

GAINING VELOCITY

ouc



ORLANDO UTILITIES COMMISSION

2017
AUDITED FINANCIAL
STATEMENTS

AUDITED FINANCIAL STATEMENTS

FINANCIAL HIGHLIGHTS

(Dollars in thousands)	2017	2016	% Increase / -Decrease
Total operating revenues excluding fuel revenue	\$ 602,528	\$ 596,479	1.0%
Total operating revenues	\$ 878,649	\$ 865,149	1.6%
Total operating expenses	\$ 754,314	\$ 728,978	3.5%
Fuel for generation and purchased power	\$ 308,844	\$ 301,483	2.4%
Interest, gain and net other income	\$ 23,721	\$ 19,346	22.6%
Interest expense	\$ 51,896	\$ 57,361	-9.5%
Income before contributions	\$ 96,160	\$ 98,156	-2.0%
Annual dividend	\$ 59,061	\$ 55,719	6.0%
Utility plant, net	\$ 2,451,068	\$ 2,410,356	1.7%
Total assets and deferred outflows of resources (1)	\$ 3,621,202	\$ 3,686,981	-1.8%
Long-term debt and Other bonds payable	\$ 1,477,363	\$ 1,574,451	-6.2%
Net position	\$ 1,341,123	\$ 1,285,382	4.3%
Debt service coverage	2.71	2.53	7.1%
Senior bond ratings (2)	AA, Aa2, AA	AA, Aa2, AA	

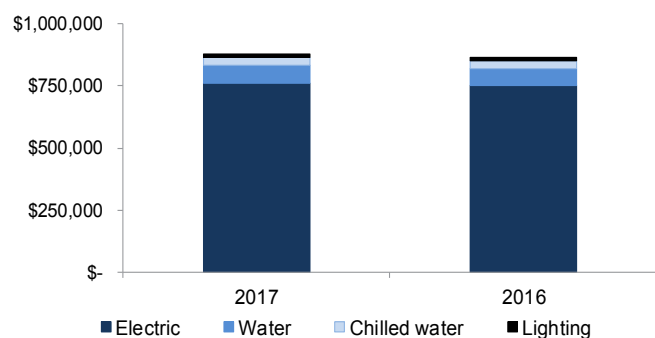
(1) Total assets and deferred outflows of resources were restated as a result of the implementation of GASB Statement No. 75. Details related to the restatement are included in Note B.

(2) Bond Rating Agencies: Fitch Ratings, Moody's Investors Service and Standard & Poor's, respectively.

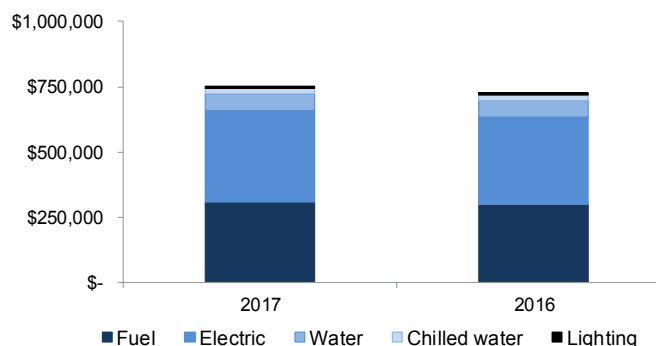
STATISTICAL HIGHLIGHTS

Electric metered services	238,051	233,411	2.0%
Electric sales (MWH)	7,857,609	7,914,684	-0.7%
Average annual residential usage (KWH)	11,378	11,999	-5.2%
Average residential revenue per KWH	\$ 0.1146	\$ 0.1143	0.3%
Water metered services	140,592	139,201	1.0%
Water sales (MGAL)	28,711	27,579	4.1%
Average annual residential usage (KGAL)	82	79	3.8%
Average residential revenue per KGAL	\$ 2.7005	\$ 2.7052	-0.2%

Operating Revenues at September 30
(Dollars in thousands)



Operating Expenses at September 30
(Dollars in thousands)



ORLANDO UTILITIES COMMISSION

September 30, 2017

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Ernst & Young LLP
Suite 2800
200 South Orange Avenue
Orlando, Florida 32801

Tel: +1 407 872 6600
ey.com

Report of Independent Certified Public Accountants

To Management and the Commissioners of Orlando Utilities Commission

Report on the Financial Statements

We have audited the accompanying financial statements of Orlando Utilities Commission (OUC), as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise OUC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OUC as of September 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.



Adoption of GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions and GASB Statement No. 85, Omnibus 2017

As discussed in Note B to the financial statements, OUC changed its method of accounting for Pensions not within the scope of GASB No. 68 and Postemployment Benefits Other than Pension (OPEB) as a result of the adoption of Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and GASB Statement No. 85, *Omnibus 2017*, effective October 1, 2015. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 5-14 be presented to supplement the basic financial statements, the schedules of changes in net Pension and OPEB liability and related ratios, the schedules of funding progress for Pension and OPEB, the schedules of employer contributions to the Pension and OPEB plans, and the schedules of investment returns for Pension and OPEB on pages 61-64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated December 6, 2017 on our consideration of OUC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OUC's internal control over financial reporting and compliance.

Ernst & Young LLP

December 6, 2017



MANAGEMENT'S DISCUSSION AND ANALYSIS

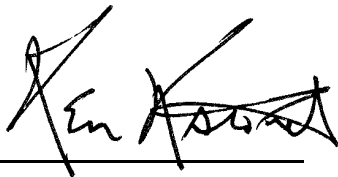
This discussion should be read in conjunction with the Financial Statements and Notes to the Financial Statements.

Management's Report

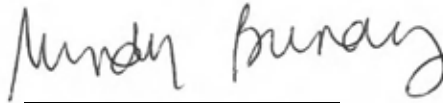
The management of Orlando Utilities Commission (OUC) has prepared — and is responsible for — the integrity of the financial statements and related information included in this report. The financial statements have been prepared in accordance with generally accepted accounting principles and follow the standards outlined by the Governmental Accounting Standards Board.

To ensure the integrity of our financial statements, OUC maintains a system of internal accounting controls that are supported by written policies and procedures and an organizational structure that appropriately assigns responsibilities to mitigate risks. These controls have been put in place to ensure OUC's assets are properly safeguarded and the books and records reflect only those transactions that have been duly authorized. OUC's controls are evaluated on an ongoing basis by both management and OUC's internal auditors.

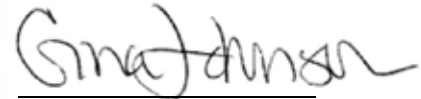
Based on the statements above, it is management's assertion that the financial statements do not omit any disclosures necessary for a fair presentation of the information, nor do they improperly include untrue statements of a material fact or statements of a misleading nature.



Ken Ksionek
General Manager &
Chief Executive Officer



Mindy Brenay
Vice President &
Chief Financial Officer



Gina Johnson
Director of Financial
Planning, Financial &
Support Services

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Orlando Utilities Commission's (OUC) financial statements. It defines the basic financial statements and summarizes OUC's general financial condition and results of operations, and should be read in conjunction with OUC's financial statements and accompanying notes, which follow this section.

Background

OUC was created in 1923 by a Special Act of the Florida Legislature as a statutory commission of the State of Florida and is governed by a Board (the Board) consisting of five members including the Mayor of the City of Orlando. The Act confers upon OUC the rights and powers to set rates and charges for electric and water services. OUC is responsible for the acquisition, generation, transmission and distribution of electric and water services to its customers within Orange and Osceola counties. In addition, OUC provides chilled water and lighting services.

Setting of Rates

The setting of electric and water rates are the responsibility of the Board. Rate changes are implemented after public workshops are held and approved by the Board. In 2016, the Board approved a fuel rate decrease of 9.0 percent across all electric customer classes as a result of leveraging OUC's diversified fuel mix. No electric or water rate increases were approved for 2017. In 2018, OUC will implement the first phase of a Board-approved multi-year water rate increase. The rate changes, will be effective March 1, 2018 and are anticipated to increase the average residential and commercial customer water bill 4.0 percent. In addition, an electric rate workshop is planned for 2018 to outline proposed future rate design changes to enhance clean energy and conservation initiatives.

Financial Reporting

OUC's financial statements are presented in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The accounting records are maintained in accordance with the accounting principles and methods prescribed by the Federal Energy Regulatory Commission (FERC) with the exception of contributions in aid of construction, which are recorded in accordance with the standards prescribed by GASB.

OUC is a regulated enterprise and applies the Regulated Operations provision of GASB Statement No. 62 "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*" In accordance with these principles, the Board has taken various regulatory actions for ratemaking purposes that have resulted in the deferral or recognition of certain revenues or expenses. In 2017 and 2016, regulatory actions taken by the Board resulted in the deferral of current period water revenues of \$1.5 million and resale electric revenues of \$13.0 million, respectively. Additionally in 2017, the Board approved the recognition of \$5.9 million to mitigate one-time costs included un Unit/department expenses, and deferred \$20.9 million expected to be recovered from the Federal Emergency Management Agency (FEMA) associated with the impacts of Hurricanes Matthew and Irma. See Note G for additional information.

Basic Financial Statements

These basic financial statements were prepared to provide the reader with a comprehensive overview of OUC's financial position, results of operations and cash flows.

- **Statement of Net Position:** The Statement of Net Position was prepared using the accrual method of accounting distinguishing current and long-term assets and liabilities, deferred inflows and outflows of resources as well as the nature and amount of resources and obligations at a point in time.
- **Statement of Revenues, Expenses and Changes in Net Position:** This statement presents current period revenues and expenses. In addition, included in this statement is the presentation of operating income, which was reported separately from net non-operating expenses, contributions in aid of construction and annual dividend.
- **Statement of Cash Flows:** This statement was presented using the direct method and outlines the sources and uses of cash resulting from operations, non-capital related financing, capital related financing, and investing activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Statements of Net Position

As of September 30

(Dollars in thousands)	2017	2016 (Restated)*	2015 *
Assets			
Utility plant, net	\$ 2,451,068	\$ 2,410,356	\$ 2,375,846
Restricted and internally designated assets	539,295	625,270	610,291
Current assets	271,503	251,445	283,540
Other assets	238,597	220,923	178,728
Total assets	3,500,463	3,507,994	3,448,405
Deferred outflows of resources	120,739	178,987	108,484
Total assets and deferred outflows of resources	\$ 3,621,202	\$ 3,686,981	\$ 3,556,889
Liabilities			
Long-term debt	\$ 1,477,363	\$ 1,476,091	\$ 1,527,787
Current liabilities	260,483	333,935	344,777
Other liabilities and credits	250,413	299,216	186,269
Total liabilities	1,988,259	2,109,242	2,058,833
Deferred inflows of resources	291,820	292,357	271,695
Net position			
Net investment in capital assets	1,048,799	945,883	893,645
Restricted	-	-	270
Unrestricted	292,324	339,499	332,446
Total net position	1,341,123	1,285,382	1,226,361
Total liabilities, deferred inflows of resources and net position	\$ 3,621,202	\$ 3,686,981	\$ 3,556,889

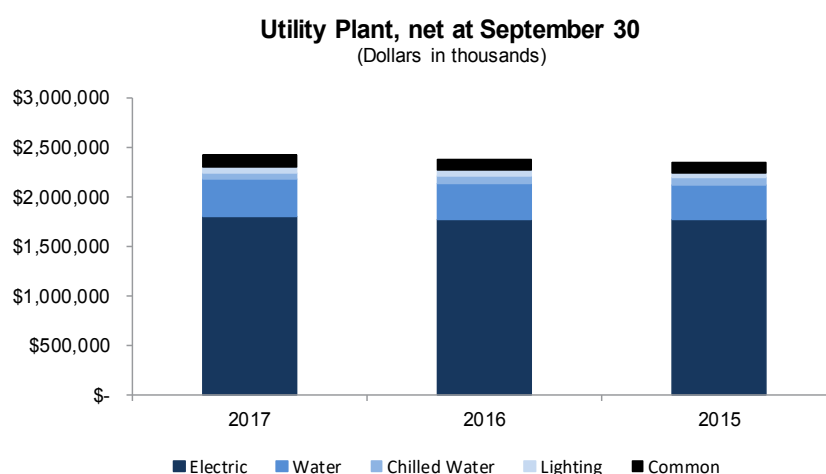
* Details related to the restatement as of September 30, 2016 are included in Note B. The Statement of Net Position as of September 30, 2015 was not restated for the effects of GASB Statements No. 73, 75 or 85.

2017 Compared to 2016

Assets

Utility plant, net: Utility plant, net increased \$40.7 million inclusive of accumulated depreciation. Current year plant additions were \$185.6 million. The increase was primarily due to capital spending for major projects including several multi-year transmission line upgrades to improve system reliability and power transfer capabilities, the Stanton Energy Center Unit 1 (SEC 1) turbine electric production upgrade and the pond liner replacement upgrade. Additionally, the Customer Care & Billing (CC&B) system upgrade was completed. Capital additions were offset by systematic depreciation charges of \$128.9 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS



Restricted and internally designated assets: Restricted and internally designated assets of \$539.3 million were \$86.0 million lower than prior year. Internally designated funds decreased due to the planned release of \$69.5 million from the capital reserve to fund utility plant additions. Renewal and replacement and base rate stabilization funds decreased \$14.5 million and \$5.9 million, respectively, due to unanticipated storm restoration costs resulting from Hurricanes Matthew and Irma. OUC filed for reimbursement with FEMA and expects to receive associated grant funds in 2018, to replenish the renewal and replacement fund. Additionally, designated assets decreased \$3.8 million due to the planned utilization of fuel stabilization funds to mitigate rising fuel prices. These usages were offset by increased customer-provided system development funds and deposits of \$4.9 million and \$0.9 million, respectively.

Current assets: Current assets of \$271.5 million were \$20.1 million higher than prior year. In July 2017, OUC implemented a new CC&B system that included billing in arrears for commercial customer-consolidated bills. This change increased the billing interval for metered services and resulted in an increase in customer receivables of \$36.2 million. Additionally, Miscellaneous receivables increased \$5.0 million as a result of receivables due from conservation lighting projects and outstanding participant receivables. Fuel for generation inventory and Materials and supplies inventory increased \$9.4 million and \$2.1 million, respectively. These changes were offset by decreased derivative collateral deposits of \$16.8 million as a result of the partial interest rate swap termination and lower fuel hedge collateral deposits of \$4.1 million as a result of rising natural gas costs. Cash and investments decreased \$8.6 million. This change was due to billing in arrears for commercial customer-consolidated bills offset by favorable current year operations.

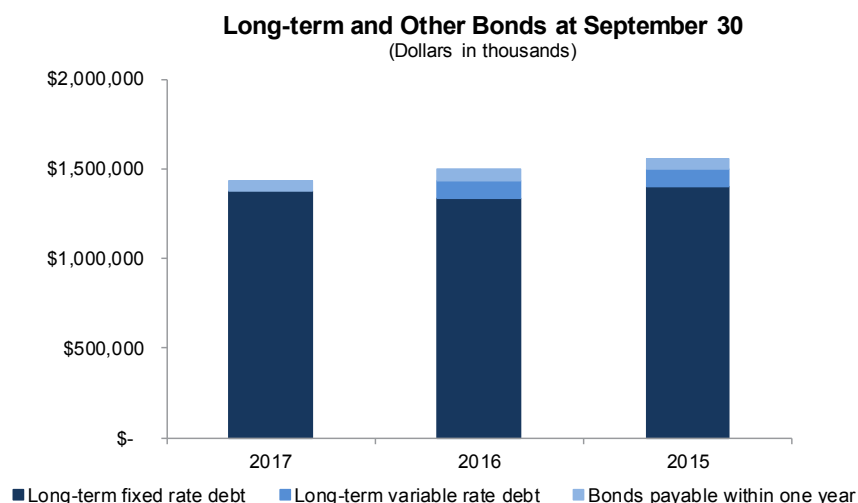
Other assets: Other assets increased \$17.7 million from the prior year due to the deferral of \$20.9 million related to storm restoration activities from Hurricanes Matthew and Irma, which OUC anticipates to recover from FEMA. In April 2017, the Board approved a regulatory action to defer a portion of residual interest rate swap valuation of \$11.9 million to align with the life of the outstanding bonds and the maturity period of the interest rate swap. These increases were offset by the planned recognition of deferred pension and other post-employment benefit (OPEB) costs of \$18.5 million.

Deferred outflows of resources: In 2017, Deferred outflows of resources decreased by \$58.2 million. The change was due to market valuation fluctuations and a partial termination of an interest rate swap of \$33.1 million. In addition, systematic recognition of other regulatory assets and fuel hedge valuation changes of \$20.3 million and \$3.9 million, respectively, contributed to the change.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liabilities

Long-term debt: In 2017, Long-term debt increased \$1.3 million as compared to 2016. The primary driver of this change was the issuance of the Series 2017A Bonds in the amount of \$98.4 million, refunding the Series 2011A *Windows* Bonds previously recognized as a current liability under the heading of Payables from current assets. These increases were offset by scheduled bond maturities of \$58.4 million and systematic amortization of bond-related premiums of \$17.4 million. In addition, Fair valued derivative instruments decreased \$11.7 million due to market valuation changes and \$9.6 million due to the partial termination of the interest rate swap agreement underlying the Series 2011A *Windows* Bonds.



Consistent with 2016 and 2015, at September 30, 2017, OUC had a credit rating of “AA” from both Standard & Poor’s and Fitch Ratings and a rating of “Aa2” from Moody’s Investors Service.

Current liabilities: Current liabilities decreased \$73.5 million in 2017 as compared to 2016. In February 2017, the Series 2011A *Windows* Bonds in the amount of \$98.4 million, were refunded with the Series 2017A Bonds, included under the heading of Long-term debt. In addition, there was a decrease in the short-term fuel hedge derivative losses of \$1.7 million. Offsetting these decreases were higher supplier payables of \$26.4 million, as a result of outstanding invoices for Hurricane Irma restoration costs.

Other liabilities and credits: Other liabilities were \$48.8 million lower than that of 2016. The change was primarily driven by a decrease in the pension and OPEB liabilities and long-term fuel hedge derivatives of \$47.7 million as a result of market valuation fluctuations. Additionally, unapplied contributions in aid of construction decreased \$3.5 million. These variances were offset by an increase in the asset retirement liability related to St. Lucie Unit 2 (SL2) of \$1.7 million.

Deferred inflows of resources: Deferred inflows of resources decreased \$0.5 million in 2017. The change was due to the continued systematic recognition of deferred gains on sale to offset depreciation expenses for Stanton Energy Center Unit A (SEC A) of \$8.3 million and the planned use of fuel stabilization of \$4.1 million. In addition, the Board approved the recognition of regulatory credits to mitigate one-time costs associated with the implementation of the CC&B system and unanticipated Hurricanes Matthew and Irma storm restoration costs of \$1.4 million and \$5.9 million, respectively. These decreases were offset by an increase in unrealized pension and OPEB gains of \$18.8 million due to market valuation changes. Additionally, higher than expected water revenues of \$1.5 million were deferred in 2017 as a result of Board action.

2016 Compared to 2015

Assets

Utility plant, net: Utility plant, net increased \$34.5 million inclusive of accumulated depreciation. Current year plant additions were \$153.6 million. The increase was primarily due to capital acquisitions for major projects including the completion of several large transmission line upgrades and the interconnection requirements for the delivery of landfill gas to OUC. Additionally, several technology projects in process at the close of 2016 contributed to the increase, including the CC&B upgrade scheduled to be operational in 2017. Capital additions were offset by systematic depreciation charges of \$121.0 million.

Restricted and internally designated assets: Restricted and internally designated assets of \$625.3 million were \$15.0 million higher than prior year. Internally designated funds increased \$27.6 million due to a rise in fuel stabilization funds, the designation of funds related to the SL 2 asset retirement obligation (ARO) and an increase in customer-provided system development funds and deposits. Designated assets also increased due to the Board-approved deferral of \$13.0 million as a result of higher than expected resale electric revenues. The change was offset by the final construction fund release from the Series 2015A Bonds of \$24.7 million. Additionally, OUC transferred decommissioning funds of \$13.5 million to Duke Energy in exchange for a payment of \$12.6 million as a result of the Crystal River Unit 3 (CR 3) plant closure settlement agreement. The settlement payment of \$12.6 million was included on the Statements of Net Position as Internally designated funds.

Current assets: Current assets of \$251.4 million were \$32.1 million lower than prior year. The decrease was primarily due to lower fuel for generation of \$14.6 million as a result of a decrease in coal pricing and a lower supply of coal on hand and lower outstanding participant receivables related to capital reimbursements of \$8.3 million. Additionally, Prepaid and other expenses decreased as a result of lower fuel hedge collateral deposits of \$10.1 million, offset by increased interest rate hedge collateral requirements of \$3.2 million.

Other assets: Other assets increased \$42.2 million from the prior year. Effects of implementing GASB Statement No. 75 for OPEB plans were to be applied to the Statement of Net Position in the year of implementation as a reduction to Net position. GASB Statement No. 75 guidance required that these costs be adjusted to beginning Net position as of October 1, 2015. To ensure recovery of these OPEB costs through rates, the Board approved a regulatory action to defer \$65.1 million, as permitted under GASB Statement No. 62. Additionally, an increase in long-term service payments for generation facilities at the Stanton Energy Center of \$13.1 million contributed to the increase. These increases were offset by the write-down of the CR 3 deferred asset retirement obligation of \$16.5 million, as a result of the settlement agreement, and planned regulatory asset amortization of \$18.3 million. As part of the implementation of GASB Statement No. 85, unrecognized goodwill assets of \$1.8 million were reclassified as Deferred outflows of resources.

