FLEXIBLE GROWTH

2015 ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

OUC
The *Reliable* One®

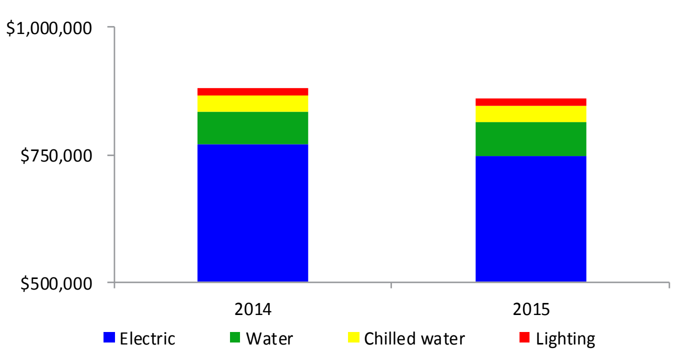
AUDITED FINANCIAL STATEMENTS

FINANCIAL HIGHLIGHTS (Dollars in thousands)	2015	2014	% Increase / -Decrease
Total operating revenues excluding fuel revenue	$ 575,189	$ 563,698	2.0%
Total operating revenues	$ 859,452	$ 879,985	-2.3%
Total operating expenses	$ 723,062	$ 748,037	-3.3%
Fuel for generation and purchased power	$ 316,875	$ 347,896	-8.9%
Interest, gain and net other income	$ 19,088	$ 17,220	10.9%
Interest expense	$ 58,656	$ 59,887	-2.1%
Income before contributions	$ 96,822	$ 89,281	8.4%
Annual dividend	$ 53,211	$ 48,622	9.4%
Utility plant, net	$ 2,378,697	$ 2,354,626	1.0%
Total assets and deferred outflows of resources	$ 3,556,889	$ 3,319,287	7.2%
Long-term debt and Other bonds payable	$ 1,626,147	$ 1,579,363	3.0%
Net position	$ 1,226,361	$ 1,166,249	5.2%
Debt service coverage	2.54	2.52	0.8%
Senior bond ratings (1)	AA, Aa2, AA	AA, Aa2, AA	

STATISTICAL HIGHLIGHTS			
Electric metered services	226,300	220,628	2.6%
Electric sales (MWH)	7,731,958	7,551,150	2.4%
Average annual residential usage (KWH)	11,760	11,488	2.4%
Average residential revenue per KWH	$ 0.1158	$ 0.1220	-5.1%
Water metered services	137,176	135,106	1.5%
Water sales (MGAL)	26,424	25,357	4.2%
Average annual residential usage (KGAL)	80	79	1.3%
Average residential revenue per KGAL	$ 2.6962	$ 2.6608	1.3%

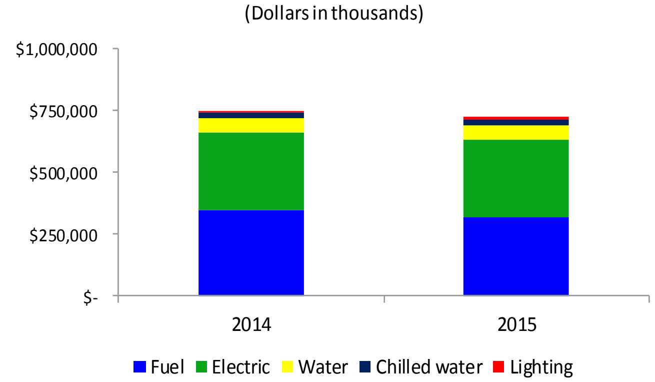
Operating Revenues at September 30

(Dollars in thousands)



Operating Expenses at September 30

(Dollars in thousands)



(1) Bond Rating Agencies: Fitch Ratings, Moody's Investors Service and Standard & Poor's, respectively.
For more detailed statistical information, see OUC's Ten-Year Financial & Statistical Information report.

ORLANDO UTILITIES COMMISSION

September 30, 2015

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COMMISSION MEMBERS & OFFICERS

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Report of Independent Certified Public Accountants

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 year ended September 30, 2015, 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 audit. We conducted our audit 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.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

EY
Building a better working world

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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, 2015, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Adoption of GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date

As discussed in Note B to the financial statements, OUC changed its method of accounting for pensions as a result of the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective October 1, 2014. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 5-14, the schedule of changes in net pension liability and related ratios, the schedule of funding progress, the schedule of employer contributions to the pension plan and the schedule of investment returns on pages 56-58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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 11, 2015 on our consideration of the 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 11, 2015

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.

Kenneth P. Ksionek General Manager & Chief Executive Officer	John E. Hearn Vice President & Chief Financial Officer	Gina R. Johnson Director of Accounting & Budgeting 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. At September 30, 2015, one of the board positions was vacant. 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. No electric rate increases were approved for 2015. A planned water rate increase was approved by the Board for 2015 as part of the budget process, but was deferred until 2016 to align with new conservation and technology initiatives. A rates workshop is planned for early in calendar year 2016 to discuss the proposed changes.

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 section 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 2015, regulatory actions taken by the Board resulted in the deferral of current period revenues in the amount of $14.6 million. Additionally as of October 1, 2014, the Board approved the deferral of $117.7 million associated with the implementation of new defined benefit pension plan guidance, as required by GASB Statement No. 68. See Note B and Note F for additional information related to this implementation and the planned recognition through the ratemaking process in future periods, respectively.

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.

Condensed Statements of Net Position

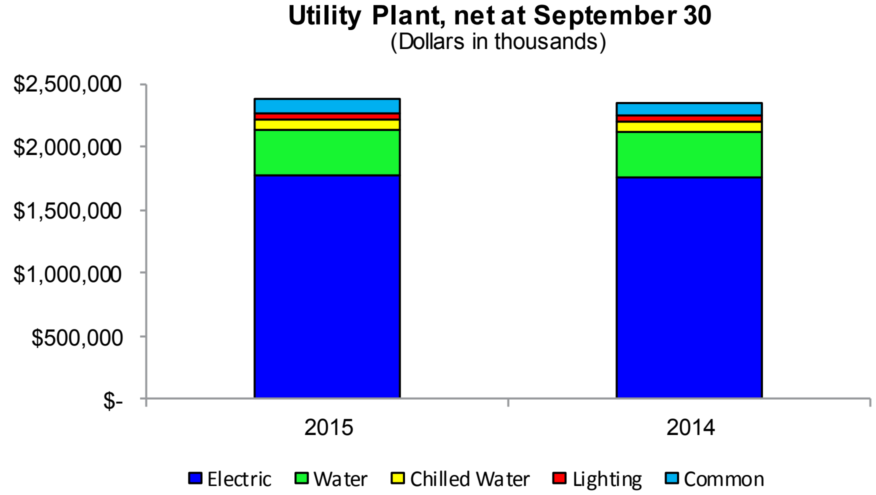
(Dollars in thousands)	Years ended September 30 2015	2014
Assets		
Utility plant, net	$ 2,378,697	$ 2,354,626
Restricted and internally designated assets	610,291	551,263
Current assets	283,540	253,034
Other assets	178,728	84,634
Total assets	**3,451,256**	**3,243,557**
Deferred outflows of resources	**105,633**	**75,730**
Total assets and deferred outflows of resources	**$ 3,556,889**	**$ 3,319,287**
Liabilities		
Long-term debt	$ 1,527,787	$ 1,481,003
Current liabilities	344,777	350,679
Other liabilities and credits	186,269	85,727
Total liabilities	**2,058,833**	**1,917,409**
Deferred inflows of resources	**271,695**	**235,629**
Net position		
Net investment in capital assets	896,496	884,604
Restricted	270	265
Unrestricted	329,595	281,380
Total net position	**1,226,361**	**1,166,249**
Total liabilities, deferred inflows of resources and net position	**$ 3,556,889**	**$ 3,319,287**

The Statement of Net Position for the year ended September 30, 2014 w as not restated for the effects of GASB Statement No. 68.

2015 Compared to 2014

Assets

Utility plant, net: Utility plant, net increased $24.1 million in 2015. Total capital additions in 2015 were $145.2 million and included $25.9 million for generation facility upgrades, $35.6 million in energy delivery upgrades and $16.5 million in water enhancements. Transmission capital additions of $34.8 million included major line upgrades of $25.0 million. Additionally, Information technology project spending included an upgrade to the Outage Management System of $2.2 million and year-to-date spending for the new Customer Care & Billing system of $6.7 million that is expected to be implemented in 2016. These additions were offset by systematic depreciation in the amount of $115.9 million.



Restricted and internally designated assets: Restricted and internally designated assets increased $59.0 million in 2015. In April 2015, OUC received construction fund proceeds of $112.1 million as a result of the issuance of the Series 2015A Bonds. Over the course of the past twelve months, $87.4 million of construction and capital reserve funds were released to fund capital additions. Designated assets also increased due to the Board approved deferral of $13.8 million of operating cash and investments as a result of higher than expected retail revenues and $0.8 million due to an eminent domain action by the Florida Department of Transportation (FDOT). Increased system development charges and a rise in fuel stabilization funds of $5.4 million and $8.3 million, respectively, also contributed to the change.

Current assets: In 2015, Current assets increased $30.5 million from that of the prior year. The increase was attributed to additional cash on hand of $15.5 million as a result of favorable current year operations. Fuel for generation increased $5.2 million as a result of an increase in coal deliveries. Additionally, collateral deposits related to fuel and investment hedges increased $21.4 million. These changes were offset by a decrease in materials and supplies inventory as a result of a one-time adjustment to the allowance for obsolescence reserve of $8.5 million. The inventory adjustment was in response to the changing technologies and evolving industry standards associated with OUC's power generation facilities.

