on the remaining maturity of the swap.

Deferred Outflows of Resources:

Deferred outflows of resources of \$118.8 million decreased \$27.7 million since March 2016. The change was due to decreased fuel hedge valuation changes of \$15.6 million, the partial interest rate swap termination of \$9.6 million and the anticipated Board approved deferral of \$12.1 million to Other Assets. In addition, there was systematic amortization of refunded bond losses of \$4.2 million. Offsetting these decreases were increased unrealized pension costs of \$19.5 million, primarily related to investment losses and an increase in the St. Lucie Unit 2 fair value retirement obligation of \$3.9 million, resulting from an updated valuation study, net of systematic amortization.

Payables from Restricted and Current Assets:

Payables from restricted and current assets were \$99.5 million lower than that of the prior year. In 2016, the Series 2011A *Windows* Bonds of \$98.0 million were reported as a current liability due to a seven-month remarketing period. In February 2017, these bonds were refunded with the Series 2017A Bonds and reclassified to Long-term debt. In addition to this change, there was a decrease in unrealized short-term fuel hedge losses of \$14.5 million offset by increased outstanding supplier payables including fuel purchases and higher customer deposits of \$11.7 million and \$2.5 million, respectively.

Other Liabilities:

Other liabilities were \$25.0 million higher than that of the prior year. The primary driver of the variance was an increase in the net pension liability of \$20.1 million. Also contributing to the change was an increase in the asset retirement obligation liability related to St. Lucie Unit 2 of \$5.6 million, as a result of a valuation study completed in 2016.

Long-term Debt:

Over the past twelve months, net long-term debt increased \$4.1 million. This change was the result of the issuance of the Series 2017A Bonds in the amount of \$98.0 million, refunding the Series 2011A *Windows* Bonds previously recognized as current under the heading of Payables from Restricted and Current Assets. Also contributing to the increase were unrecognized premium amounts associated with the issuance of the Series 2016A and Series 2017A Bonds in the amount of \$21.4 million. These increases were offset by bond maturities of \$60.8 million, a bond refunding impact of \$14.3 million and systematic amortization of bond-related premiums of \$19.3 million. In addition, fair-valued derivative instrument losses decreased \$11.2 million due to the improving interest rate market and \$9.6 million as a result of the partial termination of the interest rate swap agreement underlying the 2011A *Windows* Bonds.

OUC's credit ratings are:

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

Deferred Inflows of Resources:

For the period ended March 2017, deferred inflows of resources increased \$17.2 million from that of March 2016. The change was due to Board approval to defer \$13.0 million to base rate stabilization and an increase in the valuation of unrecognized fuel hedge derivatives of \$4.5 million. In addition, there was an increase in fuel stabilization of \$9.2 million inclusive of the Board approved reclassification of \$40.0 million of fuel stabilization to be designated as clean power plan funds to mitigate future carbon constraints. These increases were offset by the continued systematic recognition of other regulatory credits recognized to offset costs at the Stanton Energy Center of \$8.4 million.

Cash Flows:

OUC's cash and cash equivalents as of March 2017 were \$100.4 million, \$15.4 million lower than that of the beginning of the fiscal year and \$52.0 million lower than that of March 2016. The decrease over the past six months was due to the use of cash to fund capital related projects. This variance was offset by decreased collateral deposit requirements and increased cash from operating and investing activities.

Capital Plan:

At March 31, 2017 capital expenditures of \$69.0 million were \$2.2 million over budget. Capital expenditures in Electric Production and Transmission projects were over budget by \$1.8 million and \$4.7 million, respectively. Capital expenditures in Water and Lighting projects were under budget by \$2.9 million and \$1.0 million, respectively. These changes were primarily due to timing of payments.