Deferred outflows of resources: In 2016, Deferred outflows of resources increased by \$70.5 million. The increase was primarily due to unrealized pension adjustments of \$36.4 million as a result of fluctuations in the market and actuarial assumption changes. In addition, the deferral of unrealized OPEB plan contributions and actuarial experience variances of \$21.8 million, as part of the GASB Statement No. 75 implementation contributed to the change. Unamortized loss on refunded bonds increased \$16.1 million, as a result of the defeasance of the Series 2006, 2009A and 2009B Bonds. In December 2015, Florida Power & Light, the owner-operator of SL 2, provided an updated ARO valuation which required a \$4.2 million increase in the fair value retirement obligation asset. These increases were offset by the systematic amortization of refunded bond losses of \$7.1 million and derivative valuation changes of \$2.5 million. Unrecognized goodwill assets of \$1.8 million were reclassified as part of the implementation of GASB Statement No. 85 and will continue to be systematically recognized.

Liabilities

Long-term debt: In 2016, Long-term debt decreased \$51.7 million as compared to 2015. The primary drivers of this change were scheduled principal payments of \$60.8 million and the systematic amortization of bond-related premiums of \$19.0 million. These decreases were offset by additional unrecognized premium amounts associated with the issuance of the Series 2016A Bonds in the amount of \$21.4 million. Additionally, Fair value derivative instruments associated with interest rate swap agreements increased \$6.0 million as a result of fluctuating market conditions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Current liabilities: Current liabilities decreased \$10.8 million in 2016 as compared to 2015 as a result of a decrease in outstanding supplier payables, including fuel purchases, and short-term fuel hedge derivative losses in the amounts of \$8.0 million and \$5.7 million, respectively. These variances were offset by increased billings on behalf of state and local governments of \$2.2 million and customer meter deposits of \$1.6 million.

The Series 2011A *Windows* Bonds were issued as variable rate debt, with a monthly reset period, in the *Windows* mode without a third-party liquidity provider. As the underlying agreement provides for a remarketing period of seven months, the opportunity for the bonds to be subject to a mandatory tender requires the classification of the bonds as current liabilities.

Other liabilities and credits: Other liabilities were \$112.9 million higher than that of 2015. As a result of implementing GASB Statement No. 75 for OPEB plans, OUC reported the actuarially computed Net OPEB liability of \$81.2 million as of September 2016. In addition, the Pension liability increased \$40.2 million as a result of market valuation fluctuations. The ARO liability increased \$5.6 million as a result of an updated ARO valuation for SL 2, which required a \$4.2 million increase in the ARO liability, and the systematic accretion of \$1.4 million. Unapplied contributions in aid of construction increased \$4.6 million. These variances were offset by a termination of the ARO in the amount of \$17.6 million for the CR 3 settlement agreement with Duke Energy and a \$2.7 million decrease in the valuation of long-term fuel hedge derivatives.

Deferred inflows of resources: Deferred inflows of resources increased \$20.7 million in 2016. The change was due to an increase in fuel stabilization of \$17.3 million, Board approval to defer \$13.0 million to base rate stabilization and an increase in the valuation of unrecognized fuel hedge derivatives of \$2.6 million. These increases were offset by the continued systematic recognition of other regulatory credits recognized to offset costs at the Stanton Energy Center of \$7.1 million and a decrease in unrealized pension gains of \$5.3 million due to market valuation changes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Statements of Revenues, Expenses and Changes in Net Position

Years ended September 30

(Dollars in thousands)	2017	2016	2015
Operating revenues	\$ 878,649	\$ 865,149	\$ 859,452
Operating expenses	754,314	728,978	723,062
Operating income	124,335	136,171	136,390
Net non-operating expenses	28,175	38,015	39,568
Income before contributions	96,160	98,156	96,822
Contributions in aid of construction	18,642	16,584	16,501
Annual dividend	(59,061)	(55,719)	(53,211)
Increase in net position	55,741	59,021	60,112
Net position - beginning of year	1,285,382	1,226,361	1,166,249
Net position - end of year	\$ 1,341,123	\$ 1,285,382	\$ 1,226,361

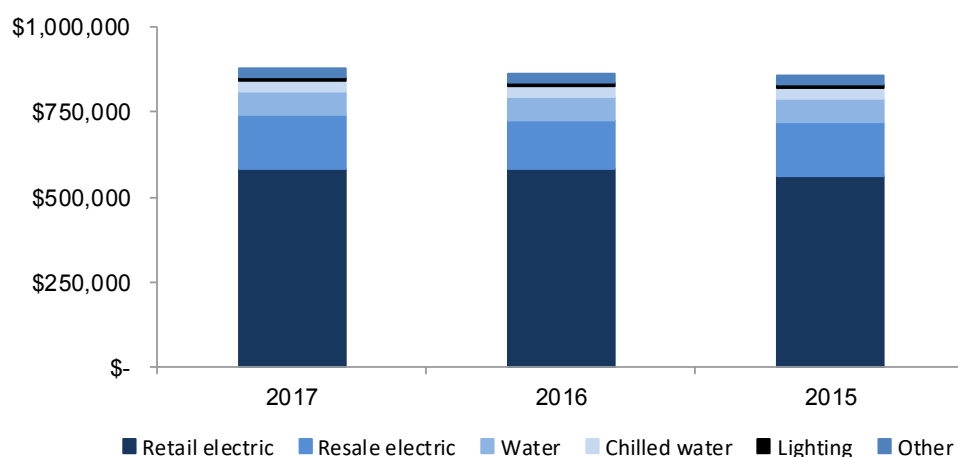
2017 Compared to 2016

Changes in Net Position

Operating revenues: Operating revenues increased \$13.5 million or 1.6 percent as compared to 2016. In 2017 and 2016, the Board approved several regulatory actions for ratemaking purposes that resulted in an overall increase in operating revenues of \$15.3 million. See Note G for further information. Fuel revenues were \$7.5 million higher than those of 2016 as a result of rising natural gas costs offset by the annualized impact of the 9.0 percent fuel rate decrease implemented in July 2016. Water revenues were \$3.4 million higher than prior year due to lower rainfall and a 1.0 percent increase in customer growth. Offsetting these increases were lower retail energy revenues and service fee revenues of \$13.5 million, as a result of milder weather in 2017 and impacts from the implementation of the CC&B system partially mitigated by a 2.0 percent increase in customer growth.

Operating Revenues at September 30

(Dollars in thousands)



Operating expenses: In 2017, Operating expenses were \$25.3 million or 3.5 percent higher than in 2016. The increase was due to higher Unit/department expenses and Fuel for generation and purchased power costs of \$11.4 million and \$7.4 million, respectively. The primary driver of the higher Unit/department expenses were the unexpected costs related to Hurricanes Matthew and Irma of \$8.6 million. Fuel for generation and purchased power costs were higher than prior year primarily due to increased commodity costs, particularly for natural gas resources.

Depreciation and amortization was \$128.9 million, an increase of \$7.9 million or 6.5 percent as compared to 2016. This change resulted from incremental year-over-year systematic depreciation related to the capitalization of new assets and the acceleration of the financial valuation of the SEC A generation facility to align with OUC's clean energy initiatives.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Payments to other governments and taxes were \$1.4 million lower in 2017 as compared to 2016 as a result of decreased retail electric sales.

Net non-operating expenses: Total net non-operating expenses for 2017 were \$9.8 million lower than 2016. The decrease was driven by lower interest expense as a result of bond refunding activity and debt maturities. In addition, the amortization of the deferred gain on sale increased by \$4.8 million to offset the valuation impact of the SEC A accelerated depreciation.

Contributions in aid of construction: Contributions in aid of construction of \$18.6 million for 2017 were \$2.1 million higher than 2016.

2016 Compared to 2015

Changes in Net Position

Operating revenues: Operating revenues increased \$5.7 million or 0.7 percent as compared to 2015. Total retail electric revenues increased \$19.4 million. This increase was driven by a 2.8 percent increase in customer growth and warmer weather partially mitigated by lower fuel revenues as a result of decreased coal and natural gas pricing and a fuel rate decrease of 9.0 percent implemented in July 2016. Water revenues also increased \$2.7 million from the prior year due to customer growth. Total resale revenues decreased \$16.8 million in 2016, inclusive of the Board approved action to defer \$13.0 million. Consistent with retail electric revenues, resale electric revenues earned through the St. Cloud inter-local agreement were \$4.6 million higher than the prior year. In 2016, revenues from wholesale market opportunities were lower than the prior year due to unexpected sales to the City of Lakeland in 2015.

Operating expenses: In 2016, Operating expenses were \$5.9 million or 0.8 percent higher than in 2015. The increase was due to higher Unit/department costs driven by increased benefit costs of \$9.1 million as a result of a decline in market valuations. Power generation costs also rose as a result of an extended outage at the SEC 1 facility and higher minority plant facilities costs of \$7.4 million. Additionally, outside services costs increased \$2.4 million. In 2015, a one-time inventory expense of \$8.1 million was recognized, as a result of an inventory optimization project, and an accrual for a potential FEMA de-obligation of \$2.0 million was reversed.

Depreciation and amortization was \$121.0 million, an increase of \$5.2 million or 4.5 percent as compared to 2015. This change resulted from the write-down of meter data management hardware and software systems to align with the new CC&B system scheduled for implementation in 2017 and incremental year-over-year systematic depreciation related to the capitalization of new assets.

Payments to other governments and taxes were \$4.5 million higher in 2016 as compared to 2015 as a result of the agreed upon revenue-based payment to the City of Orlando.

Offsetting these increases was a decrease in Fuel for generation and purchased power expense of \$15.6 million from continued lower fuel costs.

Net non-operating expenses: Total net non-operating expenses for 2016 were \$1.6 million lower than 2015. The decrease was driven by decreased interest expense as a result of refunding the Series 2006, 2009A and partial 2009B Bonds. The variance was also attributed to the annualized impact of the home warranty program offerings of \$0.5 million, which were introduced in May 2015.

Contributions in aid of construction: Contributions in aid of construction of \$16.6 million for 2016 were in line with those of 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Currently Known Facts or Conditions That May Have a Significant Effect on OUC's Financial Condition or Results of Operations

In 2017, revenues of \$878.6 million were in line with the 2017 Operating Budget. Resale energy revenues were higher than budgeted due to increased demand sales and revenues earned through the St. Cloud inter-local agreement. Additionally, water sales were \$0.5 million higher than expected, net of a Board-approved regulatory deferral of \$1.5 million as a result of lower than normal rainfall. Offsetting these increases were lower retail energy revenues as a result of cooler than normal conditions in Central Florida offset by the Board-approved recognition of \$5.9 million of electric base rate stabilization funds to offset the impacts of Hurricanes Matthew and Irma. The 2018 Operating Budget reflects a slight increase in revenues as the Orlando area continues to grow and the first step in a planned multi-year water rate increase is implemented.

OUC is conducting a study to evaluate an appropriate course of action to continue to leverage its diverse generation portfolio considering the advancement of new clean energy technologies, existing generation facilities, and available commodity fuel supply and transportation infrastructure requirements. With this information, OUC will refine its five-year Capital Plan, including funding for new generation facility opportunities in the amount of \$175.0 million.

As OUC is subject to legislative and regulatory mandates, rulings regarding environmental matters can have a significant impact on operational and financial results. The Environmental Protection Agency (EPA) has promulgated the Mercury Air Toxins Standards rule (MATS) to further regulate mercury emissions. OUC has operated under the requirements of the MATS rule since April 2015. If further requirements are mandated, plant modification costs may be significant. Additionally, the EPA has announced a new carbon dioxide (CO₂) rule under the authority of Section 111(d) of the Clean Air Act which sets carbon pollution reduction goals for states based on the ability of each state to comply or achieve the goals. OUC's intentions are to lessen the impact of any rule requirements and allow a "glide path" that would extend compliance of the rule and allow for the full depreciation of OUC's traditional generation assets. See Note J for further information.

In January 2018, OUC intends to issue the Series 2018A Utility System Revenue Bonds in the amount of \$180.0 million. The bonds will be issued as fixed rate debt with the proceeds used to fund portions of OUC's capital plan for fiscal years 2018 and 2019.

In 2017, OUC accelerated the financial valuation of the SEC A generation facility to align with OUC's clean energy initiatives while exploring the use of emerging renewables. In conjunction with these initiatives in 2018, OUC will begin accelerating the financial valuation of SEC 1 and McIntosh Unit 3 (MAC 3). The impact of \$7.2 million was included in the 2018 budget approved by the Board in August 2017.

In July 2017, Ken Ksionek, General Manager & CEO, announced his retirement, effective February 1, 2018, after leading OUC for the past 14 years. The Board conducted a nationwide search to identify Mr. Ksionek's successor and on November 21, 2017, OUC's Board of Commissioners voted to begin contract negotiations with Clint Bullock, a 28-year veteran of OUC, as the next General Manager & CEO.

Requests for information should be emailed to recordscustodian@ouc.com or (407) 434-2727.

STATEMENTS OF NET POSITION

(Dollars in thousands)	As of September 30	
	2017	2016 (Restated)*
Assets		
Utility plant, net		
Utility plant in service	\$ 4,159,316	\$ 4,013,013
Allowances for depreciation and amortization	(1,940,364)	(1,829,442)
Utility plant in service, net	2,218,952	2,183,571
Land	73,091	72,569
Construction work in progress	159,025	154,216
Total utility plant, net	2,451,068	2,410,356
Restricted and internally designated assets		
Restricted assets	42,176	42,044
Internally designated assets	497,119	583,226
Total restricted and internally designated assets	539,295	625,270
Current assets		
Cash and investments	39,408	48,026
Customer receivables, net	111,731	75,551
Miscellaneous receivables, net	8,686	3,677
Accrued utility revenue	35,880	36,880
Fuel for generation	24,829	15,440
Materials and supplies inventory, net	37,499	35,425
Accrued interest receivable	2,049	1,747
Prepaid and other expenses	10,772	32,659
Hedging derivative instruments maturing within one year	649	2,040
Total current assets	271,503	251,445
Other assets		
Regulatory assets	194,863	179,910
Other long-term assets	43,553	40,472
Hedging derivative instruments	181	541
Total other assets	238,597	220,923
Total assets	3,500,463	3,507,994
Deferred outflows of resources		
Accumulated decrease in fair value of hedging derivatives	2,098	39,144
Fair value retirement obligation asset	6,576	6,833
Unrealized pension contributions and losses	46,313	55,047
Unrealized other post-employment benefits contributions and losses	17,777	21,761
Goodwill	1,101	1,834
Unamortized loss on refunded bonds	46,874	54,368
Total deferred outflows of resources	120,739	178,987
Total assets and deferred outflows of resources	\$ 3,621,202	\$ 3,686,981

See Notes to the Financial Statements for additional information.

*Details related to the restatement are included in Note B.

STATEMENTS OF NET POSITION

(Dollars in thousands)	As of September 30	
	2017	2016 (Restated)*
Liabilities		
Current liabilities		
Payable from restricted and designated assets		
Current portion of long-term debt	\$ 58,385	\$ 60,765
Accrued interest payable on notes and bonds	28,790	24,905
Customer meter deposits	56,991	56,521
Total payable from restricted and designated assets	144,166	142,191
Payable from current assets		
Accounts payable and accrued expenses	78,860	52,476
Billings on behalf of state and local governments	19,032	19,394
Compensated absences and accrued wages	14,004	14,813
Accrued governmental payments	2,901	2,903
Accrued swap payables	125	687
Other bonds payable	-	98,360
Hedging derivative instruments maturing within one year	1,395	3,111
Total payable from current assets	116,317	191,744
Total current liabilities	260,483	333,935
Other liabilities and credits		
Pension liability	124,057	133,917
Net other post-employment benefits liability	45,545	81,189
Asset retirement obligation and other liabilities	80,108	81,224
Hedging derivative instruments	703	2,886
Total other liabilities and credits	250,413	299,216
Long-term debt, net		
Bond and note principal	1,378,640	1,338,665
Unamortized premium	86,858	104,279
Fair value of derivative instruments	11,865	33,147
Total long-term debt, net	1,477,363	1,476,091
Total liabilities	1,988,259	2,109,242
Deferred inflows of resources		
Unrealized pension gains	10,047	13,282
Unrealized other post-employment benefits gains	22,399	373
Accumulated increase in fair value of hedging derivatives	1,713	2,581
Regulatory credits	256,271	274,553
Unamortized gain on refunded bonds	1,390	1,568
Total deferred inflows of resources	291,820	292,357
Net position		
Net investment in capital assets	1,048,799	945,883
Unrestricted	292,324	339,499
Total net position	1,341,123	1,285,382
Total liabilities, deferred inflows of resources and net position	\$ 3,621,202	\$ 3,686,981

See Notes to the Financial Statements for additional information.

*Details related to the restatement are included in Note B.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(Dollars in thousands)	Years ended September 30	
	2017	2016
Operating revenues		
Retail electric revenues	\$ 580,361	\$ 583,096
Resale electric revenues	158,577	141,805
Water revenues	71,371	68,930
Chilled water revenues	30,752	30,524
Lighting revenues	13,067	13,198
Other revenues	24,521	27,596
Total operating revenues	878,649	865,149
Operating expenses		
Fuel for generation and purchased power	308,844	301,483
Unit/department expenses	264,138	252,733
Depreciation and amortization	128,944	121,019
Payments to other governments and taxes	52,388	53,743
Total operating expenses	754,314	728,978
Operating income	124,335	136,171
Net non-operating expenses		
Interest income	4,551	5,265
Other income, net	10,784	10,453
Amortization of gain on sale of assets	8,386	3,628
Interest expense	(51,896)	(57,361)
Total net non-operating expenses	(28,175)	(38,015)
Income before contributions	96,160	98,156
Contributions in aid of construction	18,642	16,584
Annual dividend	(59,061)	(55,719)
Increase in net position	55,741	59,021
Net position - beginning of year	1,285,382	1,226,361
Net position - end of year	\$ 1,341,123	\$ 1,285,382

See Notes to the Financial Statements for additional information.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Years ended September 30	
	2017	2016
Cash flows from operating activities		
Cash received from customers	\$ 834,122	894,085
Cash paid for fuel and purchased power	(308,101)	(290,858)
Cash paid for unit/department expenses excluding salaries and benefits	(62,124)	(74,936)
Cash paid for salaries and benefits	(174,890)	(171,864)
Cash paid for storm recovery	(14,365)	-
Cash paid to other governments and taxes	(52,390)	(53,709)
Net cash provided by operating activities	222,252	302,718
Cash flows from non-capital related financing activities		
Dividend payment	(59,061)	(55,719)
Pension bond interest payments	(636)	(865)
Pension bond principal payments	(4,515)	(4,300)
Build America Bond interest subsidy received	3,732	3,694
Net cash used in non-capital related financing activities	(60,480)	(57,190)
Cash flows from capital related financing activities		
Utility plant net of contributions in aid of construction	(164,715)	(134,841)
Debt interest payments	(55,917)	(69,798)
Collateral deposits	16,800	(3,200)
Principal payments and refunding costs on long-term debt	(164,913)	(327,760)
Debt issuances	108,663	279,134
Debt issuance expense	(1,376)	(1,170)
Net cash used in capital related financing activities	(261,458)	(257,635)
Cash flows from investing activities		
Proceeds from sales and maturities of investment securities	570,009	558,397
Gain on sale of investments	41	391
Purchases of investment securities	(413,663)	(608,727)
Investments and other income received	7,345	20,731
Net cash provided by/(used) in investing activities	163,732	(29,208)
Net increase/(decrease) in cash and cash equivalents	64,046	(41,315)
Cash and cash equivalents - beginning of year	115,733	157,048
Cash and cash equivalents - end of year	\$ 179,779	\$ 115,733
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 124,335	\$ 136,171
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization of plant charged to operations	128,944	121,019
Depreciation and amortization charged to fuel for generation and purchased power	4,711	3,856
Depreciation of vehicles and equipment charged to unit/department expenses	1,755	1,388
Changes in assets and liabilities		
(Increase)/Decrease in receivables and accrued revenue	(45,655)	9,813
(Increase)/Decrease in fuel and materials and supplies inventories	(3,745)	19,214
Increase/(Decrease) in accounts payable	13,445	(7,556)
Increase/(Decrease) in deposits payable and liabilities	3,045	(1,771)
(Decrease)/Increase in stabilization and deferred credits	(4,583)	20,584
Net cash provided by operating activities	\$ 222,252	\$ 302,718
Reconciliation of cash and cash equivalents		
Restricted and internally designated equivalents	\$ 47,470	\$ 28,273
Cash and investments	45,360	2,089
Debt service and related funds	86,949	85,371
Cash and cash equivalents - end of year	\$ 179,779	\$ 115,733
Non-cash investing, capital and financing activities		
Increase in donated utility plant assets	\$ 4,019	\$ 5,579
Decrease in fair value of investments	\$ (2,298)	\$ (36)
Increase in accounts payable related to utility plant purchases	\$ (6,580)	\$ (88)
Increase in fair value of retirement obligation asset	\$ -	\$ 4,202

See Notes to the Financial Statements for additional information.