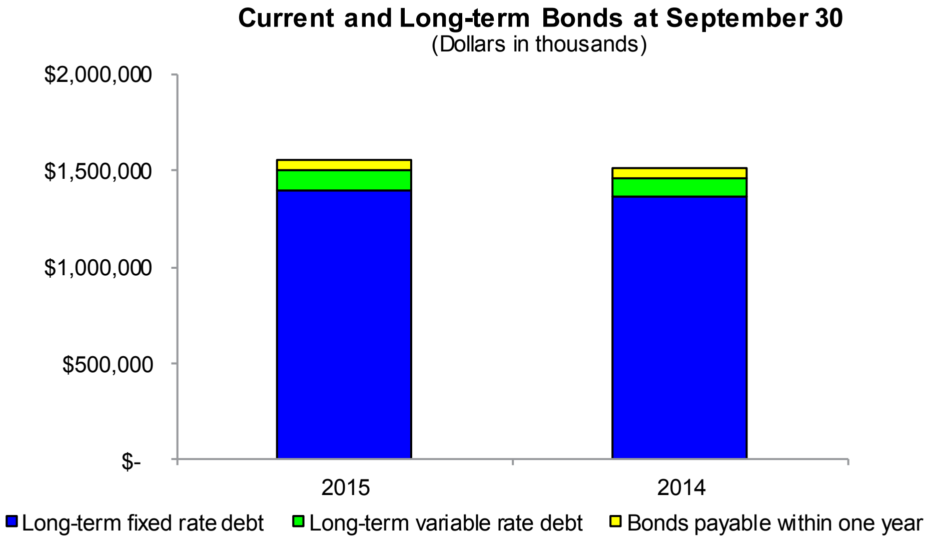
Other assets: Other assets increased $94.1 million in 2015 as compared to 2014. Effects of implementing GASB Statement No. 68 and GASB Statement No. 71 for defined benefit pension plans of $88.3 million were to be applied to the Statement of Net Position in the year of implementation as a reduction to Net position. Additionally, as of September 30, 2014, OUC had advanced funded pension plan assets of $29.4 million. GASB Statement No. 68 guidance required that these costs be adjusted to beginning Net position as of October 1, 2014. To ensure recovery of these pension costs, the Board approved a regulatory accounting action to defer $117.7 million, as permitted under GASB Statement No. 62. See Note B for additional information regarding the implementation of GASB Statement No. 68. Other long-term assets increased $12.4 million due to additional purchased warranty coverage for the Stanton Energy Center Unit B and a prepayment for the fall 2017 turbine inspection. Offsetting these increases was the planned amortization of existing regulatory assets and goodwill of $5.5 million.

Deferred outflows of resources: Deferred outflows of resources increased $29.9 million during 2015 as a result of the deferral of unrealized pension plan contributions of $18.6 million, as part of the GASB Statement No. 71 implementation. See Note B for additional information. Increased fair value hedging derivative instrument valuation changes also increased from that of 2014 by $17.8 million. This was offset by the systematic amortization of debt refunding costs of $6.5 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liabilities

Long-term debt: In 2015, Long-term debt increased $46.8 million as compared to 2014 primarily due to the issuance of the Series 2015A Bonds in the amount of $94.9 million with a premium of $18.0 million. This change was offset by the reclassification of scheduled principal payments under the heading Current liabilities of $55.9 million and the systematic amortization of bond-related premiums of $14.4 million. In addition, fair value derivative instrument losses associated with interest rate swap agreements increased $4.2 million as a result of fluctuating market conditions.



As of September 30, 2015, 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 $5.9 million in 2015 as compared to 2014. Accounts payable and accrued expenses decreased $13.9 million as a result of moderating fuel prices, and the waiver of past tax liabilities related to an unexpected customer tax classification change and resolution of a previously anticipated de-obligation of federal assistance awards of $2.9 million and $2.0 million, respectively. Offsetting the decrease was an increase in unrecognized short-term fuel hedge derivative losses of $8.3 million and an increase in the amount of bonds payable within one year of $2.6 million.

The Series 2011A Bonds continue to be included under the heading of Other bonds payable. These 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 Payable from current assets. Although classified as Payable from current assets, management anticipates this obligation will be outstanding until the scheduled maturity date in 2027.

Other liabilities and credits: Other liabilities increased $100.5 million in 2015. As a result of implementing GASB Statement No. 68 for defined benefit pension plans, OUC reported the actuarial computed net pension liability of $92.6 million as of September 30, 2015. See Note B for additional information. Also contributing to the increase were the asset retirement obligation associated with St. Lucie Unit 2 nuclear generation facility and unrecognized long-term fuel hedge derivative losses of $2.6 million and $5.3 million, respectively.

Deferred inflows of resources: Deferred inflows of resources increased $36.1 million from 2014. The change was primarily due to the unrealized gains related to OUC's defined benefit plan of $18.6 million. In 2015, OUC implemented the reporting requirements of GASB Statement No. 68 for defined benefit pension plans. As such, differences between expected and actual experiences were deferred and amortized over time in the Statement of Revenues, Expenses and Changes in Net Position as pension expense. Regulatory credits increased $18.3 million as a result of Board approved deferrals of $13.8 million in unexpected electric retail revenues and $0.8 million of non-operating revenues, resulting from the eminent domain action by the FDOT. Increased fuel stabilization funds of $8.5 million also contributed to the increase in regulatory credits as a result of lower natural gas and coal prices. These increases were offset by the continued systematic recognition of the deferred gain from the Indian River Plant facility of $3.6 million.

Condensed Statements of Revenues, Expenses and Changes in Net Position

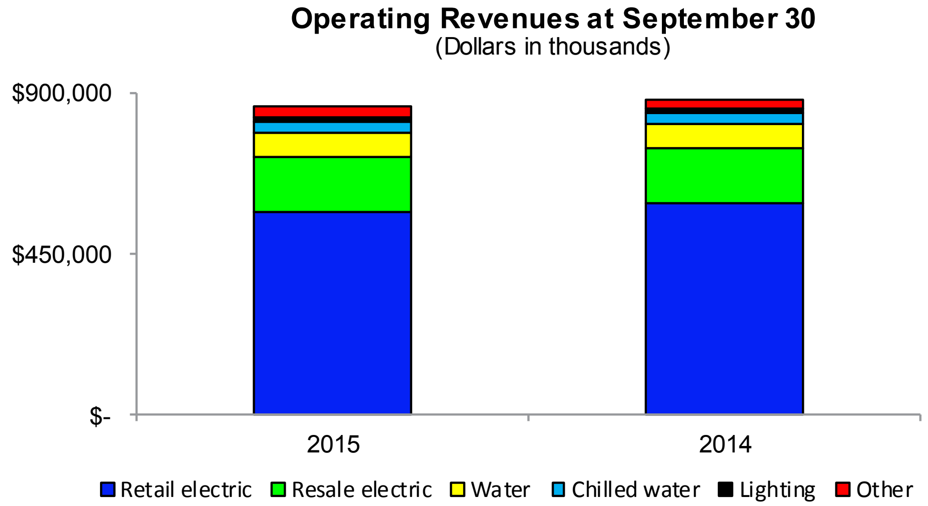
(Dollars in thousands)	Years ended September 30 2015	2014
Operating revenues	$ 859,452	$ 879,985
Operating expenses	723,062	748,037
Operating income	**136,390**	**131,948**
Net non-operating expenses	39,568	42,667
Income before contributions	**96,822**	**89,281**
Contributions in aid of construction	16,501	21,371
Annual dividend	(53,211)	(48,622)
Increase in net position	**60,112**	**62,030**
Net position - beginning of year	**1,166,249**	**1,104,219**
Net position - end of year	**$ 1,226,361**	**$ 1,166,249**

2015 Compared to 2014

Changes in Net Position

Operating revenues: Operating revenues decreased $20.5 million or 2.3 percent in 2015 as compared to 2014. Lower fuel revenues of $32.0 million were the primary driver due to lower coal and natural gas pricing. The 2015 approved regulatory action to defer retail energy revenues of $13.8 million also contributed to the decrease. These decreases were offset by an increase in retail energy revenues of $12.5 million due to customer growth and warmer than normal weather. Additionally, resale energy revenues increased $8.5 million due to a regulatory action approved during 2014 to defer resale revenues of $8.0 million.

Water revenues increased $2.8 million due to consumption growth of 4.2 percent.

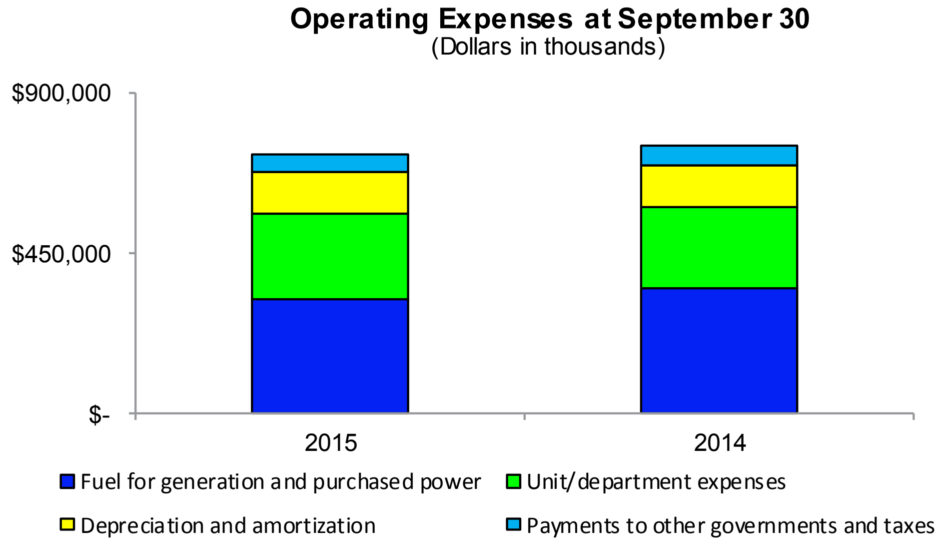


Operating expenses: In 2015, total operating expenses were $25.0 million or 3.3 percent lower than in 2014. Fuel for generation and purchased power costs decreased $32.0 million in 2015 or 10.1 percent as a result of lower coal and natural gas commodity costs.