Orlando Utilities Commission
Statements of Revenues, Expenses and Changes in Net Position - Unaudited

Dollars in thousands

	Actual Year to Date March 2017	Budget Year to Date March 2017	Variance to Budget		Actual Year to Date March 2016	Variance to Prior Year	
Operating revenues							
Retail energy	\$ 165,167	\$ 171,735	\$ (6,568)	-3.8%	\$ 171,985	\$ (6,818)	-4.0%
Resale energy	40,428	40,311	117	0.3%	40,757	(329)	-0.8%
Fuel	117,109	125,404	(8,295)	-6.6%	117,401	(292)	-0.2%
Electric revenues	322,704	337,450	(14,746)	-4.4%	330,143	(7,439)	-2.3%
Water revenues	34,264	33,786	478	1.4%	33,369	895	2.7%
Other revenues							
Lighting service revenues	6,379	6,684	(305)	-4.6%	6,509	(130)	-2.0%
Chilled water revenues	13,908	12,269	1,639	13.4%	14,292	(384)	-2.7%
Service fees & other revenues	12,996	12,852	144	1.1%	13,056	(60)	-0.5%
Total operating revenues	390,251	403,041	(12,790)	-3.2%	397,369	(7,118)	-1.8%
Operating expenses							
Fuel for generation and purchased power	117,109	125,404	(8,295)	-6.6%	117,401	(292)	-0.2%
Capacity payment	15,983	16,354	(371)	-2.3%	16,073	(90)	-0.6%
Unit/department	125,804	129,060	(3,256)	-2.5%	111,743	14,061	12.6%
Depreciation and amortization	59,543	59,696	(153)	-0.3%	56,748	2,795	4.9%
Payments to other governments and taxes	25,170	24,811	359	1.4%	25,699	(529)	-2.1%
Total operating expenses	343,609	355,325	(11,716)	-3.3%	327,664	15,945	4.9%
Non-operating income and (expenses)							
Interest income	1,120	2,965	(1,845)	-62.2%	2,824	(1,704)	-60.3%
Other income	5,002	5,138	(136)	-2.6%	5,292	(290)	-5.5%
Interest expense	(25,325)	(25,640)	315	-1.2%	(28,355)	3,030	-10.7%
Total non-operating income and (expenses)	(19,203)	(17,537)	(1,666)	9.5%	(20,239)	1,036	-5.1%
Income before contributions	27,439	30,179	(2,740)	-9.1%	49,466	(22,027)	-44.5%
Revenue from contributions in aid of construction	8,478	7,376	1,102	14.9%	6,628	1,850	27.9%
Dividend payments	(29,531)	(29,531)	-	0.0%	(27,860)	(1,671)	6.0%
Increase in net position	6,386	\$ 8,024	\$ (1,638)	-20.4%	28,234	\$ (21,848)	-77.4%
Net position - beginning of period	1,285,383				1,226,361		
Net position - end of period	\$ 1,291,769				\$ 1,254,595		

Orlando Utilities Commission
Statements of Net Position - Unaudited

Dollars in thousands

	March 2017	March 2016	Variance to Prior Year	
Assets				
Utility plant	\$ 2,422,358	\$ 2,378,003	\$ 44,355	1.9%
Restricted and internally designated assets	600,622	595,288	5,334	0.9%
Current assets	229,444	265,810	(36,366)	-13.7%
Other assets	137,250	138,897	(1,647)	-1.2%
Deferred outflows of resources	118,826	146,505	(27,679)	-18.9%
Total Assets and deferred outflows of resources	\$ 3,508,500	\$ 3,524,503	\$ (16,003)	-0.5%
Liabilities				
Payables from restricted assets	\$ 84,518	\$ 83,099	\$ 1,419	1.7%
Payables from current assets	88,126	189,029	(100,903)	-53.4%
Other liabilities	215,532	190,570	24,962	13.1%
Long-term debt, net	1,542,768	1,538,656	4,112	0.3%
Total liabilities	1,930,944	2,001,354	(70,410)	-3.5%
Deferred inflows of resources	285,787	268,554	17,233	6.4%
Net position	1,291,769	1,254,595	37,174	3.0%
Total liabilities, deferred inflows of resources and net position	\$ 3,508,500	\$ 3,524,503	\$ (16,003)	-0.5%