NOTES TO THE FINANCIAL STATEMENTS

Note A – The Organization

Orlando Utilities Commission (OUC) was created in 1923 by a Special Act of the Florida Legislature as a statutory commission of the State of Florida. The Act confers upon OUC the rights and powers to set rates and charges for electric and water. OUC is responsible for the acquisition, generation, transmission and distribution of electric and water services to its customers within Orange and Osceola Counties. In addition, OUC provides chilled water and lighting services.

OUC's governing Board (the Board) consists of five members including the Mayor of the City of Orlando. Members serve without compensation and with the exception of the Mayor, who is an ex-officio member of the Board, may serve no more than two full consecutive four-year terms.

Note B – Summary of Significant Accounting Policies

Basis of presentation: The financial statements are presented in conformity with generally accepted accounting principles for enterprise funds as prescribed by the Governmental Accounting Standards Board (GASB). The accounting records are maintained in accordance with the accounting principles and methods prescribed by the Federal Energy Regulatory Commission (FERC) with the exception of Contributions in aid of construction which are recorded in accordance with the standards prescribed by GASB.

OUC is a regulated enterprise and, as such, applies GASB Statement No. 62 *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements"* (Statement No. 62). Under this guidance, certain revenues and expenses are recognized and deferred in accordance with rate actions of the Board.

Reporting entity: OUC meets the criteria of an "other stand-alone government" as defined in GASB Statement No. 14, *"The Financial Reporting Entity"* and GASB Statement No. 39, *"Determining Whether Certain Organizations are Component Units."*

OUC has undivided interests in several power generation facilities which are operated through participation agreements and are described in Note D. Title to the property is held in accordance with the terms defined in each agreement and, as such, each party is obligated for its contractual share of operations. There are no separate entities or organizations associated with these agreements.

Measurement focus, basis of accounting, and financial statement presentation: OUC reports operating revenues and expenses separately from net non-operating expenses and contributions in aid of construction. Operating revenues and expenses generally result from producing and delivering utility services in the forms of electric, water, chilled water and lighting. The principal operating revenues are charges to retail and wholesale customers and are recorded net of the provision for doubtful accounts. Operating expenses include fuel and purchased power, unit/department expenses, taxes, and depreciation on capital assets. Net non-operating expenses include financial and investment activities. Contributions in aid of construction are primarily comprised of impact fees assessed for the future expansion and development of OUC's water system and developer contributions to OUC's electric and water systems above the required obligation-to-serve levels.

Setting of rates: According to the existing laws of the State of Florida, the five Board members of OUC act as the regulatory authority for the establishment of electric and water rates. Electric rates are set in accordance with the "rate structures" established by the Florida Public Service Commission (FPSC), as they have the jurisdiction to regulate the electric "rate structures" of municipal utilities in Florida. A "rate structure" is defined as the rate relationship between customer class and among customers within rate classes and is distinguishable from the total amount of revenue requirements a utility may receive from rates.

Periodically, OUC performs a rate adequacy study to determine the electric base and fuel revenue requirements. Based on this study, current cost-of-service studies, and regulations of the FPSC regarding electric rate structures, OUC develops the electric rate schedules. Prior to the implementation of any rate change, OUC notifies customers individually, convenes a public workshop, presents the rates to the Board for approval and files the proposed tariffs with the FPSC. Water rate requirements are studied and prepared in a similar manner excluding filing a notification with the FPSC.

Note B – Summary of Significant Accounting Policies (continued)

In 2017, there were no electric rate changes. In 2016, the Board approved a rate decrease for retail electric fuel, effective July 1, 2016. This action resulted in an overall 9.0 percent decrease across all customer classes. There are no proposed electric rate changes for 2018.

There were no water rate changes in 2017 or 2016. In August 2017, the Board approved a multi-year water rate increase that will phase-in over a period up to four years. In March 2018, a 4.0 percent increase will be implemented across all customer classes. Water rates were last changed in 2009.

Budgets: Revenue and expense budgets are prepared on an annual basis in accordance with OUC's budget policy and bond resolutions and submitted to the Board for approval prior to the beginning of the fiscal year. OUC's annual operating budget and capital plan are approved and adopted, respectively, in the month of August preceding the budgeted fiscal year. The legal adoption of OUC's operating budget and capital plan are not required.

In accordance with OUC's budget policy and bond resolutions, actual revenues and expenses are compared to the approved budget by operating unit line item and reported to the Board monthly.

Utility plant: Utility plant is stated at historical cost with the exception of impaired assets recorded in accordance with GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." See Note C for more information.

Historical utility plant costs include the costs of contract work, labor, materials and allocated indirect charges for equipment, supervision and engineering. Interest expense is not a component of OUC's historical utility plant costs.

Assets are subject to capitalization if they have a useful life of at least two years, a unit cost of at least \$1,000 with the exception of bulk asset purchases which must have a minimum per-unit cost of \$500 and a total purchase amount of at least \$75,000. Assets are depreciated systematically using the straight-line method over the estimated useful life, considering FERC guidelines or the license period of the asset. OUC periodically conducts a depreciation study to ensure that depreciation rates properly reflect its level of maintenance as well as its comparability with industry norms. The last study was completed in 2013.

The cost of electric or water utility plant assets retired, together with removal costs less salvage, are charged to accumulated depreciation. In addition, when a utility plant asset constituting an operating unit or system is sold or disposed of and the net proceeds are at least \$0.5 million, the gain on the sale or disposal is deferred and proceeds, if applicable, are placed in the renewal and replacement fund in accordance with the Board-approved Policy for Accounting Treatment of Disposal of Capital Assets.

The consolidated average annual depreciation rate, inclusive of impairment expense, was 3.3 percent and 3.1 percent for 2017 and 2016, respectively. Depreciation is calculated using the following estimated lives:

Electric	3 – 60 years
Water	3 – 75 years
Chilled Water	5 – 50 years
Lighting	20 years
Common	3 – 40 years

In addition, nuclear fuel is included in utility plant and amortized to Fuel for generation and purchased power as it is used.



NOTES TO THE FINANCIAL STATEMENTS

Note B – Summary of Significant Accounting Policies (continued)

Cash, cash equivalents and investments: Cash and cash equivalents are reported under the headings of Restricted and internally designated assets and Current assets. OUC's cash and cash equivalents include all authorized instruments purchased with an original maturity date of three months or less including all investments in money market funds. Premiums and discounts on investments are amortized using the effective interest method.

Investments having maturities of greater than one year at the time of purchase are reported at fair value and those with maturities of less than one year at the time of purchase are reported at amortized book value.

Realized and unrealized gains and losses for all investments except those executed in conjunction with a bond refunding are included in Interest income on the Statements of Revenues, Expenses and Changes in Net Position. Realized gains associated with a bond refunding are included as a component of the unamortized amount on refunding for which none were recognized in 2017 and 2016. The following summarizes the realized gains included as a component of Interest and other income as well as the associated prior year unrealized gains at September 30:

<u>(Dollars in thousands)</u>	<u>2017</u>		<u>2016</u>	
Realized gains	\$	41	\$	391
Prior year unrealized gains	\$	238	\$	648

Restricted and internally designated assets: Funds classified as restricted assets represent cash, cash equivalents and investments which were designated by law, bond requirements or regulatory statutes. Funds classified as Internally designated assets also represent cash, cash equivalents and investments for which OUC has a customer obligation or the Board has taken action to designate.

Accounts receivable: OUC recognizes revenue and the associated Customer receivables, net of the allowance for doubtful accounts, on a cyclical basis in the period in which it was earned. The allowance for doubtful accounts was calculated based upon OUC's historical experience with collections and current energy and local economic market conditions. Bad debt expenses for estimated doubtful accounts were recorded as a reduction of operating revenues in the Statements of Revenues, Expenses and Changes in Net Position.

The net customer receivable balance of \$111.7 million and \$75.6 million at September 30, 2017 and 2016 includes an allowance for doubtful accounts of \$15.0 million and \$11.2 million, respectively, and the impacts of the billing interval for metered service. Included in net customer receivables were Billings on behalf of the State and other local governments of \$14.7 and \$8.6 million at September 30, 2017 and 2016, inclusive of an allowance for doubtful accounts of \$2.1 million and \$1.5 million, respectively. Agency billings are not reflected in the Statements of Revenues, Expenses and Changes in Net Position.

As of September 30, 2017 and 2016, Miscellaneous receivables, including participation billing, were \$8.7 million and \$3.7 million, with a net allowance for doubtful accounts of \$0.7 million and \$0.6 million for the years ended September 30, 2017 and 2016.

Bad debt expenses were \$3.3 million and \$1.8 million for the years ended September 30, 2017 and 2016, respectively. Impacts from the CC&B system implementation in 2017 were anticipated and partially offset by the recognition of the Board approved use of base rate stabilization funds. See Note G for further information.

NOTES TO THE FINANCIAL STATEMENTS

Note B – Summary of Significant Accounting Policies (continued)

All receivables are anticipated to be collected within an operating cycle and are reported as current assets at September 30:

<u>(Dollars in thousands)</u>	<u>2017</u>	<u>2016</u>
Customer receivables, net		
Customer receivables	\$ 89,282	\$ 57,755
Agency receivables	14,686	8,573
Wholesale receivables	7,763	9,223
Total customer receivables, net	111,731	75,551
Miscellaneous receivables, net	8,686	3,677
Total accounts receivable, net	\$ 120,417	\$ 79,228

Accrued utility revenue: This amount represents services provided to retail customers but not billed at the end of the fiscal year for electric, water, chilled water and lighting. Accrued utility revenues at September 30, 2017 and 2016 were \$35.9 million and \$36.9 million, respectively, including unbilled electric fuel revenues in the amount of \$10.5 million and \$10.8 million, respectively.

Fuel for generation: Fuel oil and coal were reported at current cost, based on market fuel indices. Fuel for generation at September 30, 2017 and 2016 was \$24.8 million and \$15.4 million, respectively.

Materials and supplies inventory: Materials and supplies were reported at current cost based on contractual material and supply agreements. Materials and supplies inventory, net at September 30, 2017 and 2016 was \$37.5 million and \$35.4 million, including an allowance for obsolescence of \$9.6 million and \$9.5 million, respectively.

Prepaid and other expenses: Prepaid expenses represent costs that are anticipated to be recognized in the Statements of Revenues, Expenses and Changes in Net Position in the near future, including service agreement costs and margin deposits. Margin deposits at September 30, 2017 and 2016 were \$5.8 million and \$26.7 million, respectively, inclusive of the impacts of the partial interest rate swap termination.

NOTES TO THE FINANCIAL STATEMENTS

Note B – Summary of Significant Accounting Policies (continued)

Hedging derivative instruments: All effective derivative instruments are included on the Statements of Net Position as either an asset or liability measured at fair value. Changes in the fair value of the hedging derivative instruments during the year were deferred and recognized in the period in which the derivative was settled. The settlement of fuel and financial related hedging derivative instruments was included as part of Fuel for generation and purchased power costs and Interest expense, respectively, in the Statements of Revenues, Expenses and Changes in Net Position.

Fuel related derivative transactions for natural gas and crude oil are executed in accordance with OUC's internally established Energy Risk Management Oversight Committee (ERMOC) whose primary objective is to minimize exposure to energy price volatility for cash flow and control purposes. ERMOC has a defined organizational structure and responsibilities, which include approving all brokerage relationships, counterparty credit worthiness and overall program compliance. In addition, the Energy Risk Management Program incorporates specific volume and financial limits for natural gas derivatives which begin at 40.0 percent of the approved fuel budget of the current year (the first year) and graduate down in 5.0 percent increments to 20.0 percent of the forecasted annual fuel budget for the fifth year. Oil derivatives are hedged based on the expected volume of oil consumed in conjunction with coal transportation costs.

Financial related derivatives are executed to modify interest rates on outstanding debt. These agreements are prepared in accordance with OUC's Treasury policy, presented to the Finance Committee and approved by the Board. Periodically, as defined by the underlying agreement, the net differential between the fixed and variable rate is exchanged with the counterparty and included as a component of Interest expense. Financial-related derivatives terminated in conjunction with a bond refunding are deferred and included as a component of Unamortized gain or loss on refunded bonds as a Deferred inflow or outflow of resources, respectively. Financial-related derivatives, which are terminated prior to their original maturity date and are not terminated in conjunction with a bond refunding, are recognized as a component of Interest expense unless otherwise authorized by Board action.

Current portion of long-term debt: Bonds payable within one year represent scheduled principal payments due within the upcoming year, in accordance with the serial requirements of the bond agreements. Funds to satisfy these scheduled principal payments are segregated and included as a component of Internally designated assets.

Accounts payable and accrued expenses: Accounts payable and accrued expenses include liabilities incurred in conjunction with fuel and purchased power costs, supplier payables and accrued expenses for self-insurance. The following summarizes the significant payable balances included under this heading at September 30:

(Dollars in thousands)	2017	2016
Supplier payables	\$ 45,420	\$ 26,345
Fuel and purchased power payables	26,743	18,986
Accrued self-insurance expenses	2,856	2,770
Other accounts payable and accrued expenses	3,841	4,375
Total accounts payable and accrued expenses	\$ 78,860	\$ 52,476

Other accounts payable and accrued expenses under this heading include taxes billed on behalf of various governmental authorities and pollution remediation. Pollution remediation of \$1.7 million in both September 30, 2017 and 2016, was recorded in accordance with GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations."

Other Post-Employment Benefits Plan: For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Orlando Utilities Commission Other Post-Employment Benefits Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position were determined on the same basis as they were reported by the Plan. For this purpose, the Plan recognized benefit payments when due and payable in accordance with the benefit terms. Investments were reported at fair value, except for money market and alternative investments, which were reported at amortized cost.

Note B – Summary of Significant Accounting Policies (continued)

Defined Benefit Plan: For purposes of measuring the pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Orlando Utilities Commission Pension Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position were determined on the same basis as they were reported by the Plan. For this purpose, the Plan recognized benefit payments (including refunds of employee contributions) when due and payable in accordance with the benefit terms. Investments were reported at fair value, except for money market and alternative investments, which were reported at amortized cost.

Compensated absences and accrued wages: OUC accrues vacation leave for all employees annually on January 1. Sick leave is earned annually on the employee's anniversary date and is accrued based on a ratio of sick leave taken to sick leave earned. This ratio is then used to determine an employee's payout at either the retirement rate of 50.0 percent or termination rate of 25.0 percent. No payout is available for employees with less than two years of employment. Compensatory time is also included in the liability and is accrued when earned. At September 30, 2017 and 2016, the estimated liability for Compensated absences and accrued wages was \$14.0 million and \$14.8 million, respectively.

Other bonds payable: Variable rate bonds with final maturities extending past one year that are not supported by an underlying liquidity facility are classified as payable from current assets.

Asset retirement obligation and other liabilities: Included in this amount are the asset retirement obligation (ARO) costs associated with OUC's participant ownership interest in its nuclear generation facility, the Stanton Energy Center landfill and advances received from customers for construction commitments.

The ARO associated with the Florida Power & Light St. Lucie Unit 2 (SL 2) facility was determined based on the December 2015 decommissioning report approved by the Florida Public Service Commission. OUC's minority share of the SL 2 facility is 6.09 percent, and decommissioning closure costs are estimated to be \$52.9 million, in 2015 dollars. This liability continues to be systematically accreted over a life consistent with the plant's license period and at September 30, 2017 and 2016 was \$54.9 million and \$53.8 million, respectively. The operational license expiration date for SL 2 is 2043. As of September 30, 2017 and 2016, nuclear generation facility decommissioning funds of \$42.2 million and \$42.0 million, respectively, were restricted to pay for OUC's minority share of the SL 2 ARO.

To account for the Stanton Energy Center landfill closure and post closure costs the proportionate closure and post-closure costs of \$0.6 and \$0.3 million as of September 30, 2017 and 2016, respectively, were recognized. OUC expects to recognize the remaining estimated closure and post-closure costs of \$2.3 million over the remaining useful life of the landfill.

Unamortized discount/premium: Unamortized discount/premium on outstanding bonds was recorded in the year of issuance. Amortization of these amounts was recorded using the bonds outstanding method based on the individual serial maturities and was presented net of accumulated amortization.

Contributions in aid of construction: Developer and customer funds received for system development fees and assets were recorded as Contributions in aid of construction in the period in which they were received on the Statements of Revenues, Expenses and Changes in Net Position.

Net positions: OUC classifies net position into three components as follows:

- **Net investment in capital assets:** This component of net position consists of capital assets, net of accumulated depreciation reduced by the outstanding debt balances used to acquire or construct these assets.
- **Restricted:** This component consists of net position with external constraints placed on their use. Constraints include those by debt indentures, grants or laws and regulations of other governments and those established by law through constitutional provisions or enabling legislation.
- **Unrestricted:** This component of net position consists of net position that is not included in the definition of "Net investment in capital assets" or "Restricted."

NOTES TO THE FINANCIAL STATEMENTS

Note B – Summary of Significant Accounting Policies (continued)

Implementation of New GASB Accounting Standards

In 2017, OUC adopted GASB Statement No. 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 & 68,” (Statement No. 73). Statement No. 73 establishes the accounting and financial approach for all defined benefit pensions that are not subject to the guidelines established by Statement No. 68. Additionally, the statement defines the accounting treatment for the assets accumulated for purposes of providing those pensions. This statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources, and expenses. For comparative purposes, the Statement of Net Position at October 1, 2015 was restated for this change. See the chart below for details of the restatement.

In June 2015, GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,” (Statement No. 75) was issued. Statement No. 75 replaces the requirements of GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions,” as amended and GASB Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.” This statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses for governments that offer OPEBs. For OPEBs, this statement identifies the methods and assumptions that should be used to project benefit payments, and discounts projected benefit payments to their actuarial present value. Note disclosures and required supplementary information requirements about OPEBs are also addressed. For comparative purposes, the Statement of Net Position at October 1, 2015 was restated for this change. See the chart below for details of the restatement.

OUC early adopted GASB Statement No. 85, “Omnibus 2017,” (Statement No. 85). Statement No. 85 amends the requirements of various GASB Statements. This statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits. The application of this statement established accounting and financial reporting standards that required the reclassification of goodwill, previously reported under the heading Other long-term assets to that of Deferred outflows of resources. For comparative purposes, the Statement of Net Position at October 1, 2015 was restated for this change. See the chart below for details of the restatement.

(Dollars in thousands)	September 30, 2015	GASB 75	Restated October 1, 2015
Assets			
Other assets			
Regulatory assets	\$ 147,516	\$ 65,089	\$ 212,605
Net other post-employment benefits assets	628	(307)	321
Deferred outflows of resources			
Unrealized OPEB contributions and losses	-	14,117	14,117
Liabilities			
Other liabilities and credits			
Net other post-employment benefits liability	-	(77,381)	(77,381)
Asset retirement obligation and other liabilities	(88,084)	(1,518)	(89,602)
Net Position	1,226,361	-	1,226,361

NOTES TO THE FINANCIAL STATEMENTS

Note B – Summary of Significant Accounting Policies (continued)

(Dollars in thousands)	September 30, 2016	GASB 73	GASB 75	GASB 85	October 1, 2016 (Restated September 30, 2016)
Assets					
Other assets					
Regulatory assets	\$ 117,268	\$ 1,056	\$ 61,586	\$ -	\$ 179,910
Net other post-employment benefits assets	307		(307)		-
Other long-term assets	42,306			(1,834)	40,472
Deferred outflows of resources					
Unrealized pension contributions and losses	58,361	50			58,411
Unrealized OPEB contributions and losses	-		21,761		21,761
Goodwill	-			1,834	1,834
Liabilities					
Other liabilities and credits					
Pension liability	(132,811)	(1,106)			(133,917)
Net other post-employment benefits liability	-		(81,189)		(81,189)
Asset retirement obligation and other liabilities	(79,746)		(1,478)		(81,224)
Deferred inflows of resources					
Unrealized OPEB gains	-		(373)		(373)
Net Position	1,285,382	-	-	-	1,285,382

The Statement of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2016 was not impacted by the implementation of Statement No. 73, 75 and 85 as a result of the regulatory action.

OUC also early adopted GASB Statement No. 86, “*Certain Debt Extinguishment Issues*,” (Statement No. 86). The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. The statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished. This statement has no effect on the financial statements.

Future GASB Accounting Standard Implementations

In January 2017, GASB Statement No. 84, “*Fiduciary Activities*,” (Statement No. 84) was issued. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. Note disclosures and required supplementary information requirements about fiduciary activities are also addressed. This statement is under review and management has yet to determine the impact, if any, to the financial statements.