Unit/department expenses increased $9.9 million or 4.3 percent in 2015. Salary and benefit costs increased $8.0 million as a result of the annual merit program and an increase in the actuarially required pension expense. Other operating and maintenance costs increased from that of 2014 as a result of a one-time adjustment to inventory obsolescence in the amount of $8.5 million. The adjustment was primarily in response to pending regulatory changes as well as new technology related to OUC's power generation facilities. These changes were offset by the reversal of a prior year accrual related to an expected de-obligation of Federal assistance funds of $2.0 million.

Depreciation and amortization was $115.9 million in 2015, which was slightly above that of the prior year due to normal utility plant additions.

Payments to other governments and taxes were $6.0 million lower than the amounts incurred in 2014 due to the reversal of a prior year accrual for an anticipated gross receipts tax obligation of $2.9 million and the final system-use payment to the City of St. Cloud in 2014 of $1.5 million. These decreases were offset by increased payments to state and local governments as a result of higher retail energy revenues.



Net non-operating expenses: Total net non-operating expenses decreased $3.1 million or 7.5 percent in 2015 as compared to 2014. A component of this change was due to lower current period interest expense of $1.2 million and favorable investment market valuation changes of $1.1 million.

Contributions in aid of construction: Contributions in aid of construction of $16.5 million decreased $4.9 million from the prior year as a result of the completion of a large project in St. Cloud during 2014.

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

In 2015, revenues of $859.5 million, net of a Board approved regulatory deferral of $13.8 million related to an unexpected increase in retail energy sales, were $33.0 million below the 2015 budgeted expectation primarily due to lower fuel revenues. The 2016 operating budget reflects a slight revenue increase as the Orlando area continues to grow. There is currently no electric rate increase planned for 2016; however a water rate increase is being considered and projected to increase water revenues by $3.5 million.

In 2015, OUC completed an assumptions study and experience review related to its defined benefit pension plan. The study was performed on the basis of participant data and financial information provided by OUC to its actuaries and covered a six-year period (October 1, 2008 to September 30, 2014) for the traditional defined benefit offering and a four-year period (October 1, 2010 to September 30, 2014) for the cash balance defined benefit offering. These time periods were considered sufficient by the actuary to form appropriate recommendations. The assumption modification noted below is expected to have a significant impact to pension related liabilities and expenses:

- As a result of fluctuations within the mid-term and long-term capital market forecast assumptions and the Pension Plan’s current target asset allocation, OUC’s investment return assumption will move from the current rate of 7.75 percent to 7.25 percent. OUC anticipates that this change will increase the net pension liability by approximately $20.0 million.

Additionally, the currently accepted Florida Retirement System (FRS) mortality assumption is the RP-2000 Combined Healthy Participant Mortality Table, which was used to calculate the pension information reported in the 2015 Statement of Net Position, Note K – Pension Plans and Required Supplementary Information. Beginning with the October 1, 2015 valuation, OUC will transition to the FRS RP-2000 Generational Mortality Table, which is required by state law beginning in 2016. OUC anticipates that this change will increase the net pension liability by approximately $7.0 million.

The impact of these changes is expected to lower OUC’s funded percentage, the plan fiduciary net position as a percentage of total pension liability, by approximately 4.6% (from 78.0 percent funded to 73.4 percent funded, if measured with the October 1, 2014 valuation).

OUC is subject to legislative and regulatory mandates that impact its operations. Electric utilities are subject to emissions requirements which limit emissions of nitrogen oxides (NOX) and sulfur dioxide (SO2), the byproducts of fuel combustion in power plants. Beginning with ozone season 2015, NOx emissions from OUC’s generating units are required to meet Cross State Air Pollution Rule (CSAPR) emission limits. OUC will meet the compliance required limitations through the use of purchased emission allowances. Future compliance costs will be evaluated upon the EPA’s issuance of a revised CSAPR, but are expected to be significant. Additionally, the 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. Finally, 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 the compliance of the rule and allow for the depreciation of OUC assets. See Note I for further information.

Subsequent to year end, OUC finalized the following transactions:

- On October 23, 2015, OUC issued the Series 2015B Bonds, in the amount of $115.1 million, to refund the Series 2009A Bonds of $100.0 million and deferred bond interest of $14.4 million.
- On October 30, 2015, OUC transferred full ownership interest in Crystal River Unit 3 nuclear generation facility as well as all future liabilities to Duke Energy.

See Note N for additional information.

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STATEMENT OF NET POSITION

(Dollars in thousands)	Year ended September 30, 2015
Assets	
Utility plant	
Utility plant in service	$ 3,882,271
Allowances for depreciation and amortization	(1,720,958)
Utility plant in service, net	2,161,313
Land	72,651
Construction work in progress	144,733
Total utility plant, net	**2,378,697**
Restricted and internally designated assets	
Restricted assets	99,328
Internally designated assets	510,963
Total restricted and internally designated assets	**610,291**
Current assets	
Cash and investments	53,627
Customer receivables, net	74,268
Miscellaneous receivables,net	11,980
Accrued utility revenue	39,038
Fuel for generation	30,012
Materials and supplies inventory, net	32,491
Accrued interest receivable	2,329
Prepaid and other expenses	39,795
Total current assets	**283,540**
Other assets	
Net other post-employment benefits assets	628
Regulatory assets	147,516
Other long-term assets	30,584
Total other assets	**178,728**
Total assets	**3,451,256**
Deferred outflows of resources	
Accumulated decrease in fair value of hedging derivatives	41,652
Unrealized pension contributions	18,573
Unamortized loss on refunded bonds	45,408
Total deferred outflows of resources	**105,633**
Total assets and deferred outflows of resources	**$ 3,556,889**

See Notes to the Financial Statements for additional information

STATEMENT OF NET POSITION

(Dollars in thousands)	Year ended September 30, 2015
Liabilities	
Current liabilities	
Payable from restricted assets	
Current portion of long-term debt	$ 55,880
Accrued interest payable on notes and bonds	30,508
Customer meter deposits	54,930
Total payable from restricted and designated assets	**141,318**
Payable from current assets	
Accounts payable and accrued expenses	60,544
Billings on behalf of state and local governments	17,212
Compensated absences and accrued wages	14,702
Accrued governmental payments	2,869
Accrued swap payables	924
Other bonds payable	98,360
Hedge derivative instruments maturing within one year	8,848
Total payable from current assets	**203,459**
Total current liabilities	**344,777**
Other liabilities	
Net pension liability	92,568
Asset retirement obligation and other liabilities	88,084
Hedge derivative instruments	5,617
Total other liabilities and credits	**186,269**
Long-term debt, net	
Bond and note principal	1,398,675
Unamortized premium	101,925
Fair value of derivative instruments	27,187
Total long-term debt, net	**1,527,787**
Total liabilities	**2,058,833**
Deferred inflows of resources	
Unrealized pension gains	18,585
Regulatory credits	251,363
Unamortized gain on refunded bonds	1,747
Total deferred inflows of resources	**271,695**
Net position	
Net investment in capital assets	896,496
Restricted	270
Unrestricted	329,595
Total net position	**1,226,361**
Total liabilities, deferred inflows of resources and net position	**$ 3,556,889**

See Notes to the Financial Statements for additional information

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(Dollars in thousands)	Year ended September 30, 2015
Operating revenues	
Retail electric revenues	$ 563,659
Resale electric revenues	158,622
Water revenues	66,236
Chilled water revenues	30,964
Lighting revenues	13,071
Other revenues	26,900
Total operating revenues	**859,452**
Operating expenses	
Fuel for generation and purchased power	316,875
Unit/department expenses	241,100
Depreciation and amortization	115,857
Payments to other governments and taxes	49,230
Total operating expenses	**723,062**
Operating income	**136,390**
Non-operating income and expenses	
Interest income	5,675
Other income, net	9,785
Amortization of gain on sale of assets	3,628
Interest expense	(58,656)
Total net non-operating expenses	**(39,568)**
Income before contributions	**96,822**
Contributions in aid of construction	16,501
Annual dividend	(53,211)
Increase in net position	**60,112**
Net position - beginning of year	**1,166,249**
Net position - end of year	**$ 1,226,361**

See Notes to the Financial Statements for additional information

STATEMENT OF CASH FLOWS

(Dollars in thousands)	Year ended September 30, 2015
Cash flows from operating activities	
Cash received from customers	$ 872,926
Cash paid for fuel and purchased power	(353,320)
Cash paid for unit/department expenses excluding salaries and benefits	(84,527)
Cash paid for salaries and benefits	(154,147)
Cash paid to other governments and taxes	(48,841)
Net cash provided by operating activities	**232,091**
Cash flows from non-capital related financing activities	
Dividend payment	(53,211)
Build America Bond interest received	3,674
Net cash used in non-capital related financing activities	**(49,537)**
Cash flows from capital related financing activities	
Utility plant net of contributions in aid of construction	(122,808)
Debt interest payments	(63,376)
Collateral deposits	(4,300)
Principal payments & refunding costs on long-term debt	(53,310)
Debt issuances	112,100
Debt issue expense	(890)
Net cash used in capital related financing activities	**(132,584)**
Cash flows from investing activities	
Proceeds from sales and maturities of investment securities	369,525
Gain on sale of investments	323
Purchases of investment securities	(509,317)
Investments and other income received	22,681
Net cash used in investing activities	**(116,788)**
Net decrease in cash and cash equivalents	**(66,818)**
Cash and cash equivalents - beginning of year	**223,866**
Cash and cash equivalents - end of year	**$ 157,048**
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 136,390
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization of plant charged to operations	115,857
Depreciation and amortization charged to fuel for generation & purchased power	3,183
Depreciation of vehicles and equipment charged to unit/department expenses	1,160
Changes in assets and liabilities	
Decrease in receivables and accrued revenue	6,205
Decrease in fuel and materials and supplies inventories	7,611
Decrease in accounts payable	(20,731)
Decrease in deposits payable and liabilities	(28,491)
Increase in stabilization and deferred credits	10,907
Net cash provided by operating activities	**$ 232,091**
Reconciliation of cash and cash equivalents	
Restricted and internally designated equivalents	$ 23,805
Cash and investments	2,193
Construction and related funds	44,717
Debt service and related funds	86,333
Cash and cash equivalents - end of year	**$ 157,048**
Non-cash investing, capital and financing activities	
Increase in donated utility plant assets	$ 4,985
Increase in fair value of investments	$ 1,215
Increase in accounts payable related to utility plant purchases	$ (1,994)

See Notes to the Financial Statements for additional information

NOTES TO 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 OUC, may serve no more than two full consecutive four-year terms. As of September 30, 2015, one of the board positions was vacant.