Orlando Utilities Commission Statements of Cash Flows - Unaudited

Dollars in thousands

	March 2017	March 2016
Cash flow from operating activities		
Cash received from customers	\$ 409,605	\$ 444,929
Cash paid for fuel and purchased power	(141,272)	(133,591)
Cash paid for unit department expenses	(47,694)	(65,981)
Cash paid for salaries and benefits	(85,470)	(63,951)
Cash paid for other payments and taxes	(25,910)	(26,371)
Net cash provided by operating activities	109,259	155,035
Cash flows from non-capital related financing activities		
Dividend to the City of Orlando	(29,531)	(27,860)
Debt interest payments - pension bonds	(378)	(487)
Debt principal payments - pension bonds	(4,515)	(4,300)
Build America Bond interest received	1,845	-
Net cash used in non-capital related financing activities	(32,579)	(32,647)
Cash flows from capital related financing activities		
Utility plant net of contributions in aid of construction	(67,095)	(73,108)
Debt interest payments	(28,316)	(47,421)
Collateral deposits	18,000	(1,700)
Principal payments on long-term debt and use of bond proceeds	(164,913)	(152,551)
Debt issuances and related costs	108,064	114,508
Net cash used in capital related financing activities	(134,260)	(160,272)
Cash flows from investing activities		
Proceeds from sale and maturities of investment securities	327,167	302,641
Purchases of investment securities	(290,838)	(275,732)
Investments and other expenses paid	5,889	6,262
Net cash provided by investing activities	42,218	33,171
Net increase in cash and cash equivalents	(15,362)	(4,713)
Cash and Cash Equivalents - beginning of year	115,733	157,048
Cash and Cash Equivalents - current	\$ 100,371	\$ 152,335
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 46,642	\$ 69,705
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	59,543	56,748
Depreciation and amortization charged to fuel for generation and purchased power	1,943	1,652
Depreciation of vehicles and equipment charged to unit department expenses	843	652
Changes in assets and liabilities		
Decrease in receivables and accrued revenue	12,812	33,226
(Increase) / Decrease in fuel and materials and supplies inventories	(1,026)	15,858
Decrease in accounts payable	(8,855)	(25,446)
Decrease in deposits paid and deferred items	(8,261)	(9,615)
Increase in stabilization and deferred revenue accounts	5,618	12,255
Net cash provided by operating activities	\$ 109,259	\$ 155,035

**Orlando Utilities Commission
Capital Plan**

Dollars in thousands

	Adopted 2017 Plan	Year to Date March 2017 Budget	Year to Date March 2017 Actual	Variance to Budget	
Electric Production (1)	\$ 29,271	\$ 14,626	\$ 16,394	\$ (1,768)	-12.1%
Transmission	33,096	16,547	20,919	(4,372)	-26.4%
Transmission contributions	(1,750)	(438)	(82)	(356)	81.3%
Transmission, net	31,346	16,109	20,837	(4,728)	-29.4%
Electric Delivery	31,420	15,691	16,534	(843)	-5.4%
Electric Delivery contributions	(3,325)	(1,663)	(2,383)	720	-43.3%
Electric Delivery, net	28,095	14,028	14,151	(123)	-0.9%
Lighting	8,369	4,182	2,329	1,853	44.3%
Lighting contributions	(1,869)	(935)	(94)	(841)	89.9%
Lighting, net	6,500	3,247	2,235	1,012	31.2%
Water	32,001	14,763	9,523	5,240	35.5%
Water contributions	(17,076)	(7,713)	(5,410)	(2,303)	29.9%
Water, net	14,925	7,050	4,113	2,937	41.7%
Chilled Water	1,700	846	1	845	99.9%
Chilled water contributions	-	-	-	-	-100.0%
Chilled Water, net	1,700	846	1	845	99.9%
Support Services	23,163	10,906	11,260	(354)	-3.2%
Support services contributions	-	-	-	-	-100.0%
	23,163	10,906	11,260	(354)	-3.2%
Total OUC	\$ 135,000	\$ 66,812	\$ 68,991	\$ (2,179)	-3.3%

(1) - Totals are net of participant share