In June 2017, GASB Statement No. 87, “*Leases*,” (Statement No. 87) was issued. Statement No. 87 requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as deferred outflows or inflows of resources based on the payment provisions of the contract. This statement is under review and management has yet to determine the impact, if any, to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note C – Utility Plant

Activities for the years ended September 30, 2017 and 2016 were as follows:

Utility Plant (Net) (Dollars in thousands)	2016	Additions	Transfers	Retirements/ reclassifications	2017
Utility plant					
Electric	\$ 3,027,391	\$ 17,233	\$ 82,268	\$ (15,992)	\$ 3,110,900
Water	575,682	4,385	19,621	(96)	599,592
Chilled Water	116,669	-	179	-	116,848
Lighting	79,009	-	9,840	(658)	88,191
Shared/Customer Service	214,262	1,523	42,192	(14,192)	243,785
Total utility plant	4,013,013	23,141	154,100	(30,938)	4,159,316
Accumulated depreciation					
Electric	(1,403,520)	(83,389)	-	(2,631)	(1,489,540)
Water	(220,349)	(14,904)	-	97	(235,156)
Chilled Water	(45,722)	(4,343)	-	713	(49,352)
Lighting	(37,552)	(4,217)	-	(74)	(41,843)
Shared/Customer service	(122,299)	(16,283)	-	14,109	(124,473)
Total accumulated depreciation	(1,829,442)	(123,136)	-	12,214	(1,940,364)
Total depreciable utility plant, net	2,183,571	(99,995)	154,100	(18,724)	2,218,952
Land and other non-depreciable assets	72,569	542	-	(20)	73,091
Construction work in progress	154,216	161,880	(154,100)	(2,971)	159,025
Utility plant, net	\$ 2,410,356	\$ 62,427	\$ -	\$ (21,715)	\$ 2,451,068

Utility Plant (Net) (Dollars in thousands)	2015	Additions	Transfers	Retirements/ reclassifications	2016
Utility plant					
Electric	\$ 2,950,391	\$ 23,786	\$ 95,633	\$ (42,419)	\$ 3,027,391
Water	551,687	6,100	9,855	8,040	575,682
Chilled Water	116,511	-	27	131	116,669
Lighting	73,621	-	5,388	-	79,009
Shared/Customer Service	180,842	2,905	12,019	18,496	214,262
Total utility plant	3,873,052	32,791	122,922	(15,752)	4,013,013
Accumulated depreciation					
Electric	(1,323,757)	(78,031)	(38)	(1,694)	(1,403,520)
Water	(206,573)	(13,869)	-	93	(220,349)
Chilled Water	(42,141)	(4,421)	-	840	(45,722)
Lighting	(33,610)	(3,942)	-	-	(37,552)
Shared/Customer service	(108,509)	(17,850)	38	4,022	(122,299)
Total accumulated depreciation	(1,714,590)	(118,113)	-	3,261	(1,829,442)
Total depreciable utility plant, net	2,158,462	(85,322)	122,922	(12,491)	2,183,571
Land and other non-depreciable assets	72,651	-	-	(82)	72,569
Construction work in progress	144,733	132,425	(122,922)	(20)	154,216
Utility plant, net	\$ 2,375,846	\$ 47,103	\$ -	\$ (12,593)	\$ 2,410,356

NOTES TO THE FINANCIAL STATEMENTS

Note D – Power Generation Facility Operations

Jointly Owned Generation Facilities

OUC operated: OUC maintains fiscal, budgetary and operating control at four power generation facilities for which there are undivided participant ownership interests. These undivided ownership interests are with the Florida Municipal Power Agency (FMPA) and Kissimmee Utility Authority (KUA). Each agreement is limited to the generation facilities and excludes the external facilities. OUC also maintains operational control of a wastewater treatment facility at the Stanton Units 1 and 2 sites through an agreement with Orange County.

Non-OUC operated: OUC maintains an undivided participant interest with Southern Company at the Stanton Energy Center Unit A combined cycle generation facility located at OUC's Stanton Energy Center (SEC), Florida Power & Light at their St. Lucie Unit 2 (SL 2) nuclear generation facility and the City of Lakeland at their MAC 3 coal-fired generation facility. In each of these agreements, fiscal, budgetary and operational controls are not maintained by OUC, with the exception of fuel-related services at Stanton Unit A where OUC retains responsibility as fuel agent through the purchased power agreement term. Funds secured in this role as fuel agent are restricted on the Statements of Net Position and disclosed in Note E.

OUC and non-OUC-operated agreements and the related undivided interests are as follows:

Facility name	Agreement year	Total facility net megawatt capacity	OUC undivided ownership interest	Net OUC megawatt capacity
McIntosh Unit 3 (MAC 3)	1978	364	40.00%	146
St. Lucie Unit 2 (SL 2)	1980	850	6.09%	52
Stanton Unit 1 (SEC 1)	1984	425	68.55%	291
Indian River (IRP - A&B)	1988	76	48.80%	37
Indian River (IRP - C&D)	1990	224	79.00%	177
Stanton Unit 2 (SEC 2)	1991	425	71.59%	304
Stanton Unit A (SEC A)	2001	633	28.00%	177

Asset valuation: Plant balances for SEC 1, SEC 2, MAC 3 and IRP A-D include the cost of common and/or external facilities. At the other plants, participants pay user charges to the operating entity for the cost of common and/or external facilities. User charges paid for SEC A are remitted back to OUC at their proportionate ownership interest of shared facilities.

Allowance for depreciation and amortization of utility plant is determined by each participant based on their proportionate ownership interest and depreciation methodology.

The following is a summary of OUC's recorded gross and net share of each jointly owned power generation facility at September 30:

(Dollars in thousands)	2017			2016		
	Utility plant	Accumulated depreciation	Net book value	Utility plant	Accumulated depreciation	Net book value
SEC 2	\$ 485,171	\$ 248,144	\$ 237,027	\$ 477,300	\$ 233,749	\$ 243,551
SEC 1	398,469	248,384	150,085	379,523	236,045	143,478
MAC 3	197,478	132,580	64,898	195,833	135,300	60,533
SL 2	197,229	91,397	105,832	194,342	89,393	104,949
SEC A	84,979	51,061	33,918	84,845	44,335	40,510
IRP	59,043	46,508	12,535	58,393	44,405	13,988
Total	\$ 1,422,369	\$ 818,074	\$ 604,295	\$ 1,390,236	\$ 783,227	\$ 607,009

Wholly Owned and Operated Generation Facilities

Stanton Unit B (SEC B), a combined cycle generation facility, provides 300 megawatts of generation and is owned and operated by OUC with no undivided participant ownership interests. The net book value of this facility at September 30, 2017 and 2016 was \$209.7 million and \$220.3 million, respectively.

NOTES TO THE FINANCIAL STATEMENTS

Note E – Cash, Cash Equivalents and Investments

OUC maintains a portion of its Cash, cash equivalents and investments in qualified public depository accounts with institutions insured by the Federal Deposit Insurance Corporation or collateralized by a pool of U.S. Governmental securities, per the Florida Security for Public Deposits Act, Chapter 280, of the Florida Statutes as well as other types authorized by the Treasury policy.

Unexpended funds from the sale of bonds, debt service funds, and other special funds are included in the Restricted and internally designated section of the Statements of Net Position. The use of these funds is designated in accordance with applicable debt indentures, Board action, or any other laws and regulations established through legislation.

Securities are recorded at fair value with gains and losses recorded as a component of Interest income in the Statements of Revenues, Expenses and Changes in Net Position. At September 30, 2017 and 2016, the total amounts of deposits and investments were \$578.5 million and \$673.1 million, respectively, on the Statements of Net Position.

The Treasury policy, inclusive of the maximum portfolio weighting, provides management with guidelines to ensure risks associated with these assets are mitigated. The following are the key controls which OUC utilizes to mitigate investment risk:

- **Interest rate risk:** To mitigate this risk, OUC limits maturities based on investment type and credit strength and executes transactions in accordance with the “prudent person” rule requiring the evaluation of current market conditions to ensure overall interest rate risks that might adversely affect the portfolio value are mitigated.
- **Custodial credit risk:** OUC views this type of risk as minimal due to its use of Qualified Public Depositories (QPD) of the State of Florida, Local government investment pools which are backed by securities allowed by law by the State of Florida or money market mutual funds rated at the highest available credit rating for this type of security with a stable net asset value but could be subject to daily mark to market and no later than next day liquidity. OUC had \$106.5 million and \$108.6 million of investments held in money market funds and QPD accounts that were exposed to this risk as of September 30, 2017 and 2016, respectively.
- **Credit risk:** To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, OUC limits investments to those rated, at a minimum, “A-1 / P-1 / F1” or equivalent for commercial paper and “A3 / A-” for medium-term corporate notes by nationally recognized rating agencies.
- **Foreign currency risk:** OUC is not authorized to invest in foreign currency and, as such, is not exposed to this risk.
- **Concentration risk:** This is the risk of loss associated with the extent of OUC’s investment in a single issuer. OUC places limits on the amounts invested in any one issuer for certain types of securities. The following are the investment concentrations greater than 5.0 percent for a single issuer:

Investment type (Dollars in Thousands)	2017		2016	
U.S. Treasury notes	\$ 129,953	24%	\$ 119,770	18%
U.S. Agencies				
Federal Home Loan Banks	\$ 102,953	19%	\$ 94,535	14%
Federal National Mortgage Association (Fannie Mae)	\$ 25,073	5%	\$ 65,757	10%
Money markets mutual funds				
MSIFT Ultra Short Fund	\$ 43,000	8%	\$ -	0%
Local government surplus funds investment pool				
Florida State Board of Administration	\$ 31,971	6%	\$ 78,411	12%

NOTES TO THE FINANCIAL STATEMENTS

Note E – Cash, Cash Equivalents and Investments (continued)

Cash, cash equivalents and investments are managed by OUC in accordance with its Treasury policy. The following table summarizes the investment criteria underlying the policy segregated by investment type, credit guidelines and maximum portfolio weighting.

Investment type	Credit guidelines	Maximum portfolio weighting	Portfolio weighting at September 30,	
			2017	2016
Certificates of deposit	Investments held by or purchased from institutions certified with the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes.	5%	-	-
Corporate notes and multi-national sovereign debt	Minimum rating of "A3" / "A-" by at least two nationally recognized rating agencies.	35%	21%	19%
Municipal notes	Minimum "A" rating by a nationally recognized rating agency.	25%	3%	2%
Bankers acceptances	Inventory based with an unsecured, uninsured and unguaranteed obligation rating of at least "P-1" and "A", and "A-1" and "A" by Moody's and S&P, respectively. Bank must be ranked in the top 100 banks.	10%	-	-
Money market mutual funds	Limited to funds that meet a stable net asset value and have the highest available credit rating for this type of security.	30%	8%	-
Commercial paper	Minimum rating of "A-1", "P-1" and "F1" by at least two nationally recognized rating agencies.	20%	5%	16%
Depository accounts	Investments held by or purchased from institutions certified with the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes.	30%	2%	3%
Local government surplus funds investment pool	Qualified under the laws of the State of Florida.	25%	10%	13%
U.S. Treasury notes	Direct obligations that are unconditionally guaranteed by the United States Government.	100%	24%	18%
U.S. Agencies	Indebtedness issued by government-sponsored enterprises (GSE), which are non-full faith and credited by the United States Government.	100%	27%	29%
Repurchase and reverse repurchase agreements	Secured transactions executed under a master repurchase agreement with collateral limited to direct governmental and agency obligations with terms of <10 years and held and maintained by a third-party trust at a market value of 102% of the cash value.	50% and 20%, respectively	-	-

OUC owned \$51.2 million and \$90.5 million of investments in two external investment pools (Florida Prime and Florida Fixed Income Trust) as of September 30, 2017 and 2016, respectively. Both of these investments have no limitations or restrictions on withdrawals.

Financial Statements for the Florida Prime investment pool may be obtained by contacting the Chief Financial Officer, State Board of Administration of Florida, 1801 Hermitage Boulevard, Suite 101, Tallahassee, Florida 32308 and Financial Statements for the Florida Fixed Income Trust investment pool may be obtained by contacting the Administrator for Florida Fixed Income Trust, c/o Wertz York Capital Management Group, P.O. Box 9691, Tampa, FL 33674.

The following schedule discloses the weighted average maturity in years for each of the investment classifications at September 30:

Investment type	Credit ratings (1)	2017	2016
Municipal notes	Aa2 - Aa3 / AA - AA- / AA - A+	2.64	2.57
U.S. Treasury notes	Aaa / AA+ / AAA	1.82	1.46
U.S. Agencies	Aaa / AA+ / AAA	1.66	1.52
Corporate notes and multi-national sovereign debt	Aaa - A3 / AAA - A- / AAA - A	1.91	1.19
Commercial paper	A-1 / P-1 / F1	0.07	0.11

(1) - Moody's Investor Service / Standard & Poor's / Fitch Ratings

NOTES TO THE FINANCIAL STATEMENTS

Note E – Cash, Cash Equivalents and Investments (continued)

The following schedule discloses Cash, cash equivalents and investments at September 30:

(Dollars in thousands)	2017	2016
Cash	\$ 45,360	\$ 2,089
Cash equivalents		
Local government investment pool	51,153	90,453
Money market mutual funds	43,000	-
Depository accounts	12,302	18,191
U.S. Agencies	9,991	-
Commercial paper	9,976	5,000
U.S. Treasury notes	7,997	-
Total cash equivalents	134,419	113,644
Total cash and cash equivalents	179,779	115,733
Investments		
U.S. Agencies	134,146	194,557
U.S. Treasury notes	121,956	119,770
Corporate notes and multi-national sovereign debt	110,383	128,586
Commercial paper	17,999	102,903
Municipal notes	14,228	11,542
Total investments	398,712	557,358
Total cash, cash equivalents and investments	\$ 578,491	\$ 673,091
Restricted and internally designated assets		
Restricted assets		
Nuclear generation facility decommissioning funds	\$ 42,176	\$ 42,044
Total restricted assets	42,176	42,044
Internally designated assets		
Stabilization funds	190,518	200,102
Deposits and advances	108,077	102,079
Debt service sinking funds	86,949	85,371
Capital reserve	49,468	118,968
Renewal and replacement fund	52,607	67,107
Self-insurance fund	9,500	9,500
Cost of issuance reserve funds	-	99
Total internally designated assets	497,119	583,226
Total restricted and internally designated assets	539,295	625,270
Cash and investments	39,408	48,026
Less accrued interest receivable from restricted and internally designated assets	(212)	(205)
Total cash, cash equivalents and investments	\$ 578,491	\$ 673,091

Note F – Fair Value Measurements

OUC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based upon the observability of the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Investments

Investments are recorded at fair value as described above. The following are additional considerations used to categorize investments:

- **Depository accounts** include money market and other liquid funds which are classified as Level 1 since quoted prices in active markets are available. According to GASB Statement No. 72, *“Fair Value Measurement and Application,”* (Statement No. 72), money market investments and participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less and are held by governments other than external investment pools are measured at amortized cost.
- **Local government surplus funds investment pools** are classified as Level 2 because they are financial instruments held in co-mingled funds. According to Statement No. 72, an external investment pool is measured at the amortized cost per share determined by the pool.
- **Debt securities** classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities’ relationship to benchmark quoted prices.

Derivative Instruments

The fair value of OUC’s interest rate swap agreements is based on a discounted cash flow model with Level 2 inputs including the value of the relevant market index upon which the swaps are based. The fair value of OUC’s debt is presented in Notes H and N.

Fuel derivatives are classified as Level 1 in the fair value hierarchy since quoted commodity prices in active markets are available. The fair value of OUC’s fuel rate hedges is presented in Note N.

Donated Capital Assets

Donated capital assets are measured at acquisition value. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date. The donated capital assets acquisition value included as Contributions in aid of construction in the Statements of Revenues, Expenses and Changes in Net Position was \$4.0 million and \$5.6 million for the years ended September 30, 2017 and 2016, respectively.



NOTES TO THE FINANCIAL STATEMENTS

Note F – Fair Value Measurements (continued)

OUC had the following fair value measurements by fair value level at September 30:

(Dollars in thousands)	2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents and investments				
Investments by fair value level:				
Debt securities				
U.S. Agencies	\$ 116,158	\$ -	\$ 116,158	\$ -
U.S. Treasury notes	95,963	95,963	-	-
Corporate notes and multi-national sovereign debt	76,404	-	76,404	-
Municipal notes	14,228	-	14,228	-
Total investments by fair value level	302,753	\$ 95,963	\$ 206,790	\$ -
Investments measured at the amortized cost:				
Debt securities				
Corporate notes and private placements	33,979			
U.S. Treasury notes	25,993			
Commercial paper	17,999			
U.S. Agencies	17,988			
Total investments measured at the amortized cost	95,959			
Cash equivalents measured at the amortized cost:				
Local government investment pool	51,153			
Money market mutual funds	43,000			
Depository accounts	12,302			
Debt securities				
U.S. Agencies	9,991			
Commercial paper	9,976			
U.S. Treasury notes	7,997			
Total cash equivalents measured at the amortized cost	134,419			
Total cash equivalents and investments	\$ 533,131			
Derivatives:				
Interest rate swaps	\$ (11,865)	\$ -	\$ (11,865)	\$ -
Fuel hedges	(1,268)	(1,268)	-	-
Total derivatives	\$ (13,133)	\$ (1,268)	\$ (11,865)	\$ -

(Dollars in thousands)	2016	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents and investments				
Investments by fair value level:				
Debt securities				
U.S. Treasury notes	\$ 60,719	\$ 60,719	\$ -	\$ -
U.S. Agencies	104,996	-	104,996	-
Municipal notes	9,341	-	9,341	-
Corporate notes and multi-national sovereign debt	70,789	-	70,789	-
Total investments by fair value level	245,845	\$ 60,719	\$ 185,126	\$ -
Investments measured at the amortized cost:				
Debt securities				
U.S. Treasury notes	59,051			
Commercial paper	102,903			
U.S. Agencies	89,561			
Municipal notes	2,201			
Corporate notes and private placements	57,797			
Total investments measured at the amortized cost	311,513			
Cash equivalents measured at the amortized cost:				
Local government investment pool	90,453			
Depository accounts	18,191			
Debt securities				
Commercial paper	5,000			
Total cash equivalents measured at the amortized cost	113,644			
Total cash equivalents and investments	\$ 671,002			
Derivatives:				
Interest rate swaps	\$ (33,147)	\$ -	\$ (33,147)	\$ -
Fuel hedges	(3,416)	(3,416)	-	-
Total derivatives	\$ (36,563)	\$ (3,416)	\$ (33,147)	\$ -

Note G – Regulatory Deferrals

Based on regulatory action taken by the Board and in accordance with the Regulated Operations section within GASB Statement No. 62, OUC has recorded the following regulatory assets and credits that will be included in the ratemaking process and recognized as expenses and revenues, respectively, in future periods.

Regulatory Assets

Unrecognized pension costs: As a result of the implementation of GASB Statement No. 68 and GASB Statement No. 73 related to defined benefit pensions, the Board approved the establishment of a regulatory asset of \$117.7 million in 2015 and \$1.1 million in 2017. The amount of the deferred pension costs at September 30, 2017 and 2016 was \$93.2 million and \$105.0 million, respectively. The regulatory asset will be recognized in a method that will, at a minimum, match pension expense to that of the annual actuarial required funding amount. The recognition is expected to be \$12.0 million to \$14.0 million annually and the planned recovery of these costs has been approved through 2025.

Unrecognized other post-employment benefit costs: As a result of the implementation of GASB Statement No. 75 in 2017, the Board approved the establishment of a regulatory asset of \$65.1 million. The amount of the deferred OPEB costs at September 30, 2017 and 2016 was \$54.7 million and \$61.6 million, respectively. The regulatory asset will be recognized in a method that will, at a minimum, match OPEB expense to that of the annual required funding amount. The recognition is expected to be \$7.0 million annually and the planned recovery of these costs is expected to be fully amortized by 2025.

Anticipated recovery of hurricane restoration costs: As a result of the impacts of Hurricanes Matthew and Irma, OUC incurred restoration costs of \$29.5 million. Based on Federal Emergency Management Agency (FEMA) eligibility guidelines, a significant portion of the costs associated with storm restoration is anticipated to be eligible for reimbursement through the FEMA cost reimbursement process. As such, the Board approved the establishment of a regulatory asset of \$20.9 million in 2017, which will be recognized consistent with the receipt of these funds.

Unrecognized fair value hedge costs: This amount represents the 2017 deferral of the residual value of the swap valuation expense incurred in association with the refunded Series 2011A *Windows* Bonds along with the suspended termination of the underlying interest rate swap with the Series 2017A Bonds. The amount of deferred charges at September 30, 2017 was \$12.7 million. The recognition is anticipated to offset future market valuation changes associated with the 2017A forward interest rate swap.

Asset retirement obligation costs: This amount represents the deferral of the difference between retirement obligation expense and the amount recovered in the rates charged to customers. To date, retirement obligation expense exceeds the amount charged to customers, net of investment income earned from the associated restricted retirement obligation assets. As such, the asset retirement obligation regulatory asset at September 30, 2017 and 2016 was \$6.2 million and \$4.9 million, respectively.

Unamortized issue costs: In conjunction with the implementation of GASB Statement No. 65, OUC established a regulatory asset for unrecognized costs previously incurred in connection with the issuance of debt obligations, primarily underwriter fees and legal costs. The regulatory asset will be collected in rates over a period of ten years. Future debt issuance costs will be expensed as incurred. The unrecognized issue cost at September 30, 2017 and 2016 was \$5.1 million and \$5.9 million, respectively.