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, 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 as well as 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.

Note B – Summary of Significant Accounting Policies (continued)

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.

There were no electric rate changes in 2015, nor are there any proposed electric rate changes for 2016.

The planned water rate increase for 2015 was deferred and OUC is currently evaluating a water rate change for 2016. 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 upcoming 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 then submitted to the Board monthly.

Utility plant: Utility plant is stated at historical cost with the exception of the fair value assets recorded in accordance with FERC Order 631, *“Accounting, Financial Reporting, and Rate Filing Requirements for Asset Retirement Obligations”* and impaired assets recorded in accordance with GASB Statement No. 42*, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries”*. Fair value assets are recognized over the license period of the nuclear generation facility and are subject to periodic re-measuring.

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.

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 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 composite depreciation rate, inclusive of impairment expense, was 3.1 percent for 2015. 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 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 are reported in accordance with GASB Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools"*. As such, 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 Statement 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.

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:

(Dollars in thousands)	2015
Realized gains	$ 323
Prior year unrealized gains	$ 247

There were no gains or losses associated with a bond refunding in September 30, 2015.

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 revenues 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 market conditions. Bad debt expenses for estimated doubtful accounts were recorded as a reduction of operating revenues in the Statement of Revenues, Expenses and Changes in Net Position.

The net customer receivable balance of $74.3 million at September 30, 2015 includes an allowance for doubtful accounts of $10.8 million. In 2015, the net customer receivable amount for billings on behalf of the State and other local governments were $7.7 million inclusive of an allowance for doubtful accounts of $1.3 million. Agency billings are not reflected in the Statement of Revenues, Expenses and Changes in Net Position.

As of September 30, 2015, Miscellaneous receivables, including participation billing, were $12.0 million, net of an allowance for doubtful accounts of $0.6 million.

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:

(Dollars in thousands)	2015
Customer receivables, net	
Customer receivables	$ 57,959
Agency receivables	8,640
Wholesale receivables	7,669
Total customer receivables, net	**74,268**
Miscellaneous receivables, net	**11,980**
Total accounts receivable, net	**$ 86,248**

Bad debt expenses were $1.7 million for the year ended September 30, 2015.

Accrued utility revenue: This amount represents electric, water, chilled water and lighting services provided to retail customers, but not billed at the end of the fiscal year. Accrued unbilled revenue at September 30, 2015 was $39.0 million, including unbilled electric fuel revenues in the amount of $12.4 million.

Fuel for generation: Fuel oil and coal were reported at current cost, based on market fuel indices. Fuel for generation at September 30, 2015 was $30.0 million.

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, 2015 was $32.5 million net of an allowance for obsolescence of $14.1 million.

In response to changing technologies and evolving industry standards, OUC conducted an internal study during 2015 to evaluate inventory levels in comparison to industry norms. As a result, OUC began implementing strategies in late 2015 which identified obsolete inventory of $10.2 million of which $1.7 million had been previously accrued. OUC is in the process of preparing these items for sale at either their fair market value or scrap value by the end of fiscal year 2016. The total inventory obsolescence reserve as of September 30, 2015 was $14.1 million, which includes a general inventory obsolescence reserve of $4.1 million.

Prepaid and other expenses: Prepaid expenses represent costs that are anticipated to be recognized in the Statement of Revenues, Expenses and Changes in Net Position in the near future, including service agreement costs and margin deposits. Prepaid and other expenses at September 30, 2015 were $39.8 million, for which collateral deposits related to fuel and interest rate hedge agreements were $33.6 million.

Net other post-employment benefits (OPEB) asset: Changes to the net OPEB asset are recorded in accordance with calculations provided to OUC by its actuaries in conjunction with the respective annual actuarial valuation report. The net asset balance was $0.6 million at September 30, 2015.

Note B – Summary of Significant Accounting Policies (continued)

Hedging derivative instruments: All effective derivative instruments are included on the Statement of Net Position as either an asset or liability measured at fair market 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 were included as part of Fuel for generation and purchased power costs and Interest expense, respectively, in the Statement of Revenues, Expenses and Changes in Net Position. Changes in the fair value of investment derivative instruments were recognized in the Statement of Revenues, Expenses and Changes in Net Position in the period in which they were incurred unless otherwise authorized by Board action to be deferred and recognized through the rate-making process.

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 creditworthiness 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. Crude 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 bond 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 represents scheduled principal payments due within the upcoming year, in accordance with the serial requirements of the bond agreements. Proportionately throughout the year, the annual required funds 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)	2015
Supplier payables	$ 28,314
Fuel and purchased power payables	24,778
Accrued self-insurance expenses	2,560
Other accounts payable and accrued expenses	4,892
Total accounts payable and accrued expenses	**$ 60,544**

Other accounts payable and accrued expenses under this heading include taxes billed on behalf of various governmental authorities and pollution remediation. Pollution remediation of $2.4 million at September 30, 2015, was recorded in accordance with GASB Statement No. 49, *“Accounting and Financial Reporting for Pollution Remediation Obligations”*.

Note B – Summary of Significant Accounting Policies (continued)

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 accrued when earned. At September 30, 2015, the estimated liability for Compensated absences and accrued wages was $14.7 million.

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 current under the heading Other bonds payable.

Pensions: For purposes of measuring the net pension liability, deferred outflow of resources and deferred inflow of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plan (the Plan) and additions to or deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Asset retirement obligation and other liabilities: Included in this amount are the asset retirement obligations (ARO) related to the legal requirement of decommissioning OUC's interest in the St. Lucie Unit 2 (SL 2) and Crystal River Unit 3 (CR 3) nuclear generation facilities and advances received from customers for construction commitments.

The ARO was determined based on the most recent approved FPSC report provided to OUC by the owner-operators of these plants. The amount estimated for OUC's share of the decommissioning cost of these facilities, in 2010 dollars, was $43.2 million and $13.5 million for SL 2 and CR 3, respectively. This liability is systematically accreted over a life consistent with each plant's license period. ARO recorded at September 30, 2015 was $48.2 million for SL 2 and $17.6 million for CR 3.

The operational license expiration date for SL 2 is fiscal year 2043. See Note N for additional information on the status of CR 3.

Other liabilities under this heading included advances received for future services that are recognized over a period consistent with the associated service. At September 30, 2015, this balance was $14.6 million.

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: Funds received from developers and customers including system development fees and assets deeded to OUC for future maintenance were recorded as Contributions in aid of construction in the period in which they were received on the Statement 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.
- **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".

Note B – Summary of Significant Accounting Policies (continued)

Implementation of new accounting standards: Effective October 1, 2014, OUC adopted GASB Statement No. 68 *"Accounting and Financial Reporting for Pensions"*, (Statement No. 68) and GASB Statement No. 71 *"Pension Transition for Contributions Made Subsequent to the Measurement Date"* (Statement No. 71) which amend the requirements of GASB Statement No. 27 *"Accounting for Pensions by State and Local Governmental Employers"* as well as GASB Statement No. 50 *"Pension Disclosures"*, as they relate to governmental employers that account for pensions provided through trusts or equivalent arrangements.

The application of Statements No. 68 and No. 71 establishes standards for measuring and recognizing liabilities, deferred outflows and inflows of resources and expenses related to the government sponsored pension plan.

Net pension liability:

- The Net pension liability as defined by Statement No. 68 is the difference between the actuarial present value of projected pension benefit payments attributable to employees' past service and the Plan's fiduciary net position. As of September 30, 2015, the net pension liability was $92.6 million. Previous to this guidance, a liability was recognized only to the extent that the actuarially calculated contributions were more than the contributions made to the plan.

Deferred outflows of resources and Deferred inflows of resources:

- Statement No. 68 requires recognition of unrealized losses and gains related to pensions. These deferred outflows and inflows of resources are derived from the difference between projected and actual earnings on Plan investments and are to be amortized to pension expense over a closed five-year period. The differences between expected and actual experience with regard to economic or demographic factors in the measurement of total pension liability are to be amortized to pension expense over a closed period equal to the average of the expected remaining service lives of all employees receiving pension benefits. As of September 30, 2015, Unrealized pension gains were $18.6 million.
- Unrealized pension contributions made between the net pension liability measurement date and the employer's fiscal year end are recognized as deferred outflows of resources to be included as an increase to the Plan fiduciary net position in the subsequent fiscal year. Unrealized pension contributions as of September 30, 2015 were $18.6 million.

Additionally, as of September 30, 2014, OUC had advanced funded pension plan assets of $29.4 million.

Effects of implementing Statement No. 68 and Statement No. 71 were applied to the Statement of Net Position as of the implementation date of October 1, 2014. To ensure these costs were recovered through rates, as planned, a Board approved regulatory action of $117.7 million was recorded, as permitted under Statement No. 62, to account for the net effect of the changes resulting from this implementation. The impact for OUC is as follows:

(Dollars in thousands)	Sepetember 30, 2014	Restatement		October 1, 2014
Assets				
Other assets				
Net pension asset	$ 29,448	$ (29,448)	(1)	$ -
Regulatory assets	34,900	117,701	(2)	152,601
Deferred outflows of resources				
Unrealized pension contributions	-	21,198	(3)	21,198
Liabilities				
Other liabilities and credits				
Net pension liability	-	109,451	(4)	109,451
Net position	1,166,249	-		1,166,249

(1) Reclassify Net pension asset as a Regulatory asset
(2) Record Board approved Regulatory asset
(3) Pension contributions funded subsequent to measurement date
(4) Record Net pension liability as of October 1, 2014

Note B – Summary of Significant Accounting Policies (continued)

Recent GASB accounting standards:

	Title, effective date and summary	Summary of the action by OUC
Statement No. 72	**Fair Value Measurement and Application**	
Effective date:	Periods beginning after June 15, 2015	
Description:	This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.	Under review and is not expected to materially change the financial statement presentation
Statement No. 73	**Accounting and financial reporting for pensions and related assets that are not within the scope of GASB No 68 and amendments to certain provisions of GASB No 67 & 68**	
Effective date:	Periods beginning after June 15, 2015	
Description:	The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.	Reviewed and no action required
Statement No. 74	**Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans**	
Effective date:	Periods beginning after June 15, 2016	
Description:	The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.	Under review and is expected to materially change the financial statement presentation
Statement No. 75	**Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions**	
Effective date:	Periods beginning after June 15, 2017	
Description:	The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.	Under review and is expected to materially change the financial statement presentation

NOTES TO FINANCIAL STATEMENTS

Note B – Summary of Significant Accounting Policies (continued)

	Title, effective date and summary	Summary of the action by OUC
Statement No. 76	**The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments**	
Effective date:	Periods beginning after June 15, 2015	
Description:	The objective of this Statement is to identify in the context of the current governmental financial reporting environment the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.	Under review and is not expected to materially change the financial statement presentation
Statement No. 77	**Tax Abatement Disclosures**	
Effective date:	Periods beginning after December 15, 2015	
Description:	Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as inter-period equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.	Reviewed and no action required

Note C – Utility Plant

Activities for the year ended September 30, 2015 were as follows:

(Dollars in thousands)	2014	Additions	Transfers	Retirements/ reclassificatio	2015
Utility plant					
Electric	$ 2,850,213	$ 17,658	$ 70,466	$ 21,273	$ 2,959,610
Water	531,380	5,158	27,685	(12,536)	551,687
Chilled Water	116,875	-	(107)	(257)	116,511
Lighting	71,255	-	2,633	(267)	73,621
Shared/Customer Service	179,645	3,638	20,622	(23,063)	180,842
Total utility plant	**3,749,368**	**26,454**	**121,299**	**(14,850)**	**3,882,271**
Accumulated depreciation					
Electric	(1,258,399)	(73,773)	3,823	(1,776)	(1,330,125)
Water	(199,596)	(16,054)	2,492	6,585	(206,573)
Chilled Water	(38,559)	(4,389)	93	714	(42,141)
Lighting	(30,142)	(3,785)	53	264	(33,610)
Shared/Customer Service	(89,058)	(13,979)	(6,461)	989	(108,509)
Total accumulated depreciation	**(1,615,754)**	**(111,980)**	**-**	**6,776**	**(1,720,958)**
Total depreciable utility plant, net	2,133,614	(85,526)	121,299	(8,074)	2,161,313
Land and other non-depreciable assets	69,455	3,236	-	(40)	72,651
Construction work in progress	151,557	115,524	(121,299)	(1,049)	144,733
Utility plant, net	**$ 2,354,626**	**$ 33,234**	**$ -**	**$ (9,163)**	**$ 2,378,697**

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, providing OUC with approximately 3.0 percent of its water requirements.

Non-OUC operated: OUC maintains an undivided participant interest with Southern Company at their Stanton Unit A combined cycle generation facility located at OUC's Stanton Energy Center (SEC), Florida Power & Light at their St. Lucie Unit 2 nuclear generation facility and the City of Lakeland at their McIntosh Unit 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 Statement of Net Position and disclosed in Note E.

OUC and non-OUC operated agreements and the related undivided interests were 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

Note D – Power Generation Facility Operations (continued)

Asset valuation: Plant balances and construction work in progress for SEC 1, SEC 2, MAC 3 and the Indian River Plant Combustion Turbines (CTs) 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 were 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 depreciation methods and rates relating to their share of the plant.

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

	2015		
(Dollars in thousands)	**Utility plant**	**Accumulated depreciation**	**Net book value**
SEC 2	$ 470,206	$ 220,001	$ 250,205
SEC 1	370,868	224,338	$ 146,530
MAC 3	193,727	126,530	$ 67,197
SL 2	199,199	93,813	$ 105,386
SEC A	84,791	40,404	$ 44,387
IRP	57,456	42,888	$ 14,568
Total	**$ 1,376,247**	**$ 747,974**	**$ 628,273**

Wholly Owned and Operated Generation Facilities

In February 2010, commercial operations began at Stanton Unit B (SEC B), a combined cycle generation facility. SEC B 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, 2015 was $231.2 million.

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Note E – Cash, Cash Equivalents and Investments

OUC maintains a portion of its Cash, cash equivalents and investments in interest-bearing 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 of 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 Statement 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 Statement of Revenue, Expenses and Changes in Net Position. At September 30, 2015, the total amounts of deposits and investments were $663.7 million on the Statement of Net Position.

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

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:** This is the risk that in the event of the failure of a depository financial institution or counterparty, OUC’s deposits may not be returned or OUC will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of another party. OUC does not have a deposit policy for custodial credit risk and as such, $122.1 million of investments held in money market funds and interest-bearing qualified public depository accounts were exposed to this risk as of September 30, 2015. OUC views this type of risk as minimal due to its use of Qualified Public Depositories (QPD’s) of 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 or a Morningstar rating of four out of five stars for funds with a floating net asset value and daily liquidity.

- **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:** This is the risk of loss associated with changes in exchange-rates which could adversely affect investment valuations. As OUC is not authorized to invest in foreign currency, there is no exposure 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)**	**2015**	
U.S. agencies		
Federal National Mortgage Association (Fannie Mae)	12%	$ 81,006
Federal Home Loan Banks	13%	$ 87,860
U.S. treasury notes	13%	$ 88,616
Florida State Board of Administration	8%	$ 55,024

NOTES TO 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, 2015
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	Minimum rating of "A-" / "A3" by at least two nationally recognized rating agencies.	35%	22%
Municipal notes	Minimum "A" rating by a nationally recognized rating agency.	25%	5%
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 markets	Limited to funds that meet a stable net asset value and have the highest available credit rating for this type of security.	20%	-
Commercial paper	Minimum rating of "A-1", "P-1" and "F1" by at least two nationally recognized rating agencies.	20%	13%
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%	10%
Local government surplus funds investment pool	Qualified under the laws of the State of Florida.	25%	8%
U.S. treasury notes	Direct obligations that are unconditionally guaranteed by the United States Government.	100%	13%
U.S. agencies	Indebtedness issued by government-sponsored enterprises (GSE), which are non-full faith and credit by the United States Government.	100%	29%
Mutual funds	Morningstar rating of at least 4 out of 5 stars.	10%	-

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

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

Investment type	Credit ratings (1)	2015
Municipal notes	Aa1-Aa3 / AAA - AA- / AA+ - AA	1.86
U.S. treasury notes	Aaa / AA+ / AAA	1.99
U.S. agencies	Aaa / AA+ / AAA	1.58
Corporate notes	Aaa - A3 / AA+ - A- / AAA - A-	0.86
Commercial paper	A-1 / P-1 / F1	0.03

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

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

(Dollars in thousands)	2015
Cash	**$ 2,193**
Cash equivalents	
Depository accounts	67,035
Local Government Investment Pool	55,024
Commercial paper	26,995
Corporate notes	5,801
Total cash equivalents	154,855
Total cash and cash equivalents	**157,048**
Investments	
U.S. agencies	192,874
U.S. treasury notes	88,616
Corporate notes	136,001
Commercial paper	56,999
Municipal notes	32,183
Total investments	506,673
Total cash, cash equivalents and investments	**$ 663,721**
Restricted and internally designated assets	
Restricted assets	
Nuclear generation facility decommissioning funds	$ 54,589
Construction fund	44,739
Total restricted assets	99,328
Internally designated assets	
Stabilization funds	166,481
Debt service sinking funds	86,333
Renew al and replacement fund	54,539
Deposits and advances	95,142
Capital reserve	98,968
Self-insurance fund	9,500
Total internally designated assets	510,963
Total restricted and internally designated assets	**610,291**
Cash and investments	**53,627**
Less accrued interest receivable from restricted and internally designated assets	**(197)**
Total cash, cash equivalents and investments	**$ 663,721**

Note F – Regulatory Deferrals

Based on regulatory action taken by the Board and in accordance with the Regulated Operations section within 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 Statement No. 68, the Board approved the establishment of a regulatory asset of $117.7 million to ensure that the required accounting changes were recovered through rates consistent with the financial planning process. The amount of the deferred pension costs at September 30, 2015 was $117.0 million. Beginning in 2015, the regulatory asset will be recognized in a method that will, at a minimum, match pension expense to that of the annual required funding amount. The recognition is expected to range from $12.0 million to $14.0 million annually and the planned recovery of these costs over future periods will not exceed ten years.

Unamortized issue costs: In conjunction with the implementation of GASB Statement No. 65 in 2014, OUC established a regulatory asset for unrecognized costs previously incurred in connection with the issuance of debt obligations, principally 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 costs at September 30, 2015 were $6.8 million.

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, 2015 was $2.9 million. Deferred charges are currently amortized to interest expense over the remaining period of the original bond series.

Asset retirement obligation costs: This amount represents the deferral of the difference between retirement obligation expenses and the amounts recovered in rates charged to customers. To date, retirement obligation expenses for, St. Lucie nuclear generation facility, exceed the amounts charged to customers, net of income earned from the associated restricted retirement obligation investments. As such, the asset retirement obligation regulatory asset at September 30, 2015 was $7.9 million.

Unamortized impaired assets: In February 2013, Duke Energy announced their decision to close the Crystal River Unit 3 nuclear generation facility (CR 3). This amount represents the deferral of OUC's portion of CR 3 property, plant, equipment and supplies excluding funds restricted in the decommissioning trust. In October 2014, OUC received a $0.4 million reimbursement from Duke Energy for operating expenses paid subsequent to the initiation of the Settlement, Release and Acquisition agreement. Based on the net realizable value, as determined by the final settlement with Duke Energy, the balance of impaired assets at September 30, 2015 was $13.0 million. See Note N for additional information.