Unamortized interest costs: This amount represents the deferral of interest costs incurred in association with the refunded Series 1993 and 1993B Bonds as a result of differing short-term and long-term rates at the time of bond issuance. The amount of deferred charges at September 30, 2017 and 2016 was \$2.0 million and \$2.4 million, respectively. Deferred charges are currently amortized to interest expense over the remaining period of the original bond series.



NOTES TO THE FINANCIAL STATEMENTS

Note G – Regulatory Deferrals (continued)

The following is a summary of OUC's regulatory assets at September 30:

(Dollars in thousands)	2017	2016
Unrecognized pension costs	\$ 93,214	\$ 105,031
Unrecognized other post-retirement benefit costs	54,743	61,586
Anticipated recovery of hurricane restoration costs	20,856	-
Unrecognized fair value hedge costs	12,747	-
Asset retirement obligation costs	6,165	4,897
Unamortized issue costs	5,098	5,948
Unamortized interest costs	2,040	2,448
Total regulatory assets	\$ 194,863	\$ 179,910

Regulatory Credits

Fuel stabilization: This account was established in accordance with guidelines from the Public Utilities Regulatory Policies Act of 1978 and represents the difference between the fuel costs charged to customers inclusive of accrued utility revenue, and fuel costs. The amount of fuel stabilization at September 30, 2017 and 2016 was \$118.4 million and \$122.4 million, respectively.

Rate stabilization: The Board established the rate stabilization fund for costs or revenues that are to be recovered by or used to reduce rates in periods other than when incurred or realized. In August 2016 as part of the 2017 budget process, the Board approved the recognition of \$1.4 million to mitigate one-time costs associated with the implementation of the CC&B system. To mitigate the unplanned costs associated with Hurricanes Matthew and Irma, the Board approved the use of \$5.9 million of rate stabilization funds. As a result of higher than expected water sales during 2017, the Board approved the deferral of \$1.5 million which will be used to bridge the phase-in water rate increase during 2018. The rate stabilization amount at September 30, 2017 and 2016 was \$64.5 million and \$70.3 million, respectively.

In 2009, \$2.2 million was deferred as a result of delays associated with OUC's participation in the construction of a new nuclear generation facility. This amount continues to remain outstanding at September 30, 2017.

Deferred wholesale trading profits: This account represents a portion of profits generated from resale sales, net of funds used for approved regulatory actions. No funds were approved for deferral or usage in 2017 or 2016.

Deferred gain on sale of assets: On October 5, 1999, OUC sold its steam units at the Indian River Plant (IRP) and elected to defer the gain on sale of \$144.0 million. In accordance with this action, \$45.0 million was designated to offset generating facility demand payments. In addition to the gain on the sale amount, OUC also received \$20.2 million for the advance payment of transmission access rights for a 20-year period.

In 2012, OUC repurchased IRP and in conjunction with this acquisition, provided notice of the termination of the previously reserved transmission access rights. At the time of the termination, \$10.4 million of advance payment transmission access rights remained outstanding. In accordance with the original Board action to defer the gain proceeds, this amount was reclassified from deferred revenue to deferred gain on sale of assets.

As a result of these actions, gains in the amount of \$8.3 million and \$3.6 million were recognized at September 30, 2017 and 2016, respectively. The deferred gain on sale of assets at September 30, 2017 and 2016 was \$52.1 million and \$60.4 million, respectively, and continues to be recognized systematically consistent with the financial valuation of the SEC A generation facility.

NOTES TO THE FINANCIAL STATEMENTS

Note G – Regulatory Deferrals (continued)

Deferred gain on settlement: As a result of an eminent domain action in July 2005, the Florida Department of Transportation (FDOT) took possession of OUC's administration building parking garage. In exchange for taking possession of OUC's garage and the underlying land, the FDOT provided OUC with an adjacent land parcel and a cash settlement of \$15.0 million. In association with this action, OUC constructed a new administration facility and utilized \$6.0 million of the gain on settlement for transition and relocation costs. In addition to the accrued transition and relocation amount, a residual gain on settlement amount of \$2.3 million was deferred. In 2012, the old administration building site was sold and the associated gain on the sale of \$0.9 million was deferred.

In 2015 as part of the I-4 Ultimate Project, the FDOT imposed an eminent domain action on a portion of OUC's Gardenia property in exchange for a cash settlement of \$0.8 million.

In accordance with the Board's Capital Asset Disposal policy, the deferred gains related to these transactions were included as a regulatory liability on the Statements of Net Position. The deferred gain on settlement amount at September 30, 2017 and 2016 was \$3.1 million and \$3.2 million, respectively. These regulatory liabilities will be recognized systematically over a period consistent with the lives of the assets with which they are associated.

In conjunction with the recording of these regulatory credits, the Board internally designated funds in the amount of \$190.5 million and \$200.1 million at September 30, 2017 and 2016, respectively.

The following is a summary of OUC's regulatory credits at September 30:

(Dollars in thousands)	2017	2016
Fuel stabilization	\$ 118,352	\$ 122,448
Rate stabilization	66,699	72,499
Deferred wholesale trading profits	16,000	16,000
Deferred revenue regulatory credits	201,051	210,947
Deferred gain on sale of assets	52,081	60,392
Deferred gain on settlement	3,139	3,214
Deferred gain regulatory credits	55,220	63,606
Total regulatory credits	\$ 256,271	\$ 274,553



NOTES TO THE FINANCIAL STATEMENTS

Note H – Long-Term Debt

The following schedule summarizes the long-term debt activity for the years ended September 30:

Bond Series (Dollars in thousands)	Final principal payment	Interest rates (%)	2016	Additions during year	Decreases during year	2017	Current portion
2003T	2018	5.29%	\$ 14,280	\$ -	\$ 4,515	\$ 9,765	\$ 4,755
2006	2016	4.50 - 5.00%	11,785	-	11,785	-	-
2009B	2033	5.00%	65,160	-	-	65,160	-
2009C	2017	3.50 - 5.00%	37,230	-	18,190	19,040	19,040
2010A	2040	5.662%	200,000	-	-	200,000	-
2010C	2022	4.00 - 5.25%	62,575	-	7,745	54,830	8,095
2011B	2023	3.00 - 5.00%	69,675	-	1,575	68,100	5,425
2011C	2027	4.00 - 5.00%	86,450	-	-	86,450	-
2012A	2027	4.00 - 5.00%	52,935	-	1,265	51,670	2,155
2013A	2025	3.00 - 5.00%	233,255	-	2,290	230,965	2,500
2015A	2035	5.00%	94,905	-	-	94,905	-
2016A	2033	4.00 - 5.00%	142,690	-	-	142,690	16,415
2017A	2027	3.00 - 5.00% (3)	-	98,360	-	98,360	-
Total fixed rate debt			1,070,940	98,360	47,365	1,121,935	58,385
2007	2016	Variable rate (1)	13,400	-	13,400	-	-
2008	2033	Variable rate (1)/(2)	200,000	-	-	200,000	-
2011A	2027	Variable rate (1)/(3)	98,360	-	98,360	-	-
2015B	2039	Variable rate (1)/(4)	115,090	-	-	115,090	-
Total variable rate debt			426,850	-	111,760	315,090	-
Total debt			1,497,790	\$ 98,360	\$ 159,125	1,437,025	\$ 58,385
Less Bonds payable within one year			(60,765)	\$ (58,385)	\$ 60,765	(58,385)	
Less Other bonds payable (3)			(98,360)	-	98,360	-	
Less current portion			(159,125)	\$ (58,385)	\$ 159,125	(58,385)	
Total long-term debt			\$ 1,338,665			\$ 1,378,640	

(1) Variable rates ranged from 0.54% to 0.95% for the year ended September 30, 2017.

(2) The Series 2008 Variable Rate Demand Obligation Bonds of \$200.0 million are supported by a Standby Bond Purchase Agreement (SBPA), which will expire on April 4, 2022.

(3) The Series 2011A Bonds, of \$98.4 million were issued in the Windows mode as extendable debt excluding underlying liquidity facilities. As such, these bonds were classified as current but have since been refunded by the 2017A bonds.

(4) The Series 2015B Variable Rate Demand Obligation Bonds of \$115.1 million are supported by a Standby Bond Purchase Agreement (SBPA), which will expire on October 1, 2020.

NOTES TO THE FINANCIAL STATEMENTS

Note H – Long-Term Debt (continued)

The following schedule summarizes the long-term debt activity for the years ended September 30:

Bond Series (Dollars in thousands)	Final principal payment	Interest rates (%)	2015	Additions during year	Decreases during year	2016	Current portion
2003T	2018	5.29%	\$ 18,580	\$ -	\$ 4,300	\$ 14,280	\$ 4,515
2006	2016	4.50 - 5.00%	121,715	-	109,930	11,785	11,785
2009A	2039	5.25%	100,000	-	100,000	-	-
2009B	2033	5.00%	114,125	-	48,965	65,160	-
2009C	2017	3.50 - 5.00%	54,790	-	17,560	37,230	18,190
2010A	2040	5.662%	200,000	-	-	200,000	-
2010C	2022	3.00 - 5.25%	69,990	-	7,415	62,575	7,745
2011B	2023	3.00 - 5.00%	69,675	-	-	69,675	1,575
2011C	2027	4.00 - 5.00%	86,450	-	-	86,450	-
2012A	2027	3.00 - 5.00%	52,935	-	-	52,935	1,265
2013A	2025	3.00 - 5.00%	235,375	-	2,120	233,255	2,290
2015A	2035	5.00%	94,905	-	-	94,905	-
2016A	2033	4.00 - 5.00%	-	142,690	-	142,690	-
Total fixed rate debt			<u>1,218,540</u>	<u>142,690</u>	<u>290,290</u>	<u>1,070,940</u>	<u>47,365</u>
2007	2016	Variable rate (1)	36,015	-	22,615	13,400	13,400
2008	2033	Variable rate (1)/(2)	200,000	-	-	200,000	-
2011A	2027	Variable rate (1)/(3)	98,360	-	-	98,360	-
2015B	2039	Variable rate (1)/(4)	-	115,090	-	115,090	-
Total variable rate debt			<u>334,375</u>	<u>115,090</u>	<u>22,615</u>	<u>426,850</u>	<u>13,400</u>
Total debt			<u>1,552,915</u>	<u>\$ 257,780</u>	<u>\$ 312,905</u>	<u>1,497,790</u>	<u>\$ 60,765</u>
Less Bonds payable within one year			(55,880)	\$ (60,765)	\$ 55,880	(60,765)	
Less Other bonds payable (3)			(98,360)	-	-	(98,360)	
Less current portion			(154,240)	\$ (60,765)	\$ 55,880	(159,125)	
Total long-term debt			<u>\$ 1,398,675</u>			<u>\$ 1,338,665</u>	

(1) Variable rates ranged from 0.01% to 2.423% for the year ended September 30, 2016.

(2) The Series 2008 Variable Rate Demand Obligation Bonds of \$200.0 million are supported by a Standby Bond Purchase Agreement (SBPA), which will expire on April 7, 2017.

(3) The Series 2011A Bonds, of \$98.4 million were issued in the Windows mode as extendable debt excluding underlying liquidity facilities. As such, these bonds were classified as current.

(4) The Series 2015B Variable Rate Demand Obligation Bonds of \$115.1 million are supported by a Standby Bond Purchase Agreement (SBPA), which will expire on October 1, 2020.

NOTES TO THE FINANCIAL STATEMENTS

Note H – Long-Term Debt (continued)

Debt service requirements: Aggregate annual debt service requirements at September 30 are presented below. The schedule includes net receipts and payments on outstanding effective hedging derivative instruments and interest subsidies anticipated on refundable tax credits. The Series 2008 and Series 2015B Bonds were reported according to the scheduled maturity dates as management anticipates these bonds will remain outstanding.

Variable interest rates are included based upon budgeted projections and are assumed to remain static until their maturity. As these rates vary, actual interest payments on variable rate bonds and effective hedging derivative instruments will vary in relation to these changes.

(Dollars in thousands)	Principal	Interest	Federal interest subsidy	Hedging derivative instrument	Total
2018	\$ 68,915	\$ 56,652	\$ (3,702)	\$ 1,295	\$ 123,160
2019	60,340	54,081	(3,702)	1,065	111,784
2020	73,930	51,506	(3,702)	892	122,626
2021	82,050	48,591	(3,702)	-	126,939
2022	80,240	45,086	(3,702)	-	121,624
2023-2027	362,820	171,546	(18,509)	-	515,857
2028-2032	243,155	111,678	(18,509)	-	336,324
2033-2037	264,550	64,897	(15,888)	-	313,559
2038-2042	142,640	14,111	(4,205)	-	152,546
Long-term debt	1,378,640	618,148	(75,621)	3,252	1,924,419
Current portion	58,385	57,060	(3,694)	2,815	114,566
Total debt	\$ 1,437,025	\$ 675,208	\$ (79,315)	\$ 6,067	\$ 2,038,985

General bond resolution: All bonds outstanding were subject to the provision of this resolution for which some of the key provisions are as follows:

- **Rate covenant:** The net revenue requirement for annual debt service has been set at 100.0 percent of available funds plus net revenues at 125.0 percent of annual debt service.
- **Conditions precedent:** This test is limited to OUC's certification that it meets the rate covenant.
- **Flow of funds:** There are no funding requirements; however, consistent with prior resolutions, OUC can determine whether to fund a debt service reserve account on an issue-by-issue basis or internally designate funds.
- **System definition:** OUC's system definition has been modified to utility system. This definition is a more expansive definition to accommodate organizational changes and the expansion into new services.
- **Sale of assets:** System assets may be sold if the sale will not interfere with OUC's ability to meet rate covenants. The net benefit of capital asset dispositions in excess of \$0.5 million will be reinvested into the utility system or used to retire outstanding debt.

Refunded bonds: Consistent with accounting guidance, all refunded and defeased bonds are treated as extinguished debt for financial reporting purposes and have been removed from the Statements of Net Position. The proceeds secured from refunding transactions are invested in United States Treasury obligations in irrevocable escrow deposit trust funds. Each escrow deposit trust is structured to mature at such time as to provide sufficient funds for the payment of maturing principal and interest on the refunded bonds. Interest earned or accrued on these escrow funds has been pledged and will be used for the payment of the principal and interest on each respective bond series.

NOTES TO THE FINANCIAL STATEMENTS

Note H – Long-Term Debt (continued)

On October 23, 2015, OUC issued the Series 2015B Variable Rate Demand Obligation Bonds in the amount of \$115.1 million. The proceeds were escrowed for the refunding of the Series 2009A Bonds of \$100.0 million and deferred bond interest of \$14.4 million. The Series 2015B Bonds have maturity dates between October 1, 2034 and October 1, 2039. In addition, OUC entered into a fixed rate swap agreement on October 23, 2015 in the notional amount of \$115.1 million. Under the swap agreement, OUC will pay a fixed rate of 2.075 percent and receive a floating rate equal to 67.0 percent of one-month LIBOR. The swap agreement is subject to an optional earlier termination provision by OUC beginning October 1, 2020 and monthly thereafter. If the option is not exercised, the agreement will terminate on October 1, 2039. The Series 2015B Bonds are supported by a Standby Bond Purchase Agreement (SBPA), which will expire on October 1, 2020.

On August 3, 2016, OUC issued the Series 2016A Fixed Rate Bonds with a par amount of \$142.7 million and a premium of \$21.4 million. The proceeds were escrowed for full refunding of the Series 2006 Bonds and partial refunding of the Series 2009B Bonds, in the amounts of \$108.1 million and \$49.0 million, respectively, and deferred bond interest of \$8.6 million. The Series 2016A Bonds have maturity dates between October 1, 2017 and October 1, 2033. The interest rate is between 4.0 and 5.0 percent with yields between 0.66 percent and 2.36 percent.

On February 23, 2017, OUC issued the 2017A variable-rate bonds with a par amount of \$98.4 million and a premium of \$10.3 million. The proceeds were used for the refunding of the Series 2011A *Windows* Bonds of \$98.4 million and a payment to the interest rate swap counter-party to suspend cash flows on the 2011A interest rate swap. The Series 2017A Bonds have maturity dates between October 1, 2026 and October 1, 2027. The bonds were issued initially in the Term Rate Mode with fixed rate coupons of 3.0 and 5.0 percent until 10/1/2020.

Debt Issued (Dollars in thousands)	Month Issued	Par Amount Issued	Premium on Issuance	Par Amount Refunded	PV Savings	Accounting Loss	Savings % of Refunded Bonds	Debt Refunded
2015B	October 2015	\$ 115,090	\$ -	\$100,000	\$32,032	\$ 12,939	32.0%	2009A
2016A	August 2016	\$ 142,690	\$ 21,354	\$157,025	\$20,196	\$ 10,062	12.9%	2009B
2017A	February 2017	\$ 98,360	\$ 10,303	\$ 98,360	\$ 97	\$ -	-0.1%	2011A

The balance outstanding at September 30, 2017 and 2016 for defeased bonds was \$149.0 million and \$294.5 million, respectively.

Interest rate swaps: OUC limits its execution of interest rate swap agreements to major financial institutions with a minimum credit rating of "A3" or "A-" by any two nationally recognized credit rating agencies as per the Treasury policy. The ratings of all current swap counterparties met the minimum rating requirements as of the execution dates. Although some counterparty ratings have changed since the date of issuance, OUC does not anticipate nonperformance by a counterparty nor have any instances of this nature occurred. In the event of the termination of a swap agreement, OUC may be required to make or be subject to receive a termination payment, as shown in the swap schedule on page 41.

In accordance with each interest rate swap agreement, collateral deposit thresholds have been established. These thresholds require OUC to remit deposits to mitigate the counterparty's exposure to credit risk. If OUC were to experience a credit downgrade, established thresholds would be reduced, requiring additional collateral deposits. As a result of continued market volatility and the fair value liability of certain interest rate swaps in excess of their contractual thresholds, collateral deposits in the amount of \$2.9 million and \$19.7 million were held by OUC counterparties at September 30, 2017 and 2016, respectively. The reduction in posted swap collateral in 2017 was the result of a partial unwind of the interest rate swap including a payment in accordance with the amended interest rate swap confirmation to the swap counterparty in connection with the refunding of the 2011A *Windows* bonds.

NOTES TO THE FINANCIAL STATEMENTS

Note H – Long-Term Debt (continued)

The following schedule summarizes OUC's fair value position, based on quoted market rates, for its outstanding swap agreements at September 30, 2017 and 2016. Costs associated with these agreements are deferred and amortized over the life of the underlying bond agreement. The notional amounts below are the basis for which interest is calculated; however, the notional amounts are not exchanged. Upon the refunding of the Series 2011A Windows Bonds by the Series 2017A Bonds, the Series 2017A Bonds became the series of bonds related to the 2017A Swap. Prior to October 1, 2020, there will be no periodic payments to or from OUC under the 2017A Swap and the Series 2017A Bonds will bear interest at fixed rates. On October 1, 2020 the Series 2017A Bonds will be subject to a mandatory tender after which OUC intends to remarket the bonds in a variable rate mode to offset the restart of cash flows from the 2017A Swap. See Note N for additional derivative instrument disclosures.

Bond Series	Notional amount (000)'s	OUC pays	Rate paid	Rate received	Initiation date	Termination date	2017	2016	Counterparty
							Fair value liability (000)'s	Fair value liability (000)'s	
2007	\$ 13,400	Fixed	3.660%	CPI + 105 bps	1/23/2007	10/1/2016	\$ -	\$ 224	Goldman Sachs
2017A	\$ 100,000	Fixed	3.780%	67% of LIBOR	6/1/2011	10/1/2027	12,748	29,178	Morgan Stanley
2015B	\$ 115,090	Fixed	2.075%	67% of LIBOR	10/23/2015	10/1/2039	(883)	3,745	Goldman Sachs
Total							\$ 11,865	\$ 33,147	

Goldman Sachs counterparty credit rating - A1 / A+ / A+

Morgan Stanley counterparty credit rating - A3 / BBB+ / A

Note I – Insurance Programs and Claims

OUC was exposed to various risks of loss related to torts, theft and destruction of assets, errors and omissions and natural disasters. In addition, OUC was exposed to risks of loss due to injuries and illness of its employees. These risks were managed through OUC's self-insurance and third-party claims administration programs.

Under the self-insurance program, OUC was liable for all claims up to certain maximum amounts per occurrence. At September 30, 2017, insurance coverage was available for claims in excess of \$0.25 million for healthcare coverage and \$2.0 million for general and automobile liability. As of September 30, 2017, coverage was available for workers' compensation claims in excess of \$0.5 million.

The healthcare benefits program was administered by an insurance company (administrator). The administrator was responsible for processing claims in accordance with OUC's benefit specifications and was reimbursed regularly for claims paid. Incurred claims included current period payments and estimated incurred but not received claims based on actuarial information received in conjunction with OUC's annual State of Florida self-insurance filing.

Liabilities associated with the healthcare programs were determined based on actuarial studies and include amounts for claims that have been incurred but not reported. For workers' compensation claims, liabilities were determined from estimates provided by OUC's third-party administrator based on amounts already paid and the age and type of claim. Liabilities associated with general and automobile liability coverage were determined based on historic information in addition to estimated costs for current pending claims. The total of these liabilities is included in the Statements of Net Position under the heading of Accounts payable and accrued expenses.