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

(Dollars in thousands)	2015
Unrecognized pension costs	$ 116,972
Unamortized issue costs	6,797
Unamortized interest costs	2,856
Asset retirement obligation costs	7,861
Unamortized impaired assets	13,030
Total regulatory assets	**$ 147,516**

Note F – Regulatory Deferrals (continued)

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, 2015 was $105.1 million, including unbilled fuel revenues of $12.7 million.

Rate stabilization: The Board established these accounts for costs/revenues that are to be recovered by or used to reduce rates in periods other than when incurred/realized. In August 2010, the Board approved the deferral of $5.5 million of retail electric revenue requirements as a result of budgetary changes to both the commencement and depreciable life of Stanton Unit B. These funds are being recognized systematically during the years of 2012 to 2016 in the amount of $1.1 million. In 2015, the Board approved the deferral of $13.8 million as a result of higher than expected sales during the year. The rate stabilization amount as of September 30, 2015 was $60.8 million.

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 2015. The ending balance as of September 30, 2015 was $16.0 million.

Other stabilization funds: 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. These amounts are anticipated to be recognized consistent with the recognition of future nuclear generation development costs and continue to remain outstanding at September 30, 2015.

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 unamortized deferred revenue 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, a gain in the amount of $3.6 million was recognized for the year ended September 30, 2015. The deferred gain on sale of assets at September 30, 2015 was $63.9 million and continues, in accordance with Board action, to be recognized systematically over a period consistent with the life of the Stanton Unit A generation facility.

Note F – 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, 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 Statement of Net Position. The deferred gain on settlement amount at September 30, 2015 was $3.3 million. 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 $166.5 million at September 30, 2015.

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

(Dollars in thousands)	2015
Fuel stabilization	$ 105,130
Rate stabilization	60,824
Deferred wholesale trading profits	16,000
Other stabilization funds	2,175
Deferred revenue regulatory credits	**184,129**
Deferred gain on sale of assets	63,944
Deferred gain on settlement	3,290
Deferred gain regulatory credit	**67,234**
Total regulatory credits	**$ 251,363**

Note G – Long-Term Debt

The following schedule summarizes the debt activity for the year ended September 30:

Bond Series (Dollars in thousands)	Final principal payment	Interest rates (%)	2014	Additions during year	Decreases during year	2015	Current portion
2003T	2018	5.07 - 5.29%	$ 22,675	$ -	$ 4,095	$ 18,580	$ 4,300
2006	2023	4.50 - 5.00%	123,515	-	1,800	121,715	1,870
2007	2014	N/A	21,410	-	21,410	-	-
2009A	2039	5.25%	100,000	-	-	100,000	-
2009B	2033	5.00%	114,125	-	-	114,125	-
2009C	2017	3.50 - 5.00%	71,670	-	16,880	54,790	17,560
2010A	2040	5.662%	200,000	-	-	200,000	-
2010C	2022	3.00 - 5.25%	77,065	-	7,075	69,990	7,415
2011B	2023	3.00 - 5.00%	69,675	-	-	69,675	-
2011C	2027	4.00 - 5.00%	86,450	-	-	86,450	-
2012A	2027	3.00 - 5.00%	52,935	-	-	52,935	-
2013A	2025	3.00 - 5.00%	237,425	-	2,050	235,375	2,120
2015A	2035	5.00%	-	94,905	-	94,905	-
Total fixed rate debt			1,176,945	94,905	53,310	1,218,540	33,265
2007	2016	Variable rate (1)	36,015	-	-	36,015	22,615
2008	2033	Variable rate (1)/(2)	200,000	-	-	200,000	-
2011A	2027	Variable rate (1)/(3)	98,360	-	-	98,360	-
Total variable rate debt			334,375	-	-	334,375	22,615
Total debt			1,511,320	**$ 94,905**	**$ 53,310**	1,552,915	**$ 55,880**
Less: Bonds payable within one year			(53,310)	$ (55,880)	$ (53,310)	(55,880)	
Less: Other bonds payable (3)			(98,360)	-	-	(98,360)	
Less current portion			(151,670)	**$ (55,880)**	**$ (53,310)**	(154,240)	
Total long-term debt			**$ 1,359,650**			**$ 1,398,675**	

(1) Variable rates ranged from 0.01% to 3.042% for the year ended September 30, 2015.

(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.

NOTES TO FINANCIAL STATEMENTS

Note G – 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 2011A Bonds were reported according to the scheduled maturity dates as management anticipates these bonds will remain outstanding.

Variable interest rates and current reference rates are included at their current rates 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
2016	$ 60,765	$ 61,662	$ (3,674)	$ 3,350	$ 122,103
2017	59,510	59,527	(3,694)	3,280	118,623
2018	70,260	57,445	(3,694)	3,030	127,041
2019	61,750	55,571	(3,694)	2,530	116,157
2020	75,415	52,549	(3,694)	2,530	126,800
2021-2025	376,095	205,323	(18,469)	12,650	575,599
2026-2030	297,025	138,832	(18,469)	3,795	421,183
2031-2035	273,110	99,829	(18,044)	-	354,895
2036-2040	223,105	38,222	(9,394)	-	251,933
2041-thereafter	-	-	-	-	-
Long-term debt (1)	**1,497,035**	**768,960**	**(82,826)**	**31,165**	**2,214,334**
Current portion	**55,880**	**59,720**	**(3,678)**	**4,389**	**116,311**
Total debt	**$ 1,552,915**	**$ 828,680**	**$ (86,504)**	**$ 35,554**	**$ 2,330,645**

(1) Long-term debt includes the Series 2011A Bonds, which are classifies on the Statement of Net Position as current due to the absences of an underlying liquidity facility, as it is OUC's intention to hold the series unit its final maturity date on October 1, 2027.

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 or 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 Statement 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.

Note G – Long-Term Debt (continued)

There were no bonds refunded during the year ended September 30, 2015. The balance outstanding for defeased bonds at September 30, 2015 was $193.1 million.

Issued bonds: In April 2015, OUC issued the fixed rate Series 2015A Bonds at a par value of $94.9 million and a premium of $18.0 million with a fixed rate coupon, paid semiannually, of 5.0 percent. Proceeds from the sale of the bonds are being used to finance capital spending through 2016. The bonds are scheduled to mature on October 1, 2035.

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 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 below.

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 $16.5 million were held by OUC counterparties at September 30, 2015.

The following schedule summarizes OUC’s fair value position, based on quoted market rates, for its outstanding swap agreements at September 30, 2015. 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. Derivative instrument disclosure requirements are presented in Note M.

Bond Series (Dollars in thousands)	Notional amount	OUC pays	Rate paid	Rate received	Initiation date	Termination date	2015 Fair value liability	Counterparty	Counterparty credit rating
2007	22,615	Fixed	3.640%	CPI + 105 bps	1/23/2007	10/1/2015	$ 389	Goldman Sachs	A1 / A / A+
2007	13,400	Fixed	3.660%	CPI + 105 bps	1/23/2007	10/1/2016	500	Goldman Sachs	A1 / A / A+
2011A	100,000	Fixed	3.780%	67% of Libor	6/1/2011	10/1/2027	26,298	Morgan Stanley	A3 / A- / A
Total							**$ 27,187**		

Note H – Insurance Programs and Claims

Insurance Programs

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, 2015, 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, 2015 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 Statement of Net Position under the heading of Accounts payable and accrued expenses.

The following is a summary of the self-insurance program liability activity for the year ended September 30:

(Dollars in thousands)	2014	Payments, net	Incurred claims	2015
Workers compensation	$ 500	$ (379)	$ 443	$ 564
General and automobile liability	338	(232)	266	372
Health and medical claims	1,573	(15,332)	15,382	1,623
Total	**$ 2,411**	**$ (15,943)**	**$ 16,091**	**$ 2,559**

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, Florida Statutes limit of liability for claims or judgments by one person for general liability or automobile 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.

Note H – Insurance Programs and Claims (continued)

Nuclear liability insurance: Liability for accidents at the St. Lucie Unit 2 (SL 2) nuclear generation facility, for which OUC has a minority interest, was 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 $375.0 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 owners of a nuclear power plant could be assessed to pay a maximum payout of $127.0 million per unit, per incident at any nuclear utility reactor in the United States, payable at a rate not to exceed $19.0 million per incident, per year.

Uninsured losses, to the extent not recovered through rates, would be borne by each of the owners at their proportionate ownership share and may have an adverse effect on their financial position. Any losses in excess of that amount are self-insured, such that OUC would be responsible for its pro-rata share of any losses in excess of insurance coverage. 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 $1.1 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 I – 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, and the Indian River Plant generation facilities and for its fuel agent obligations for Stanton Unit A and the Vero Beach generation facilities. 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)
2016	$ 118,262
2017	110,673
2018	70,070
2019	56,462
2020	56,310
2021-2025	195,691
2026 - thereafter	147,098
Total	**$ 754,566**

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. The CSA agreement 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 SEC B compressor and rotor coverage for $3.1 million. The aggregate of the CSA agreements are $53.1 million. Additionally in August 2015, the Board approved an additional $11.4 million prepayment for the SEC B gas and steam turbine inspection that will occur in 2018.

Note I – Commitments and Contingent Liabilities (continued)

Crystal River Unit 3 (CR 3): During the planned outage in September 2009 for CR 3, delamination was discovered in the containment building. A second delamination was discovered in 2011. As a result of these findings, Duke Energy announced its decision to close the CR 3 facility in 2013. In response, OUC's Board approved the reclassification of the $15.3 million net book value of CR 3 property, plant, equipment, and supplies as a regulatory asset. In 2014, the joint owners executed a Settlement, Release and Acquisition agreement permitting Duke Energy to file an application with the Nuclear Regulatory Commission for a license amendment which was approved in early 2015. Also during 2015, OUC received $0.5 million of the negotiated reimbursement. See Note N for additional information regarding the termination of this commitment.