Self-insurance program liability at September 30, 2017 and 2016 was as follows:

(Dollars in thousands)	Payments,		Incurred	
	2016	net	claims	2017
Workers' compensation	\$ 518	\$ (214)	\$ 314	\$ 618
General and automobile liability	377	(156)	156	377
Health and medical claims	1,875	(17,777)	17,763	1,861
Total	\$ 2,770	\$ (18,147)	\$ 18,233	\$ 2,856

(Dollars in thousands)	Payments,		Incurred	
	2015	net	claims	2016
Workers' compensation	\$ 564	\$ (234)	\$ 188	\$ 518
General and automobile liability	372	(281)	286	377
Health and medical claims	1,623	(18,700)	18,952	1,875
Total	\$ 2,559	\$ (19,215)	\$ 19,426	\$ 2,770

Note I – Insurance Programs and Claims (continued)

Claims

It is the opinion of OUC’s general counsel that OUC, as a statutory commission, may enjoy sovereign immunity in the same manner as a municipality, as allowed by Florida Court of Appeals rulings. Under said rulings, the Florida Statutes limit of liability for claims or judgments by one person for general liability or auto liability is \$0.2 million or a total of \$0.3 million for the same incident or occurrence; greater liability can result only through an act of the Florida Legislature. Furthermore, any defense of sovereign immunity shall not be deemed to have been waived or the limits of liability increased as a result of obtaining or providing insurance in excess of statutory limitations.

OUC’s transmission and distribution systems are not covered by property insurance, since such coverage is generally not available.

Nuclear liability insurance: Liability for accidents at the St. Lucie Unit 2 (SL 2) nuclear power plant, for which OUC has a minority interest, is governed by the Price-Anderson Act which limits the public liability of nuclear reactor owners to the amount of insurance available from private sources and an industry retrospective payment plan. Florida Power & Light (FPL), for SL 2, maintains private liability insurance for all participants owning an undivided interest in the nuclear generation facility of \$450.0 million per site and participates in a secondary financial protection system. In addition, FPL participates in nuclear mutual companies that provide limited insurance coverage for property damage, decontamination and premature decommissioning risks. Irrespective of the insurance coverage, should a catastrophic loss occur, the amount of insurance available may not be adequate to cover property damage and other expenses incurred. The majority owner of a nuclear power plant is subject to retrospective assessments of up to \$1.0 billion per unit, per incident at any nuclear utility reactor in the United States, payable at a rate not to exceed \$152.0 million per incident, per year. In the case of SL 2, FPL is contractually entitled to recover a proportionate share of any such assessment from the owners of minority interests in SL 2 which, at the maximum level, approximates \$19.0 million plus applicable taxes per incident. Any such assessment to minority owners would be borne by each minority owner at their proportionate ownership share. See Note D for OUC’s ownership interest in SL 2.

On behalf of all the co-owners of SL 2, FPL carries in excess of \$2.75 billion of property damage insurance; however, substantially all insurance proceeds must first be used to satisfy decontamination and clean-up costs before they can be used for repair or restoration of plants.

Note J – Commitments and Contingent Liabilities

Fuel for generation and purchased power commitments: OUC has entered into fuel supply and transportation contracts which align with the ownership for Stanton Units 1, 2 and B, the Indian River Plant generation facilities and its fuel agent obligations for Stanton Unit A. For those generation facilities in which there is participation ownership, each participant has a commitment proportionate to its ownership interest. In addition to the fuel for generation contracts, included in the schedule below are OUC’s purchased power capacity commitments required to meet its load requirements, several of which have minimum take-or-pay energy commitments for the years ended September 30:

(Dollars in thousands)	Purchased power capacity commitments	
2018	\$	73,027
2019		56,708
2020		54,572
2021		51,827
2022		47,356
2023-2027		98,301
2028 - thereafter		124,466
Total	\$	506,257



NOTES TO THE FINANCIAL STATEMENTS

Note J – Commitments and Contingent Liabilities (continued)

OUC has also entered into eight renewable energy power purchase agreements. OUC purchases any and all energy that is produced at the sites. There are no demand payments related to these agreements. The following is a summary of the agreements as of September 30, 2017 and 2016:

Type of PPA	PPA name	Agreement year	Contract megawatt alternating current (MW-AC) capacity	Purchase requirement
Solar	SEC-Solar Landfill site	2016	4.8	100%
Solar	SEC-Solar Site A	2016	4.1	100%
Solar	SEC-Solar Power	2010	5.1	100%
Solar	Gardenia Community Solar	2013	0.3	100%
Solar	Fleet Community Solar	2013	0.4	100%
Landfill gas	Renewable Energy	2016	6.0	100%
Landfill gas	Renewable Energy	2014	9.0	100%
Landfill gas	Renewable Energy	2011	3.6	100%

Generation facility agreement: OUC maintains a Customer Service Agreement (CSA) to cover parts, services, repairs, program management, additional warranties and automated performance monitoring for the high-risk and high-dollar equipment related to the combustion and steam turbine components of Stanton Unit B (SEC B). The CSA was secured in 2010 for an estimated period of fourteen years at an aggregate amount of \$50.0 million. In November 2014, the Board authorized OUC to execute Amendment No. 1 to the CSA with General Electric to include the SEC B compressor and rotor coverage for \$3.1 million. The aggregate amount of the CSA is \$53.1 million. In addition, the Board approved an additional \$21.4 million prepayment for the gas and steam turbine inspection that will occur in 2018, the hot gas path inspection in 2021 and the major inspection projected for 2023.

Regulation: The electric utility industry continues to be affected by a number of legislative and regulatory factors. The following summarizes the key regulations impacting OUC.

Environmental Protection Agency (EPA)

Interstate Transport Rule: In September 2016, the EPA finalized updates to the Cross State Air Pollution Rule (CSAPR Update) to address interstate transport of ozone pollution with respect to the 2008 ozone National Ambient Air Quality Standard (NAAQS). The EPA modeling associated with this update indicated that Florida did not significantly contribute to non-attainment or maintenance of the 2008 NAAQS in downwind states and would not be subject to the rule after 2016. On Dec. 28, 2016, EPA released additional modeling based on the more-stringent 2015 ozone standard, which also demonstrates that Florida is not significantly contributing to any other state's ozone problems, and is thus meeting its transport-related obligations. As a result, OUC's electric generating units were removed from the CSAPR ozone season program beginning in 2017 and would only be impacted if future air modeling indicated Florida was not meeting its transport-related obligations.

Greenhouse Gas Regulation: Following the guidance outlined in the memorandum provided by the President of the United States, the EPA announced, in 2013, the development of new carbon dioxide (CO₂) rules for new power plants under authority of Section 111(b) of the Clean Air Act (CAA). The new rules set a cap for the amount of CO₂ emitted from any newly constructed power plant. The proposed rule does not apply to any existing stationary source, but the EPA also developed a unique approach to regulating existing sources. Utilizing Section 111 (d) of the CAA, the EPA developed guidance-setting carbon pollution reduction goals for states, based on the ability of each state to comply or achieve the goals. This rule, known as the Clean Power Plan (CPP), was announced on August 3, 2015. States, industry associations, and individual companies have challenged the existing-source rule in court. On February 9, 2016, the United States Supreme Court issued a stay of the CPP, effective throughout the litigation process. Oral arguments were presented to the Washington, D.C. Circuit Court on September 27, 2016. In March 2017 the United States Department of Justice requested this case be held in abeyance pending EPA's reconsideration of the rule, and on October 10, 2017, the EPA issued a Notice of Proposed Rulemaking proposing to repeal the CPP. At this time the EPA has not formally indicated whether a rule to replace the CPP will be proposed.

Note J – Commitments and Contingent Liabilities (continued)

Mercury and Air Toxics Standards (MATS) Rule: The EPA proposed a rule commonly known as the Mercury Air Toxics Standards rule (MATS) to further regulate mercury and other hazardous air pollutant emissions from electric generating units. This rule became effective on April 16, 2012 and required affected units to be in compliance with the rule within three years. The rule was challenged in the United States District Court of Appeals for the Washington, D.C. District, and in 2014, the Washington, D.C. Circuit upheld the rule. On June 19, 2015, the United States Supreme Court reversed the Washington, D.C. Circuit's ruling and remanded the rule to the Washington, D.C. Circuit for further proceedings. In December 2015, the Washington, D.C. Circuit remanded the rule to EPA without vacatur. In April 2016, the EPA finalized their supplemental finding in order to fulfill the directives of the United States Supreme Court. Although litigation of the MATS rule continues, affected OUC generating units have operated under the requirements of the MATS rule since April 2015. Prior to this date, OUC added technology to better assess the emissions of mercury as well as upgraded portions of the coal generation facility to address compliance with the existing MATS requirements.

EPA Coal Combustion Residual (CCR) Regulations: On April 17, 2015, the EPA issued new rules regulating the disposal and beneficial use of CCRs. These new rules are designed to be enforced through citizen lawsuits instead of the normal delegated permitting process from the EPA to the Florida Department of Environmental Protection. In late 2016, Congress passed the Water Infrastructure Improvements for the Nation Act (WIIN Act), which fundamentally changed the manner in which the CCR Rule is to be implemented. Under the WIIN Act, EPA is authorized to review and approve state CCR permit programs that are at least as protective as the federal CCR Rule. Currently, environmental and industry groups are challenging the CCR rule in the D.C. Circuit Court of Appeals. At this time, OUC's future costs to comply with these regulations are not anticipated to be material and are primarily related to new groundwater monitoring and reporting requirements contained within the CCR rule.

Federal Regulation Enforcement

In accordance with the authority granted the Federal Energy Regulatory Commission (FERC) to impose non-discriminatory open transmission system access requirements for all public entities, OUC has adopted a "safe harbor" Open Access Transmission Tariff (OATT). This OATT ensures that OUC will have access to all transmission-related services offered by public utilities through its offering of reciprocal services. In addition, FERC has the authority to impose standards which enforce an acceptable level of reliability to the Bulk Electric System. The monitoring of these standards in Florida is performed by the Florida Reliability Coordination Council (FRCC).

In June 2015, the FRCC completed a planning and operations audit of OUC and found OUC to be fully compliant. Additionally, the FRCC completed a Critical Infrastructure Protection audit in August 2015 and found OUC to be fully compliant with the standards.

Florida State Regulation

Legislation under Sections 366.80 through 366.85, and 403.519, Florida Statutes (FS), are known collectively as the Florida Energy Efficiency and Conservation Act (FEECA). This Act provides the Florida Public Service Commission (FPSC) with the authority to establish goals every five years to encourage electric utilities to increase the efficiency of energy consumption, limit the growth of energy consumption and minimize weather-sensitive peak demands. OUC submitted its five-year Conservation Plan in March 2015 and final approval was submitted through a Consummating Order on September 8, 2015. The approved plan calls for OUC to achieve a reduced level of conservation. Pursuant to Section 366.82, FS, the FPSC must review a utility's conservation goals not less than every five years. The FPSC's review of OUC's conservation goals and the supporting demand-side management plan covers the period between 2015 and 2024.

NOTES TO THE FINANCIAL STATEMENTS

Note K – Major Agreements

City of Orlando: OUC pays to the City of Orlando (City) a revenue-based payment and an income-based dividend payment.

The revenue-based payment is recorded as an operating expense and is derived to yield a payment based on 6.0 percent of gross retail electric and water billings and 4.0 percent of chilled water billings for retail customers within the City limits. The income-based dividend payment is recorded as a reduction to the increase in Net Position on the Statements of Revenues, Expenses and Changes in Net Position and is derived to yield a payment of 60.0 percent of net income before contributions.

Prior to 2008, the revenue-based and income-based payments were remitted based on actual revenue billed and income before contributions, respectively. Beginning in 2008 and continuing through 2017, these payments were fixed based on projected revenues and income before contributions. Total revenue and income-based payments for the years ended September 30, 2017 and 2016 were \$87.4 million and \$84.4 million, respectively.

City of St. Cloud: In April 1997, OUC entered into an inter-local agreement with the City of St. Cloud (STC) to provide retail electric energy services to all STC customers and to maintain and operate STC's electric transmission, distribution and generation facility rights and ownership interests. The term of the agreement commenced May 1, 1997 and, as amended in April 2003, continues until September 30, 2032. In return, OUC's commitment is to pay STC 9.5 percent of gross retail electric billings from STC customers billed during the second preceding fiscal year.

Billed revenue for the years ended September 30, 2017 and 2016, subject to the inter-local agreement is included under the heading of Resale electric revenues and was \$76.2 million and \$76.8 million, respectively. Revenue-based payments recorded under the heading of Payments to other governments and taxes for the years ended September 30, 2017 and 2016 were \$6.9 million and \$6.5 million, respectively.

Orange County: OUC pays a revenue-based payment to Orange County (County) calculated at 1.0 percent of gross retail electric and chilled water billings to customers within the County but outside the city limits of the City of Orlando and other municipalities. This payment is recorded under the heading of Payments to other governments and taxes on the Statements of Revenues, Expenses and Changes in Net Position. Revenue-based payments were \$1.5 million for each of the years ended September 30, 2017 and 2016.

City of Vero Beach: In April 2008, OUC and the City of Vero Beach (Vero Beach) executed a power supply agreement whereby OUC supplements Vero Beach's electric capacity and energy requirements. In association with this agreement, effective January 1, 2010, OUC began providing Vero Beach fuel management services, wholesale power marketing services and other ancillary services. The term of the original agreement was 20-years with a ten-year extension option. The power supply agreement was renegotiated on October 20, 2015 to lower the rate of energy sold to Vero Beach. Billed revenues, included under the heading of Resale electric revenues, were \$31.1 million and \$31.8 million for the years ended September 30, 2017 and 2016, respectively.

In September 2017, Vero Beach notified OUC of their desire to terminate the power purchase agreement with OUC. See Note O for additional information related to this termination.

City of Bartow: In October 2010, OUC entered into an inter-local agreement with the City of Bartow (Bartow) to provide wholesale electric services sufficient to meet Bartow's load requirements. The term of the agreement was seven years with an effective date of January 1, 2011. Billed revenues, included under the heading of Resale electric revenues, were \$18.5 million and \$17.8 million for the years ended September 30, 2017 and 2016, respectively.

In October 2017, the inter-local agreement with Bartow was extended for an additional two years with an effective date of January 1, 2018.

City of Lake Worth: In February 2013, OUC and the City of Lake Worth (Lake Worth) initiated an agreement whereby OUC would act as the administrator to provide wholesale electric and asset management services. The term of the agreement began January 1, 2014 for three years with an option for Lake Worth to extend the term for two additional one-year terms. As of September 2016, the City of Lake Worth exercised its option to extend the term of the agreement through December 31, 2018. Billed revenues, included under the heading of Resale electric revenues, were \$12.1 million and \$11.6 million for the years ended September 30, 2017 and 2016, respectively.

City of Winter Park: In August 2013, OUC and the City of Winter Park (Winter Park) executed a power supply agreement whereby OUC supplements Winter Park's electric capacity and energy requirements. The service date of the agreement was January 1, 2014 with an initial term of six years. Billed revenues, included under the heading of Resale electric revenues, were \$3.6 million and \$4.3 million for the years ended September 30, 2017 and 2016, respectively.

Note L – Pension Plans

Defined Benefit Plan

Plan description: OUC is the administrator of the Orlando Utilities Commission Pension Plan (the Plan), a single-employer, defined benefit pension plan. As such, OUC has the authority to make changes subject to Board approval. Plan assets are segregated from OUC’s assets and are separately managed by the OUC Defined Benefit Pension Administrative Committee or Trustees. The Trustees are appointed by OUC.

In September 2017, OUC established the Orlando Utilities Commission 415(m) Plan Trust Agreement (415 Trust) for pension benefit payments that exceed the Internal Revenue Service Section 415(b) limits. OUC maintains fiduciary responsibility over this non-qualified trust.

The plan issues annual stand-alone financial statements, with the most recent report issued for the year ended September 30, 2016. This report may be obtained by writing to OUC Pension Plans, Reliable Plaza at 100 West Anderson Street, Orlando, Florida 32801 or from the OUC website at www.ouc.com/about-ouc/post-employment-benefit-reporting. The next available report will be issued during 2018 for the plan year ended September 30, 2017.

Benefits provided: Benefits are available to all employees who regularly work 20 or more hours per week and are detailed as follows:

- **Traditional defined benefit offering:** This benefit offering was closed on December 31, 1997 and provides benefits to all employees hired prior to January 1, 1998 who did not elect to transition their pension plan interests to the defined contribution pension plan. Under the provisions of this closed offering, benefits vest after five years of service and are earned for up to a maximum service period of 30 years. Upon retirement, participants who have attained normal retirement age receive a pension benefit equal to 2.5 percent of the highest three consecutive years’ average base earnings times years of employment. The normal retirement age of a participant is the date at which the participant has attained age 62 and five years of participation in the plan. A participant may retire with a reduced benefit at age 55 with a minimum of ten years of service. The benefit reduction for early retirement is 1.0 percent per year for each year which precedes the normal retirement date.

Benefit terms provide for annual cost of living adjustments (COLA) to each employee’s retirement benefit subsequent to the employee’s retirement date. Future COLA increases, each January 1st, are based on the net return on plan investments for the previous fiscal year as follows:

<u>Net investment return</u>	<u>COLA rate</u>
Up to 4.0%	-
Greater than 4.0% up to 8.0%	1.0%
Greater than 8.0% up to 12.0%	1.5%
Greater than 12.0%	2.0%

- **Cash balance defined benefit offering:** This benefit offering is provided to all employees participating in the defined contribution pension plan. The plan is fully funded by OUC and includes a sliding pay credit scale based on the combination of an employee’s age and years of service at September 30. Pay credits range from 5.0 percent to 12.0 percent and are earned annually. A service credit is earned if an employee has worked 1,000 hours or more in the fiscal year. Benefits vest after five years of service and normal retirement is available following the earlier of an employee reaching age 62 with a minimum of five years of service or 30 years of continuous service. Annually, pay credits earn interest based on the net return on plan investments for the previous fiscal year as follows:

<u>Net investment return</u>	<u>Interest credit</u>
Up to 4.0%	4.0%
Greater than 4.0% up to 8.0%	5.0%
Greater than 8.0% up to 12.0%	5.5%
Greater than 12.0%	6.0%



NOTES TO THE FINANCIAL STATEMENTS

Note L – Pension Plans (continued)

The following table presents information about plan participants covered by the benefit terms as of the valuation date for the years ended September 30:

	2017	2016
Active plan members	1,111	1,032
Inactive plan members currently receiving benefits	865	843
Inactive plan members entitled to deferred benefits	128	124
Total	2,104	1,999

Membership in the non-qualified plan included four active employees and three inactive employees currently receiving benefits as of the valuation date for the years ended September 30, 2017 and 2016.

Funding policy: The pension plan agreement requires OUC to contribute, at a minimum, amounts actuarially determined. Required participant contribution obligations for the traditional defined benefit offering are 4.0 percent of earnings until the later of age 62 or completion of 30 years of service, with no required contributions thereafter. No participant contributions are required for the cash balance defined benefit offering.

The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. OUC is required to contribute the difference between the actuarially determined rate and the contribution rate of its employees. The required rate of contribution, based on annual covered payroll, for the years ended September 30, 2017 and 2016 was 27.1 percent and 23.6 percent, respectively.

According to GASB Statement No. 73, assets accumulated for non-qualified pension plan benefit payments were reported in OUC's financial statements. As of September 30, 2017, the 415 Trust was not funded. Future funding of the 415 Trust is expected in fiscal year 2018.

Actuarial methods and assumptions to measure total pension liability (TPL) and net pension liability (NPL): OUC recognized annual Pension expense, TPL, and NPL in accordance with GASB Statements No. 68, "Accounting and Financial Reporting for Pensions", No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date", and No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68". The TPL and NPL as of September 30, 2017 and 2016 were measured as of September 30, 2016 and 2015, respectively. Since the measurement date and valuation date are the same, no update procedures were used to roll forward the TPL from the valuation date to the measurement date.

The measurement of the TPL was determined by an independent actuary in accordance with the American Academy of Actuaries Interpretations, and there were no deviations from the guidance in the Actuarial Standards of Practice in the selection of assumptions used to determine the TPL and related measures. Annual actuarial amounts for reporting were calculated using the entry age normal cost method.

The assumptions used to measure the TPL for both the qualified and non-qualified plans as of September 30, 2016 included an inflation assumption of 2.25 percent per year, salary increases of 3.75 percent to 7.5 percent per year, depending on years of service, annual COLA of 1.5 percent per year, based on actual COLA granted for the year, and 1.0 percent per year, compounded annually for each year thereafter, for the traditional defined benefit offering, and an annual cash balance interest credit rate of 5.0 percent per year for active members and 4.0 percent per year for inactive members. Mortality assumptions were based on the RP-2000 Healthy Annuitant Mortality Table for non-disabled inactive members, with mortality improvements projected to all future years.

The assumptions used to measure the TPL for both the qualified and non-qualified plans as of September 30, 2015 included an inflation assumption of 2.25 percent per year, salary increases of 3.75 percent to 7.5 percent per year, depending on service and inflation, annual COLA of 1.0 percent per year for the traditional defined benefit offering, and an annual cash balance interest credit rate of 5.0 percent per year for active members and 4.0 percent per year for inactive members. Mortality assumptions were based on the RP-2000 Mortality Table Annuitants with mortality improvements projected to all future years.

NOTES TO THE FINANCIAL STATEMENTS

Note L – Pension Plans (continued)

Employer contributions were assumed to be made at the end of each calendar quarter. Member contributions were assumed to be received continuously throughout the year based upon the computed percent of payroll and the actual payroll payable at the time contributions were made.

The projected long-term real rate of return on pension plan investments, valued as of September 30, 2016 and 2015, was determined using a building block method, which considers historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions. These best-estimate ranges, net of assumed long-term inflation of 2.5 percent and investment expenses, are combined to produce the long-term expected rate of return.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table for valuation dates at September 30, 2016 and 2015:

Asset class	Target allocation	Long-term expected real rate of return
Domestic equity	43.0%	7.5%
International equity	15.0%	8.5%
Domestic bonds	17.0%	2.5%
International bonds	5.0%	3.5%
Real estate	10.0%	4.5%
Alternative assets	10.0%	6.2%
Total	100.0%	

In conjunction with the implementation of Statement No. 68 in 2015 and Statement No. 73 in 2017, the balance of the pension asset, as well as the future rate funding of the net pension liability, were classified as a regulatory asset as approved by the Board. Refer to Note G for further details.

Discount rate: The discount rate used to measure the TPL was 7.25 percent, valued as of September 30, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that future employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

The TPL for the non-qualified plan as of September 30, 2016 and 2015 was calculated using a municipal bond rate of 3.06 percent and 3.71 percent, respectively, as reported in the Bond Buyer's "20-Bond GO Index" on September 29, 2016 and September 24, 2015, respectively.

The following presents the sensitivity of the NPL and TPL calculations to a 1.0 percent increase and a 1.0 percent decrease in the discount rates used to measure the TPL at September 30:

(Dollars in thousands)	2016		2015	
	Rate	NPL	Rate	NPL
Qualified plan				
1.0 percent decrease	6.25%	\$ 170,035	6.25%	\$ 179,911
Discount rate	7.25%	\$ 122,795	7.25%	\$ 132,811
1.0 percent increase	8.25%	\$ 82,366	8.25%	\$ 92,601
	Rate	TPL	Rate	TPL
Non-qualified plan				
1.0 percent decrease	2.06%	\$ 1,432	2.71%	\$ 1,231
Discount rate	3.06%	\$ 1,262	3.71%	\$ 1,107
1.0 percent increase	4.06%	\$ 1,123	4.71%	\$ 1,002

NOTES TO THE FINANCIAL STATEMENTS

Note L – Pension Plans (continued)

Net pension liability (NPL): The following schedule presents the changes in NPL at September 30:

(Dollars in thousands)	2017	2016
Total pension liability		
Service cost	\$ 5,539	\$ 5,570
Interest on the total pension liability	32,767	32,104
Benefit changes	-	-
Difference between expected and actual experience	(106)	(2,501)
Assumption changes	171	29,125
Benefit payments, including refunds of plan member contributions	(27,324)	(25,773)
Net change in total pension liability	11,047	38,525
Total pension liability - beginning of year	460,084	421,559
Total pension liability - end of year	\$ 471,131	\$ 460,084
Plan fiduciary net position		
Contributions - employer	\$ 17,803	\$ 18,573
Contributions - plan members	748	821
Total investment income, net of investment expense	29,872	4,783
Benefit payments, including refunds of plan member contributions	(27,324)	(25,772)
Administrative expense	(36)	(123)
Net change in plan fiduciary net position	21,063	(1,718)
Plan fiduciary net position - beginning of year	327,273	328,991
Plan fiduciary net position - end of year	\$ 348,336	\$ 327,273
Net pension liability - beginning of year	\$ 132,811	\$ 92,568
Net pension liability - end of year	\$ 122,795	\$ 132,811

Pension Plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued 2016 OUC Benefit Plan Reports for the years ended September 30, 2016 and 2015.

Total pension liability (TPL) for non-qualified plan: The following schedule presents the changes in TPL for excess pension benefits at September 30:

(Dollars in thousands)	2016	2015
Total pension liability		
Service cost	\$ 22	\$ 21
Interest on the total pension liability	41	40
Difference between expected and actual experience	47	-
Assumption changes	97	-
Benefit payments, including refunds of plan member contributions	(51)	(56)
Net change in total pension liability	156	5
Total pension liability - beginning of year	1,106	1,101
Total pension liability - end of year	\$ 1,262	\$ 1,106

NOTES TO THE FINANCIAL STATEMENTS

Note L – Pension Plans (continued)

Pension liability: The following schedule presents the Pension liability as reported in the Statements of Net Position for the years ended September 30:

(Dollars in thousands)	2017	2016
Qualified plan		
Total pension liability	\$ 471,131	\$ 460,084
Net position	348,336	327,273
Net pension liability	122,795	132,811
Non-qualified plan		
Total pension liability	1,262	1,106
Pension Liability	\$ 124,057	\$ 133,917

Pension expense, Deferred outflows of resources and Deferred inflows of resources: OUC recorded \$17.5 million and \$16.3 million in pension expense and \$0.1 million and \$0.06 million in non-qualified pension plan expense for the years ended September 30, 2017 and 2016, respectively.

The following schedule presents information about the pension-related deferred outflows of resources and deferred inflows of resources at September 30:

(Dollars in thousands)	2017	2016
Deferred outflows of resources		
Qualified plan		
Employer's contributions to the plan subsequent to the measurement of NPL	\$ 21,876	\$ 17,803
Changes in assumptions	19,389	24,188
Net difference between projected and actual earnings on pension plan investments	4,863	13,006
Subtotal qualified plan	46,128	54,997
Non-qualified plan		
Benefit payments	74	50
Changes in assumptions	75	-
Differences between expected and actual experience	36	-
Subtotal non-qualified plan	185	50
Total deferred outflows of resources	\$ 46,313	\$ 55,047
Deferred inflows of resources		
Assumption changes	\$ 7,064	\$ 9,526
Differences between expected and actual experience	2,983	3,756
Total deferred inflows of resources	\$ 10,047	\$ 13,282

NOTES TO THE FINANCIAL STATEMENTS

Note L – Pension Plans (continued)

The following schedule presents the future amortization of pension-related Deferred outflows of resources and Deferred inflows of resources, excluding the balance attributable to the employer's contribution to the plan in the current fiscal year and subsequent to the measurement date. The difference between projected and actual earnings on pension plan investments is recorded in pension expense over a five-year period. Changes in assumptions and the difference between expected and actual experience in the measurement of TPL are recorded in pension expense over a period equal to the average of the expected remaining service lives of all participants in the plan.

Amounts reported as Deferred outflows of resources and Deferred inflows of resources related to pensions will be recognized in pension expense for the years ended September 30:

(Dollars in thousands)	Qualified plan	Non-qualified plan
2018	\$ 3,309	\$ 32
2019	3,309	32
2020	4,806	31
2021	2,781	16
Net deferred outflows of resources	\$ 14,205	\$ 111

Defined Contribution Plan

All employees who regularly work 20 or more hours per week and were hired on or after January 1, 1998, are required to participate in a defined contribution retirement plan established under section 401(a) of the Internal Revenue Code and administered by OUC. In addition, employees hired prior to January 1, 1998, were offered the option to convert their defined benefit pension account to this plan. On September 30, 2017 and 2016, the number of active employees enrolled in this pension plan were 972 and 911, respectively.

Under the plan, each eligible employee, at the start of their employment, is required to contribute 4.0 percent of their salary. This required contribution is matched equally by OUC. Eligible employees may also voluntarily contribute an additional unmatched 2.0 percent of their salary to the Trust. Employees are fully vested after one year of employment. Total contributions for the years ended September 30, 2017 and 2016 were \$7.6 million (\$2.8 million employer and \$4.8 million employee) and \$6.5 million (\$2.5 million employer and \$4.0 million employee), respectively.

Note M – Other Post-Employment Benefits

Plan description: OUC is the administrator of the Orlando Utilities Commission Other Post-Employment Benefits Plan (the Plan), a single-employer, other post-employment benefits (OPEB) plan. As such, OUC has the authority to make changes subject to Board approval. Plan assets are segregated from OUC’s assets and are separately managed by the OUC OPEB Administrative Committee or Trustees. The Trustees are appointed by OUC.

Consistent with the defined benefit pension plan disclosed in Note L, the OPEB plan issues annual stand-alone financial statements, with the most recent report issued for the year ended September 30, 2016. This report may be obtained by writing to OUC OPEB Plans, Reliable Plaza at 100 West Anderson Street, Orlando, Florida 32801 or from the OUC website at www.ouc.com/about-ouc/post-employment-benefit-reporting. The next available report will be issued during 2018 for the plan year ended September 30, 2017.

Benefits provided: OUC offers medical and dental coverage, as well as life insurance coverage, to all employees upon their retirement. Post-employment benefits, in the form of utility discounts, are offered to employees hired prior to 1985. Consistent with the defined benefit pension offerings, two benefit offerings are available for health and medical coverage as follows:

- **Employees participating in the traditional defined benefit pension plan:** Under this health and medical benefit offering, which was closed on December 31, 1997, employees are provided continued access to medical, dental and life insurance coverage upon retirement on or after age 55 with at least ten years of service or at any age after completing 25 or more years of service. Secondary health coverage is also available for those retirees who are Medicare eligible. Costs associated with these benefits are fully subsidized for the employee and partially subsidized for their dependents.

Effective January 1, 2014, the plan was modified to transition over a five-year period the subsidized dependent coverage for Medicare-eligible retirees to 50.0 percent and to phase out the premium subsidy for dependent coverage provided to pre-Medicare-eligible retirees by December 31, 2018. Beginning January 1, 2016, OUC offered a new option for Medicare-eligible retirees to assume coverage under a fully insured Medicare Advantage Program.

- **Employees participating in the cash balance defined benefit plan:** Under this health and medical benefit offering, employees and their dependents are provided access to medical and dental coverage upon retirement on or after age 62 with at least five years of service or at any age after completing 30 years of service. Medical and dental benefits, inclusive of secondary health coverage for Medicare-eligible employees, are not directly subsidized. Participants are eligible for implicit subsidy benefits and, at retirement, access to an employer-funded health reimbursement account (HRA), indexed annually, which can be used to pay all eligible medical costs including medical premiums at retirement.

The following table presents information about plan participants covered by the benefit terms as of the valuation date for the years ended September 30:

	<u>2017</u>	<u>2016</u>
Active plan members	1,122	1,034
Inactive plan members currently receiving benefits	835	815
Total	<u>1,957</u>	<u>1,849</u>

Funding policy: No employee contributions are required for the OPEB plan. Funding for OPEB is established from actuarial valuations and is approved annually by the Board in conjunction with the annual budget.

The annual actuarially determined contribution paid directly to the OPEB Trust (the Trust) for the years ended September 30, 2017 and 2016 was \$13.4 million and \$12.6 million, respectively. Since benefits were paid through operations, OUC was reimbursed by the Trust in 2017 and 2016, in the amounts of \$6.4 million and \$8.1 million, respectively. In 2017, reimbursements from the Trust were lower than OPEB expenses, eliminating the net OPEB reimbursement liability. The net OPEB reimbursement liability as of September 30, 2016 was \$1.4 million.

NOTES TO THE FINANCIAL STATEMENTS

Note M – Other Post-Employment Benefits (continued)

The rate of contribution, based on annual covered payroll for the years ended September 30, 2017 and 2016 was 17.1 percent and 17.6 percent, respectively.

Actuarial methods and assumptions to measure net OPEB liability (NOL): OUC recognized annual OPEB expense and NOL in accordance with GASB Statements No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*,” and No. 85, “*Omnibus 2017*,” based on information obtained from the annual actuarial report. The NOL as of September 30, 2017 and 2016 was measured as of September 30, 2016 and 2015, respectively. Since the measurement date for the total OPEB liability (TOL) and valuation date for the plan fiduciary net position are the same, no update procedures were used to roll forward the TOL from the valuation date to the measurement date.

The measurement of the TOL was determined by an independent actuary in accordance with the American Academy of Actuaries Interpretations, and there were no deviations from the guidance in the Actuarial Standards of Practice in the selection of assumptions used to determine the TOL and related measures. Annual actuarial amounts for reporting were calculated using the entry age normal cost method.

The assumptions used to measure the TOL as of September 30, 2016 included an inflation assumption of 2.25 percent per year for the first 10 years and 2.5 percent thereafter, and salary increases of 3.75 percent to 7.50 percent per year depending on years of service, and a medical cash balance interest crediting rate of 5.0 percent per year for active members and 4.0 percent per year for inactive members. Health coverage assumptions included acceptance rates which were consistent with elections made by retiring employees in recent years (100.0 percent for traditional defined benefit participants, 30.0 percent for cash balance defined benefit participants at a retirement age before 65, and 9.0 percent for cash balance defined benefit participants at a retirement age of 65 and after). The mortality assumptions were based on the RP-2000 Combined Healthy Participant Mortality Table for active members and the RP-2000 Mortality Table for Annuitants for non-disabled inactive members, with mortality improvement projected to all future years using Scale BB. For females, the base mortality rates included a 100.0 percent white collar adjustment. For males, the base mortality rates included a 50.0 percent white collar adjustment and a 50.0 percent blue collar adjustment. Annual actuarial amounts were calculated using the entry-age normal cost method with an increasing normal cost pattern consistent with the salary increase assumption. The healthcare cost trend assumptions are based on a trend rate starting at 6.5% and gradually decreasing to an ultimate trend rate of 4.75% for years ended September 30, 2040 and thereafter.

The assumptions used to measure the TOL as of September 30, 2015 included an inflation assumption of 2.5 percent per year and salary increases of 3.75 percent to 7.50 percent per year depending on service and inflation. Health coverage assumptions included acceptance rates which were consistent with elections made by retiring employees in recent years (100.0 percent for traditional defined benefit participants, 30.0 percent for cash balance defined benefit participants at a retirement age before 65, and 9.0 percent for cash balance defined benefit participants at a retirement age of 65 and after). The mortality assumptions were based on the RP-2000 Mortality Table Annuitants with mortality improvements projected to all future years using Scale BB. For females, the base mortality rates included a 100.0 percent white collar adjustment. For males, the base mortality rates included a 50.0 percent white collar adjustment and a 50.0 percent blue collar adjustment. Annual actuarial amounts were calculated using the entry-age normal cost method with an increasing normal cost pattern consistent with the salary increase assumption. The healthcare cost trend assumptions are based on a trend rate starting at 7.0% and gradually decreasing to an ultimate trend rate of 4.64% for years ended September 30, 2040 and thereafter.

Employer contributions were assumed to be made at the end of each calendar quarter.

The projected long-term real rate of return on OPEB plan investments, valued as of September 30, 2016 and 2015, was determined using a building block method, which considers historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions. These best-estimate ranges, net of assumed long-term inflation of 2.5 percent and investment expenses, are combined to produce the long-term expected rate of return.

NOTES TO THE FINANCIAL STATEMENTS

Note M – Other Post-Employment Benefits (continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table for valuation dates at September 30, 2016 and 2015:

Asset class	Target allocation	Long-term expected real rate of return
Domestic equity	50.0%	7.5%
International equity	15.0%	8.5%
Domestic bonds	20.0%	2.5%
International bonds	5.0%	3.5%
Alternative assets	5.0%	6.2%
Real estate	5.0%	4.5%
Total	100.0%	

In conjunction with the implementation of Statement No. 75, the balance of the OPEB asset, as well as the establishment of the net OPEB liability, were classified as a regulatory asset as approved by the Board. Refer to Notes B and G for further details.

The following schedules present the medical cost increase assumptions used to measure the NOL as of September 30, 2016 and 2015. The trend rate for the cost of benefits and premiums charged to retirees are based on the forecasting model built and published in *Modeling Long-Term Health Care Cost Trends* sponsored by the Society of Actuaries.

Year	Percentage increase valued as of September 30,		Year	Percentage increase valued as of September 30,	
	2016	2015		2016	2015
2016	-	7.00%	2029	5.59%	5.25%
2017	6.50%	6.50%	2030	5.59%	5.24%
2018	6.25%	6.25%	2031	5.45%	5.15%
2019	6.00%	6.00%	2032	5.35%	5.08%
2020	5.85%	7.67%	2033	5.27%	5.03%
2021	6.23%	6.09%	2034	5.22%	4.98%
2022	6.10%	5.94%	2035	5.17%	4.92%
2023	5.97%	5.78%	2036	5.09%	4.87%
2024	5.84%	5.63%	2037	5.00%	4.81%
2025	5.72%	5.48%	2038	4.92%	4.75%
2026	5.59%	5.28%	2039	4.84%	4.70%
2027	5.59%	5.27%	Thereafter	4.75%	4.64%
2028	5.59%	5.26%			

Discount rate: The discount rate used to measure the TOL was 7.25 percent, valued as of September 30, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that future employer contributions will be made at rates equal to the actuarially determined contribution rates. Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the TOL.

NOTES TO THE FINANCIAL STATEMENTS

Note M – Other Post-Employment Benefits (continued)

The following presents the sensitivity of the NOL calculation to a one percent increase and a one percent decrease in the discount rate used to measure the TOL at September 30:

(Dollars in thousands)	2016		2015	
1.0 percent decrease - 6.25%	\$	64,066	\$	104,235
Current discount rate - 7.25%	\$	45,545	\$	81,189
1.0 percent increase - 8.25%	\$	29,975	\$	62,289

The following presents the sensitivity of the NOL calculation to a one percent increase and a one percent decrease in the medical cost assumptions used to measure the TOL at September 30:

(Dollars in thousands)	2016		2015	
1.0 percent decrease - 5.50% decreasing to 3.75%	\$	29,958	\$	61,151
Current assumption - 6.50% decreasing to 4.75%	\$	45,545	\$	81,189
1.0 percent increase - 7.50% decreasing to 5.75%	\$	64,061	\$	105,591

Net OPEB liability (NOL): The following schedule presents the changes in NOL at September 30:

(Dollars in thousands)	2016		2015	
Total OPEB liability				
Service cost	\$	1,346	\$	1,480
Interest on the total OPEB liability		11,882		12,134
Difference between expected and actual experience		(23,970)		3,536
Assumption changes		(2,670)		(452)
Benefit payments, including refunds		(8,063)		(9,067)
Net change in total OPEB liability		(21,475)		7,631
Total OPEB liability - beginning of year		167,250		159,619
Total OPEB liability - end of year	\$	145,775	\$	167,250
Plan fiduciary net position				
Contributions - employer	\$	12,628	\$	14,117
Net investment income/(loss)		9,621		(1,195)
Benefit payments, including refunds		(8,062)		(9,067)
Administrative expense		(18)		(32)
Net increase in plan fiduciary net position		14,169		3,823
Plan fiduciary net position - beginning of year		86,061		82,238
Plan fiduciary net position - end of year	\$	100,230	\$	86,061
Net OPEB liability - beginning of year	\$	81,189	\$	77,381
Net OPEB liability - end of year	\$	45,545	\$	81,189

OPEB Plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2016 OUC Benefit Plan Reports for the years ended September 30, 2016 and 2015.

OPEB expense, Deferred outflows of resources and Deferred inflows of resources: OUC recorded \$3.8 million and \$9.2 million in OPEB expense for the years ended September 30, 2017 and 2016, respectively.

NOTES TO THE FINANCIAL STATEMENTS

Note M – Other Post-Employment Benefits (continued)

The following schedule presents information about the OPEB-related deferred outflows of resources and deferred inflows of resources at September 30:

(Dollars in thousands)	2017	2016
Deferred outflows of resources		
Employer's contributions to the plan subsequent to the measurement of NOL	\$ 13,384	\$ 12,628
Differences between expected and actual experience	2,308	2,922
Assumption changes	-	-
Net difference between projected and actual earnings on OPEB plan investments	2,085	6,211
Total deferred outflows of resources	\$ 17,777	\$ 21,761
Deferred inflows of resources		
Differences between expected and actual experience	\$ 19,888	\$ -
Assumption changes	2,511	373
Total deferred inflows of resources	\$ 22,399	\$ 373

The following schedule presents the future amortization of OPEB-related Deferred outflows of resources and Deferred inflows of resources, excluding the balance attributable to the employer's contribution to the plan in the current fiscal year and subsequent to the NOL measurement date. The difference between projected and actual earnings on plan investments is recorded in OPEB expense over a five-year period. Changes in assumptions and the difference between expected and actual experience in the measurement of TOL are recorded in OPEB expense over a period equal to the average of the expected remaining service lives of all participants in the plan.

Amounts reported as Deferred outflows of resources and Deferred inflows of resources related to OPEB will be recognized in OPEB expense for the years ended September 30:

(Dollars in thousands)	Net deferred outflows of resources
2018	\$ (3,090)
2019	(3,090)
2020	(3,090)
2021	(4,771)
2022	(3,966)
Total	\$ (18,007)

NOTES TO THE FINANCIAL STATEMENTS

Note N – Hedging Activities

OUC manages the impacts of interest rate and fuel market fluctuations on its earnings, cash flows and market value of assets and liabilities through its hedging programs.