Vero Beach agreement: In April 2008, OUC and the City of Vero Beach, Florida ("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 with fuel management services and wholesale power marketing services as well as advisory services for planning, forecasting, regulatory reporting, and power plant operations. The term of the original agreement expired in 2030. In 2012, Vero Beach approached OUC about the possibility of terminating its power supply agreement in conjunction with a proposed sale of its city-owned utility system. As an alternative to the termination agreement, Vero Beach and OUC have renegotiated the power supply agreement which lowers the rate for energy sold to Vero Beach. The agreement will commence on November 1, 2015 and expires in 2023. The alternative agreement does not have a material effect on OUC.

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 August 2010, the EPA proposed the Clean Air Transport Rule (CATR) which not only corrected the Clear Air Instate Rule (CAIR) defects identified by the court, but increased the stringency of the emissions of nitrogen oxides (NOx) and sulfur dioxide (SO2). In July 2011, the CATR was renamed the Cross State Air Pollution Rule (CSAPR). This modified rule aggressively set deadlines for the significant reduction of emissions of NOx and SO2. Concerns regarding the implementation deadline were expressed by the Utility Air Regulatory Group backed by representatives within twenty-five states. Seven states, including Florida, joined the challenge through the Attorney General's offices and filed lawsuits for Judicial Review of the rule including requesting a Judicial stay.

On August 21, 2012, the United States District Court of Appeals for the DC District vacated the CSAPR in its entirety, stating that the EPA had transgressed its statutory boundaries and returned the emission requirements to the previously discussed CAIR Rule Phase I and Phase II. The EPA requested and was provided in the United States Supreme Court the previously discussed Appellate review vacating the CSAPR in 2014. Additional legal challenges to this rule were heard in the DC Circuit, and in July 2015 the CSAPR rule was remanded back to EPA for revision, but with the emission reductions imposed by CSAPR remaining in place and enforceable during the remand period. As a result, beginning with ozone season 2015, NOx emissions from OUC's generating units are required to meet CSAPR emission limits. OUC will meet the compliance required limitations through the use of purchased emission allowances. Future compliance costs will be evaluated upon the EPA's issuance of a revised CSAPR and are expected to be significant.

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. A final ruling for new, modified and existing power plants was announced on August 3, 2015. The implementation will require a significant amount of coordination with state environmental protection agencies. Many states and industry groups are preparing comments, as well as legal strategies to challenge the rule. OUC has been participating in the meetings individually, as well as part of industry groups including the American Public Power Association, the Alliance For Fuel Options Reliability & Diversity, the Large Public Power Council and other state-wide groups. OUC's intentions are to identify a "glide path" that would extend the compliance of the ruling and allow for the depreciation of OUC assets.

Note I – 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 DC District, and in 2014 the DC Circuit upheld the rule. On June 19, 2015 the Supreme Court reversed the DC Circuit's ruling and remanded the rule to the DC Circuit for further proceedings. The DC Circuit must decide whether to vacate the rule, leave it in place, or stay it while the EPA conducts further rulemaking. The DC Circuit will set a briefing schedule, but until it decides, MATS remains in effect. Affected OUC generating units have operated under the requirements of the MATS rule since April 2015, as a result of prior upgrades to address compliance with the existing MATS requirements. If the proposed compliance measures are required, further plant modification costs may be needed and are expected to be significant.

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. Currently, federal legislation is being considered which would authorize and direct the EPA to create a permit program that could be delegated to and implemented by the states and which would remove the citizen suit enforcement mechanism of the rule. Petitions for judicial review of the rule have been filed by environmental and industry groups. 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 and final approval was submitted through a Consummating Order on September 28, 2010. The approved plan calls for OUC to achieve the same level of conservation it has achieved through its programs in the past. Pursuant to Section 366.82, FS, the FPSC must review a utility's conservation goals not less than every five years. The FPSC commenced its review process in August 2013. The FPSC's review of conservation goals and the supporting demand-side management plan is scheduled to be completed in 2015. In the meantime, OUC will continue to address conservation and appropriately budget costs to implement demand-side management, conservation and customer education programs.

Note J – 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 Statement of Revenues, Expenses and Changes in Net Position and is derived to yield a payment of 60.0 percent of net income before contributions. The revenue-based payment for the year ended September 30, 2015 was $28.2 million.

Prior to 2008, the revenue and income-based payments were remitted based on actual revenue billed and income before contributions, respectively. Beginning in 2008 and continuing through 2015, these payments were fixed based on projected revenues and income before contributions. The income-based payment for the year ended September 30, 2015 was $53.2 million.

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 has guaranteed to pay STC 9.5 percent of gross retail electric billings to STC customers and to pay STC’s electric system net debt service. In July 2014, OUC remitted the final payment for the STC electric system net debt service. Debt secured subsequent to the agreement date for electric system upgrades and enhancements has been secured by OUC and is included in Note G.

Billed revenue for this inter-local agreement is included under the heading of Resale electric revenues and was $73.0 million for the year ended September 30, 2015. Revenue based payments and net debt service payments recorded under the heading of Payments to other governments and taxes for the year ended September 30, 2015 was $6.0 million.

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 Statement of Revenues, Expenses and Changes in Net Position. The revenue-based payment accrued was $1.5 million for the year ended September 30, 2015.

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 to Vero Beach fuel management services, wholesale power marketing services as well as advisory services for planning, forecasting, regulatory reporting, and power plant operations. Billed revenues, included under the heading of Resale electric revenues, were $32.6 million for the year ended September 30, 2015. See Note I for additional information regarding this agreement.

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 is seven years and its effective date was January 1, 2011. Billed revenues, included under the heading of Resale electric revenues, were $19.0 million for the year ended September 30, 2015.

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. Billed revenues, included under the heading of Resale electric revenues, were $11.6 million for the year ended September 30, 2015.

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 $4.4 million for the year ended September 30, 2015.

Note K – 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 Board of Trustees. Members of the Board of Trustees, comprised of four active employees and three inactive employees, are appointed by OUC.

Periodically, the plan issues stand-alone financial statements, with the most recent report issued for the year ended September 30, 2013. This report may be obtained by writing to OUC Pension Plans, Reliable Plaza at 100 West Anderson Street, Orlando, Florida 32801 or on the OUC.com website. The next available report will be issued by June 2016 for the year ended September 30, 2015.

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 1.1 percent per year for each year which precedes the normal retirement date.

  In July 2014, the plan was amended to incorporate the annual cost of living adjustments (COLA) approved since October 1, 2000, as well as future COLAs, with monthly payments funded from the Pension Trust, beginning January 1, 2015. Future COLA increases will be based on the net return on plan investments for the previous fiscal year as follows:

Net investment return	COLA rate
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:** Effective May 1, 2011, OUC established a cash balance pension offering for all employees participating in the defined contribution pension plan. This 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:

Net investment return	Interest credit
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%

Note K – Pension Plans (continued)

The following table presents information about employees covered by the benefit terms as of the valuation date for the fiscal year ended September 30:

	2015
Active employees	1,040
Inactive employees currently receiving benefits	845
Inactive employees entitled to deferred benefits	111
Total	**1,996**

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 year ended September 30, 2015 was 27.5 percent.

Net pension liability: The Net pension liability as of September 30, 2015 was measured as of September 30, 2014. Since the measurement date for the total pension liability and the actuarial valuation date are the same, no update procedures were used to roll forward the total pension liability from the measurement date to the actuarial valuation date. The following schedule presents the change in Net pension liability for the year ended September 30:

(Dollars in thousands)	2015
Total pension liability	
Service cost	$ 5,935
Interest on the total pension liability	29,891
Benefit changes	15,187
Difference between expected and actual experience	(2,546)
Assumption changes	(14,449)
Benefit payments, including refunds of employee contributions	(23,095)
Net change in total pension liability	**10,923**
Total pension liability - beginning of year	**410,636**
Total pension liability - end of year	**$ 421,559**
Plan fiduciary net position	
Contributions - employer	$ 21,198
Contributions - employee	882
Net investment income	28,906
Benefit payments, including refunds of employee contributions	(23,095)
Administrative expense	(85)
Net change in plan fiduciary net position	**27,806**
Plan fiduciary net position - beginning of year	**301,185**
Plan fiduciary net position - end of year	**$ 328,991**
Net pension liability - beginning of year	**$ 109,451**
Net pension liability - ending of year	**$ 92,568**

Note K – Pension Plans (continued)

Pension expense, Deferred outflows of resources and Deferred inflows of resources: OUC recorded $22.9 million in pension expense for the year ended September 30, 2015.

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

(Dollars in thousands)		2015
Deferred outflows of resources		
Employer's contributions to the plan subsequent to the measurement of total pension liability	$	18,573
Total deferred outflows of resources	**$**	**18,573**
Deferred inflows of resources		
Net difference between projected and actual earnings on pension plan investments	$	4,485
Assumption changes		11,987
Differences between expected and actual experience in the measurement of total pension liability		2,113
Total deferred inflows of resources	**$**	**18,585**

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 net pension liability 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 total pension liability 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 inflows of resources related to pensions will be recognized in pension expense for the years ended September 30:

(Dollars in thousands)		Deferred inflows of resources
2016	$	4,017
2017		4,017
2018		4,017
2019		4,017
2020		2,517
Total	**$**	**18,585**

Note K – Pension Plans (continued)

Actuarial methods and assumptions: OUC recognizes annual Pension expense and Net pension liability in accordance with GASB Statements No. 68*, "Accounting and Financial Reporting for Pensions,"* and No. 71, *"Pension Transition for Contributions Made Subsequent to the Measurement Date"* based on information obtained from the annual actuarial report.

Annual actuarial amounts for reporting are calculated using the entry age normal cost method. The change in funding method from the previously applied aggregate cost method eliminated the cross-over date, resulting in a single discount rate of 7.75%.

The assumptions used to measure the total pension liability as of the measurement date include an inflation assumption of 2.5 percent per year, salary increases of 5.0 percent per year, and an annual cash balance interest crediting rate of 5.0 percent per year for active members and 4.0 percent per year for inactive members. Mortality rates were based on the RP-2000 Combined Healthy Participant Mortality Tables for males and females with future mortality improvements projected from 2000 to all future years by using Scale AA.