Interest rate hedges: Interest rate risk for variable rate debt, is managed through the execution of interest rate swap agreements (swaps). Swaps are executed in accordance with the Treasury policy, presented to the Finance Committee and approved by the Board. Swaps are initiated in conjunction with bond transactions and as such, have inception and termination dates that align with the underlying debt series. Early termination of a swap can be executed in accordance with the terms of the agreement.

The Treasury policy requires counterparty creditworthiness to achieve at least an “A” rating category from at least two of the three nationally recognized rating agencies, at the time of execution, maintaining a rating for qualified swap providers. In addition, two-way credit support agreements may be required with parental guarantees and/or letters of credit or collateral. In respect to the fair value of swaps, the value of these agreements takes into consideration the prevailing interest-rate environment and the specific terms and conditions of each contract. Fair value amounts are estimated using the zero-coupon discounting method, including utilizing option pricing models, which consider probabilities, volatilities, time, underlying prices and other variables.

Fuel rate hedges: Oversight of the fuel hedge program is performed by the Energy Risk Management Oversight Committee (ERMOC). ERMOC’s responsibilities include establishing volume and financial limits, as well as overall program compliance and counterparty creditworthiness. Counterparty creditworthiness is evaluated considering the market segment, financial ratios, agency and market implied ratings and other factors.

As a result of engaging in hedging activities, OUC is subject to the following key risks:

- **Credit risk:** This is the risk that results when counterparties are unable or unwilling to fulfill their present and future obligations. OUC addresses this risk through creditworthiness criteria included in its Treasury policy and responsibilities of the ERMOC. Interest rate counterparties must have minimum credit ratings of “A-”, issued by Standard and Poor’s or Fitch Rating or “A3”, issued by Moody’s Investor Service at the time the agreement is executed.
- **Interest rate risk:** This is the risk that changes in interest rates may adversely affect the fair values of OUC’s financial instruments or cash flows. OUC is exposed to this risk through its pay-fixed receive variable rate swaps and, as such, has managed this risk through active management. There is no exposure to this risk for fuel hedges.
- **Basis risk:** This is the risk that arises when variable rates or prices of swaps and fuel hedges are based on different reference rates. OUC is exposed to this risk on its Series 2011A and 2015B Bonds swap, as the variable-rate index received by OUC differs from the rate paid on the swap. OUC is exposed to this risk for fuel hedges due to a difference in commodity value between different delivery points or between cash market prices and the pricing points used in the financial markets.
- **Termination risk:** This is the risk that a derivative instrument’s unplanned end will affect OUC’s asset and liability strategy or potentially require termination payments. This risk is mitigated through OUC’s creditworthiness criteria. To date, no instances of this nature have occurred.
- **Rollover risk:** This is the risk that a derivative instrument associated with a hedged item does not extend to the maturity of the hedged item. OUC is not exposed to this risk as all derivative instruments are hedged to maturity.
- **Market access risk:** This is the risk that OUC will not be able to enter credit markets for both swaps and fuel hedges or that credit markets will become more costly. OUC maintains a strong credit rating; “AA” from Standard & Poor’s and Fitch Ratings and “Aa2” from Moody’s Investors Service and to date, has not encountered any market barriers or credit market challenges.

NOTES TO THE FINANCIAL STATEMENTS

Note N – Hedging Activities (continued)

In accordance with GASB Statement No. 53 “*Accounting and Financial Reporting for Derivative Instruments*,” outstanding derivatives are evaluated and classified as either hedging derivative instruments (effective) or investment derivative instruments (ineffective), with the accumulated change in fair market value recognized as deferred inflows/outflows of resources or investment income/expense, respectively.

Interest rate derivatives: As of September 30, 2017 and 2016, OUC’s interest rate swaps related to the 2007 and 2015B Bonds have been determined to be effective and, as such, changes in the fair value of these derivatives were included on the Statements of Net Position. In January 2017, the 2011A swap was determined to be ineffective, requiring the current market cost valuation to be recognized as expense in the Statements of Revenues, Expenses and Changes in Net Position in accordance with GASB Statement No. 53 “*Accounting and Financial Reporting for Derivative Instruments*.” Proceeds from the newly issued 2017A Bonds were used to refund the Series 2011A Bonds and suspend cash payments on the forward interest rate contract. A regulatory asset was also established in accordance with GASB Statement No. 62 in the amount of the outstanding swap liability, which is anticipated to be recovered through future market valuation changes.

The following statement summarizes the interest rate derivative contracts outstanding for the years ended September 30:

(Dollars in thousands)	2016 Fair Value	Change in fair value	Settlement / (termination) amount	2017 Fair value	Net settlement charges	Notional amount
Interest rate swap agreements						
2007 Bonds (1)	\$ (224)	\$ -	\$ 224	\$ -	\$ -	\$ 13,400
2015B Bonds (1)	(3,745)	4,628	-	883	1,746	115,090
Forward interest rate contracts						
2017A Bonds (1) (2)	(29,178)	6,816	9,614	(12,748)	1,407	100,000
	<u>\$ (33,147)</u>	<u>\$ 11,444</u>	<u>\$ 9,838</u>	<u>\$ (11,865)</u>	<u>\$ 3,153</u>	

(Dollars in thousands)	2015 Fair value	Change in fair value	Settlement / (termination) amount	2016 Fair value	Net settlement charges	Notional amount
Interest rate swap agreements						
2007 Bonds (1)	\$ (889)	\$ 276	\$ 389	\$ (224)	\$ 259	\$ 13,400
2015B Bonds (1)	-	(3,745)	-	(3,745)	1,782	115,090
Forward interest rate contracts						
2011A Bonds (1) (2)	(26,298)	(2,880)	-	(29,178)	3,533	100,000
	<u>\$ (27,187)</u>	<u>\$ (6,349)</u>	<u>\$ 389</u>	<u>\$ (33,147)</u>	<u>\$ 5,574</u>	

(1) See Note H for additional information.

(2) Upon the refunding of the Series 2011A *Windows* Bonds by the Series 2017A Bonds, the Series 2017A Bonds became the series of bonds related to the 2017A Swap.

NOTES TO THE FINANCIAL STATEMENTS

Note N – Hedging Activities (continued)

Fuel derivatives: Fuel derivatives are settled in the period in which the option expires and are recognized as fuel expenses on the Statements of Revenues, Expenses and Changes in Net Position. Settlement gains and losses for the year ended September 30, 2017 and 2016 for fuel-related derivatives resulted in net losses of \$1.5 million and \$17.1 million, respectively. The outstanding fuel derivatives were determined to be effective, and as such, the changes in fair value have been recorded on the Statements of Net Position as either a Deferred outflow of resources or Deferred inflow of resources until such time as the contracts mature. The following is a summary of the fuel-related derivative transactions for the years ended September 30:

(Dollars in thousands)	2016 Fair value	Change in fair value	2017 Fair value	2017 Notional amount	Volume
Natural gas	\$ 2,040	\$ (1,463)	\$ 577	3,740	MMBTU
Heating Oil	-	72	72	9	BBL
Total current fuel hedge assets	2,040	(1,391)	649		
Natural gas	461	(315)	146	2,550	MMBTU
Heating Oil	80	(45)	35	12	BBL
Total non-current fuel hedge assets	541	(360)	181		
Accumulated increase in fair value hedging derivatives	\$ 2,581	\$ (1,751)	\$ 830		
Natural gas	\$ (2,490)	\$ 1,157	\$ (1,333)	2,830	MMBTU
Crude oil	(621)	559	(62)	8	MBBLS
Total current fuel hedge liabilities	(3,111)	1,716	(1,395)		
Natural gas	(2,876)	2,173	(703)	7,250	MMBTU
Crude oil	(10)	10	-	-	MBBLS
Total non-current fuel hedge liabilities	(2,886)	2,183	(703)		
Accumulated decrease in fair value hedging derivatives	\$ (5,997)	\$ 3,899	\$ (2,098)		

(Dollars in thousands)	2015 Fair value	Change in fair value	2016 Fair value	2016 Notional amount	Volume
Natural gas	\$ -	\$ 2,040	\$ 2,040	6,330	MMBTU
Crude oil	-	-	-	-	MBBLS
Total current fuel hedge assets	-	2,040	2,040		
Natural gas	-	461	461	2,350	MMBTU
Heating Oil	-	80	80	21	
Total non-current fuel hedge assets	-	541	541		
Accumulated increase in fair value hedging derivatives	\$ -	\$ 2,581	\$ 2,581		
Natural gas	\$ (8,149)	\$ 5,659	\$ (2,490)	6,020	MMBTU
Crude oil	(699)	78	(621)	27	MBBLS
Total current fuel hedge liabilities	(8,848)	5,737	(3,111)		
Natural gas	(5,082)	2,206	(2,876)	11,420	MMBTU
Crude oil	(535)	525	(10)	6	MBBLS
Total non-current fuel hedge liabilities	(5,617)	2,731	(2,886)		
Accumulated decrease in fair value hedging derivatives	\$ (14,465)	\$ 8,468	\$ (5,997)		

Note O – Subsequent Event

City of Vero Beach

On October 24, 2017, The City of Vero Beach approved the sale of its city-owned utility system to Florida Power and Light ("FPL") effective October 2018. Upon completion of the sale, OUC's contractual obligation to serve the City of Vero Beach will terminate and OUC will receive a settlement amount of \$20.0 million. In addition, the termination and settlement agreement is contingent upon the execution of a power supply agreement in which FPL must take 85 MWs of capacity and energy from OUC for a two year period immediately following the sale effective date.

REQUIRED SUPPLEMENTARY INFORMATION

Pension Plan

Schedule of changes in net pension liability (NPL), total pension liability (TPL) and related ratios: The following schedules present multi-year trend information that demonstrate the components of change in the TPL and NPL from year to year, as well as trends in related statistical information. Information is presented related to all periods for which the required data is available. Amounts presented are determined as of the measurement date for September 30:

Qualified plan (Dollars in thousands)	2017	2016	2015
Total pension liability			
Service cost	\$ 5,539	\$ 5,570	\$ 5,935
Interest on the total pension liability	32,767	32,104	29,891
Benefit changes	-	-	15,187
Difference between expected and actual experience	(106)	(2,501)	(2,546)
Assumption changes	171	29,125	(14,449)
Benefit payments, including refunds of plan member contributions	(27,324)	(25,773)	(23,095)
Net change in total pension liability	11,047	38,525	10,923
Total pension liability - beginning of year	460,084	421,559	410,636
Total pension liability - end of year	\$ 471,131	\$ 460,084	\$ 421,559
Plan fiduciary net position			
Contributions - employer	\$ 17,803	\$ 18,573	\$ 21,198
Contributions - plan members	748	821	882
Total investment income, net of investment expense	29,872	4,783	28,906
Benefit payments, including refunds of plan member contributions	(27,324)	(25,773)	(23,095)
Administrative expense	(36)	(122)	(85)
Net change in plan fiduciary net position	21,063	(1,718)	27,806
Plan fiduciary net position - beginning of year	327,273	328,991	301,185
Plan fiduciary net position - end of year	\$ 348,336	\$ 327,273	\$ 328,991
Net pension liability - beginning of year	\$ 132,811	\$ 92,568	\$ 109,451
Net pension liability - end of year	\$ 122,795	\$ 132,811	\$ 92,568
Plan fiduciary net position as a percentage of total pension liability	73.9%	71.1%	78.0%
Covered payroll	\$ 75,405	\$ 72,479	\$ 70,147
Net pension liability as a percentage of covered payroll	162.8%	183.2%	132.0%
Non-qualified plan (1) (Dollars in thousands)	2017	2016	
Total pension liability			
Service cost	\$ 22	\$ 21	
Interest on the total pension liability	41	40	
Difference between expected and actual experience	47	-	
Assumption changes	97	-	
Benefit payments, including refunds of plan member contributions	(51)	(56)	
Net change in total pension liability	156	5	
Total pension liability - beginning of year	1,106	1,101	
Total pension liability - end of year	\$ 1,262	\$ 1,106	
Covered payroll	\$ 920	\$ 804	
Total pension liability as a percentage of covered payroll	137.2%	137.6%	

Notes to schedule

(1) For the non-qualified plan, there are no assets accumulated in a trust that meets the criteria in Statement No. 73 to pay related benefits. As such, assets were reported in OUC's financial statements and were not netted against the total pension liability.

Benefit changes: In September 2017, a one-time multiplier rate change was approved by the Board to facilitate compliance with IRS Section 401(a)(17). There were no benefit revisions approved as of the latest valuation dates of September 30, 2016 and 2015.

REQUIRED SUPPLEMENTARY INFORMATION

Pension Plan (cont.)

Assumption changes: In August 2015, an assumption study and experience review for the six-year period ended September 30, 2014 was completed. Changes were implemented effective September 30, 2015 to the salary increase rates, retirement rates, termination rates, and mortality rates.

The investment return rate was 7.25 percent as of the September 30, 2016 and 2015 valuation dates. Because the plan fiduciary net position was projected to be available to make all projected benefit payments, the single discount rate was also 7.25 percent as of September 30, 2016 and 2015, respectively.

Schedule of employer contributions to the pension plan: The following schedule presents multi-year trend information regarding employer contributions to the plan for the years ended September 30:

(Dollars in thousands)	Actuarially determined contribution	Actual contribution	Contribution deficiency / (excess) (1)	Covered payroll (CP) (2)	Contributions as a percentage of CP
2017 (3)	\$ 21,876	\$ 21,876	\$ -	\$ 78,314	27.9%
2016	\$ 18,322	\$ 17,803	\$ 519	\$ 75,405	23.6%
2015	\$ 20,500	\$ 18,573	\$ 1,927	\$ 72,479	25.6%
2014	\$ 21,184	\$ 21,198	\$ (14)	\$ 70,147	30.2%
2013	\$ 18,893	\$ 17,729	\$ 1,164	\$ 73,230	24.2%
2012	\$ 17,120	\$ 16,151	\$ 969	\$ 69,967	23.1%
2011	\$ 17,162	\$ 15,726	\$ 1,436	\$ 28,964	54.3%
2010	\$ 15,012	\$ 15,020	\$ (8)	\$ 30,479	49.3%
2009	\$ 9,970	\$ 10,249	\$ (279)	\$ 30,981	33.1%
2008	\$ 5,665	\$ 5,907	\$ (242)	\$ 31,686	18.6%

Notes to schedule

- (1) Funding requirements were adjusted to include approved ad hoc COLA benefits provided for the periods of 2001 to 2013 and paid outside the Plan on a pay-as-you-go basis through December 31, 2014. As a result, the funding percentage was affected for these benefits. Effective January 1, 2015, the Plan was amended to begin paying these benefits, as well as future COLA benefits, through the Trust. Contributions paid inside and outside the Trust exceeded the required actuarially determined contribution and were used to offset the required contributions for the fiscal years ended September 30, 2016 and 2015.
- (2) Based on GASB Statement No. 82, "Pension Issues," implemented in 2015, covered payroll is defined as the payroll on which contributions to a pension plan are based. In 2012, covered payroll increased due to the establishment of the cash balance pension offering in addition to the traditional defined benefit pension offering.
- (3) The actuarially determined contribution rates are calculated as of October 1 of the year preceding the contribution year, using the following assumptions:

Actuarial cost method: Entry Age Normal

Amortization method and Remaining amortization period: Level dollar, closed and 15 years

Asset valuation method: 20 percent of the difference between expected actuarial value (based on assumed return) and market value is recognized each year with 10.0 percent corridor around market value.

Inflation: 2.25 percent

Salary increases: 3.75 percent to 7.5 percent depending on service, including inflation

Investment rate of return: 7.25 percent

Retirement age: Experience-based table of rates, prior to most recent experience study

Mortality: RP-2000 Mortality Table Annuitants for males and females with future mortality improvements projected to all future years using Scale BB.

REQUIRED SUPPLEMENTARY INFORMATION

Other Post-Employment Benefits Plan

Schedule of changes in net OPEB liability (NOL) and related ratios: The following schedule presents multi-year trend information that demonstrates the components of change in the NOL from year to year, as well as trends in related statistical information. Information is presented related to all periods for which the required data is available. Amounts presented are determined as of the measurement date of the NOL for September 30:

(Dollars in thousands)	2016	2015
Total OPEB liability		
Service cost	\$ 1,346	\$ 1,480
Interest on the total OPEB liability	11,882	12,134
Difference between expected and actual experience	(23,970)	3,536
Assumption changes	(2,670)	(452)
Benefit payments, including refunds	(8,063)	(9,067)
Net change in total OPEB liability	(21,475)	7,631
Total OPEB liability - beginning of year	167,250	159,619
Total OPEB liability - end of year	\$ 145,775	\$ 167,250
Plan fiduciary net position		
Contributions - employer	\$ 12,628	\$ 14,117
Net investment income/(loss)	9,621	(1,195)
Benefit payments, including refunds	(8,062)	(9,067)
Administrative expense	(18)	(32)
Net increase in plan fiduciary net position	14,169	3,823
Plan fiduciary net position - beginning of year	86,061	82,238
Plan fiduciary net position - end of year	\$ 100,230	\$ 86,061
Net OPEB liability - beginning of year	\$ 81,189	\$ 77,381
Net OPEB liability - end of year	\$ 45,545	\$ 81,189
Plan fiduciary net position as a percentage of total OPEB liability	68.8%	51.5%
Covered payroll	\$ 71,856	\$ 72,990
Net OPEB liability as a percentage of covered payroll	63.4%	111.2%

Notes to schedule

Benefit changes: There were no benefit revisions approved as of the latest valuation dates of September 30, 2016 and 2015.

Assumption changes: In August 2015, an assumption study and experience review for the six-year period ended September 30, 2014 was completed and changes were implemented effective September 30, 2015 to the salary increase rates, retirement rates, termination rates, and mortality rates.

The investment return rate was 7.25 percent as of the September 30, 2016 and 2015 valuation date. Because the plan fiduciary net position was projected to be available to make all projected benefit payments, the single discount rate was also 7.25 percent as of September 30, 2016 and 2015.

REQUIRED SUPPLEMENTARY INFORMATION

Other Post-Employment Benefits Plan (cont.)

Schedule of employer contributions to the OPEB plan: The following schedule presents multi-year trend information regarding employer contributions to the plan for the years ended September 30:

(Dollars in thousands)	Actuarially determined contribution	Actual contribution	Contribution deficiency/ (excess)	Covered payroll (CP) (1)	Actual contribution as a % of CP
2017 (2)	\$ 13,384	\$ 13,384	\$ -	\$ 78,447	17.1%
2016	\$ 12,628	\$ 12,628	\$ -	\$ 71,856	17.6%
2015	\$ 14,117	\$ 14,117	\$ -	\$ 72,990	19.3%
2014	\$ 13,558	\$ 13,558	\$ -	\$ 70,692	19.2%
2013	\$ 14,358	\$ 14,325	\$ (33)	N/A	N/A
2012	\$ 14,167	\$ 14,177	\$ 10	N/A	N/A
2011	\$ 14,213	\$ 14,953	\$ 740	N/A	N/A
2010	\$ 14,149	\$ 14,142	\$ (7)	N/A	N/A
2009	\$ 13,683	\$ 14,509	\$ 826	N/A	N/A
2008	\$ 13,876	\$ 14,386	\$ 510	N/A	N/A

Notes to schedule

- (1) Based on GASB Statement No. 85, "Omnibus 2017," implemented in 2016 and restated in 2015, covered payroll is defined as the payroll on which contributions to an OPEB plan are based. Covered payroll was not available prior to 2014.
- (2) The actuarially determined contribution rates are calculated as of October 1 of the year preceding the contribution year, using the following assumptions:

Actuarial cost method: Entry Age Normal

Amortization method: Level percentage of payroll, closed

Remaining amortization period: 8 years

Asset valuation method: 5 year smoothed market with a 10.0 percent corridor around market value

Inflation: 2.25 percent for the first 10 years and 2.5 percent thereafter

Salary increases: 3.75 percent to 7.5 percent depending on service, including inflation

Investment rate of return: 7.25 percent

Retirement age: Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study completed in August 2015.

Mortality: RP-2000 Healthy Annuitant Mortality Table with mortality improvements projected to all future years using Scale BB. For females, the base mortality rates include a 100.0 percent white collar adjustment. For males, the base mortality rates include a 50.0 percent white collar adjustment and a 50.0 percent blue collar adjustment.

In the prior year valuation, the mortality assumptions were based on the RP-2000 Mortality Table Annuitants with mortality improvements projected to all future years using Scale BB. For females, the base mortality rates included a 100.0 percent white collar adjustment. For males, the base mortality rates included a 50.0 percent white collar adjustment and a 50.0 percent blue collar adjustment.



Ernst & Young LLP
Suite 2800
200 South Orange Avenue
Orlando, Florida 32801

Tel: +1 407 872 6600
ey.com

Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To Management and the Commissioners of Orlando Utilities Commission

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Orlando Utilities Commission (OUC), which comprise the statement of net position as of September 30, 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 6, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OUC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OUC's internal control. Accordingly, we do not express an opinion on the effectiveness of OUC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether OUC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

December 6, 2017



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100 WEST ANDERSON STREET
ORLANDO, FL 32801