Employer contributions are assumed to be made at the end of each calendar quarter. Member contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made. The pension plan was amended to incorporate an annual COLA into the plan for eligible participants in the traditional defined benefit offering, with monthly payments funded from the Pension Trust, beginning January 1, 2015. COLA payments made prior to January 1, 2015 were paid through operations. Future COLAs are recognized by estimating a 1.0 percent annual COLA assumption. These substantive plan changes were communicated to plan participants prior to September 30, 2014. Prior to the plan amendment, an ad-hoc COLA benefit was provided annually to retirees in the traditional defined benefit offering based on approval by the General Manager and Chief Executive Officer. Effective January 1, 2015, the COLA for 2015 was 1.5 percent.

The projected long-term real rate of return on pension plan investments, valued as of September 30, 2014, 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:

Asset class	Target allocation	Long-term expected real rate of return
Domestic equity	47.2%	7.5%
International equity	16.5%	8.5%
Domestic bonds	19.8%	2.5%
International bonds	5.5%	3.5%
Real estate	11.0%	4.5%
Total	**100.0%**	

Note K – Pension Plans (continued)

Discount rate: The discount rate used to measure the total pension liability was 7.75 percent. 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 total pension liability.

The following presents the sensitivity of the net pension liability calculation to a 1.0 percent increase and a 1.0 percent decrease in the discount rate used to measure the total pension liability at September 30, 2015:

	(Dollars in thousands)	
1.0 percent decrease - 6.75%	$	133,618
Current discount rate - 7.75%	$	92,568
1.0 percent increase - 8.75%	$	57,195

The Defined Benefit Pension Trust (the Trust) maintains a portion of its cash, cash equivalents and investments in interest-bearing qualified public depository accounts with institutions insured by the Federal Deposit Insurance Corporation. Cash, cash equivalents and investments were managed through the Trust's investment advisor (Bogdahn Associates) with oversight responsibility provided from the Defined Benefit Pension Board of Trustees (Trustees). Investing activity was executed in accordance with the policy approved by the Trustees and provides the investment advisor with guidelines to ensure risks associate with these assets are mitigated.

The following are the key controls which the Committee utilizes to mitigate investment risk:

- **Interest rate risk:** The investment policy limits holdings of the Trust based on investment type and credit strength and entrusts the Committee and the Trust's advisor to execute transactions in accordance with the "prudent person" rule requiring the evaluation of current market to ensure overall interest rate risks that might adversely affect the portfolio value are mitigated.

- **Custodial credit risk:** This is the risk that in the event of the failure of a depository financial institution or counterparty, to a transaction, the Trust's deposits may not be returned or the Trust will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of another party. This risk is mitigated as all investment assets are maintained in the name of the Trust and not in the possession or title of a third party.

- **Credit risk:** These risks are mitigated by providing specific guidance as to the weighting and integrity of the deposit and investment instruments other than those investments in U.S. Treasury and U.S. Government Agency obligations as well as the execution of these transactions by management in accordance with the "prudent person" rule.

- **Foreign currency risk:** This is the risk of loss associated with changes in exchange-rates which could adversely affect investment valuations.

Investment valuation: Investments in mutual funds were stated at fair value based on quoted market prices. In the case of real estate investments, annual valuations are performed by independent third-party appraisal for each property in the portfolio with consideration made for monthly events that impact property values. Alternative investments were stated at the net asset value or quoted market price based on the composition of the fund as calculated by the fund advisor. Purchases and sales of securities were reflected on a trade-date basis.

Rate of return: The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 9.62 percent for the year ended September 30, 2014. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTES TO FINANCIAL STATEMENTS

Note K – Pension Plans (continued)

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

Investment	Average Credit Rating	2014
Corporate bonds	Baa2	11.84
Mortgage-backed securities	Aaa	5.17
Asset-backed securities	Aaa	0.58
U.S. government bonds and treasury bills	Aaa	7.27

The fair values of the underlying assets of the mutual funds held by the Trust as of the measurement date of September 30, were as follows:

(Dollars in thousands)	2014
Fixed income	
Mutual funds	$ 50,597
Corporate bonds	10,390
Mortgage-backed securities	7,942
Asset-backed securities	304
U.S. government bonds and treasury bills	3,198
Total fixed income	72,431
Equity mutual funds	150,286
International equity mutual funds	46,307
Real estate mutual funds	30,131
Alternative investment mutual funds	17,536
Money market and temporary investments	12,231
Total Investments	**$ 328,922**

During 2014, the Trust's investments (including gains and losses on investments bought and sold, as well as held during the year) increased in value as follows:

(Dollars in thousands)	2014
Fixed income	$ 12,590
Equity	5,880
International equity	7,401
Real estate	5,311
Alternative investment	(8,606)
Net appreciation by fund type	**$ 22,576**

The following table includes fair valued investments as of the measurement date of September 30 with concentrations greater than 5.0 percent for a single issuer:

(Dollars in thousands)	2014
Eagle Capital	$ 32,864
Vanguard Total Stock Market Index	$ 32,129
Wells Capital	$ 30,357
DSM Capital Partners	$ 30,166
American Funds EuroPacific Growth	$ 26,240
GAMCO	$ 24,917
Taplin	$ 21,834
Pimco Total Return Fund - Institutional	$ 21,611
Manning & Napier Overseas	$ 20,067
Pimco Diversified Income - Institutional	$ 16,414

Note K – Pension Plans (continued)

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, 2015 there were 800 active employees enrolled in the defined contribution plan.

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. Employees are fully vested after one year of employment. Total contributions for the year ended September 30, 2015 were $5.7 million ($2.2 million employer and $3.5 million employee).

Note L – Other Post-Employment Benefits

Health and Medical Insurance

Plan description: OUC is the administrator of the Orlando Utilities Commission Other Post Employment Benefit Plan (the Plan) which offers medical and dental coverage, as well as life insurance coverage, to all employees upon their retirement. Other Post-employment benefits (OPEB), in the form of utility discounts, are offered to employees hired prior to 1985.

Actuarial reports are prepared annually with the most recent report completed for the period ended September 30, 2015. To better match the budgetary and rate-making requirements, the actuarial reports received each year disclose the valuation of plan assets and actuarial liabilities as of the beginning of the current fiscal year for required contribution levels in the subsequent fiscal year. In 2015, consistent with the actuarial valuation for funding of the defined benefit pension plan, OUC adopted a two-year prospective valuation methodology. As such, the actuarial valuation report dated October 1, 2013 was used for the year ended September 30, 2015. As of the October 1, 2013 valuation date, 1,050 plan participants (289 active employees and 761 retired employees) were eligible for fully subsidized medical and dental coverage and 779 plan participants (763 active employees and 16 retired employees) were eligible for implicit subsidy benefits.

As the administrator of the plan, OUC has the authority to make changes thereto. Consistent with the defined benefit pension plan disclosed in Note K, the OPEB plan issues stand-alone financial statements. The most recent report was issued for the year ended September 30, 2013. This report may be obtained by writing to OUC Pension Plans, Reliable Plaza at 100 West Anderson Street, Orlando, Florida 32801 or on the OUC.com website. The next available report will be issued by June 2016 for the year ended September 30, 2015.

Benefits provided: 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, 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.

The plan will transition the subsidized dependent coverage for Medicare eligible retirees to 50% and phase out the premium subsidy for dependent coverage provided to pre-Medicare eligible over a five-year period ending September 30, 2020.

Note L – Other Post-Employment Benefits (continued)

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), in the amount of $400 per year of active service, indexed annually, which can be used to pay all eligible medical costs including medical premiums at retirement.

Funding policy: In accordance with GASB Statement No. 45, *"Accounting and Financial Reporting by Employers for Post-Employment Benefits other than Pensions"*, funding for post-employment benefits is established from actuarial valuations and is approved annually by the Board.

The annual required contribution provided to OUC as part of the actuarial valuation report prepared on October 1, 2013 for the year ended September 30, 2015 was $14.1 million. In 2015, OUC began paying the full actuarially determined contribution directly to the OPEB Trust (Trust). In return, OUC was reimbursed by the Trust for the actuarially expected costs of retiree coverage, in the amount of $9.1 million. The $1.2 million difference between the Trust reimbursement and $7.9 million in actual costs incurred was netted against the contribution to the Trust to calculate the net OPEB asset as of September 30, 2015.

The rate of contribution, based on annual covered employee payroll for the year ended September 30, 2015 was 19.3 percent. The 2003 Medicare Prescription Drug, Improvement, and Modernization Act, effective January 1, 2006, provides a subsidy for prescription drug purchases under Medicare Part D. For Medicare retirees not participating in Medicare Part D due to equivalent drug coverage through an employer-sponsored healthcare plan, the sponsoring employer is eligible to receive a subsidy for the cost of prescription drugs obtained through the plan. For the year ended September 30, 2015, payments totaled $0.5 million. In accordance with GASB Technical Bulletin 2006-01, *"Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D"*, future projected payments from the Federal Government have not been used to lessen total projected obligations under OUC's health plan.

Actuarial methods and assumptions: Projection of benefits for financial reporting purposes was based on the substantive plan, as defined by GASB Statement No. 45, and includes the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used, including techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, were consistent with the long-term perspective of the calculations. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events into the future; as such, these actuarial amounts are subject to continual valuation.

The annual actuarial valuations were prepared using the frozen entry age normal cost method with an increasing normal cost pattern consistent with the salary increase assumption. The actuarial assumptions used for the October 1, 2013 valuation were as follows:

Investment rate of return	7.75%
General price inflation rate	3.0%
Annual healthcare cost trend rate	8.0%
Salary increase	5.0%

Annual OPEB cost and net OPEB asset: OUC's annual OPEB expense is calculated based on the annual required contribution (ARC) actuarially determined in accordance with the parameters of GASB Statement No. 45. In 2015, OUC's annual OPEB expense was $14.2 million.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and a portion of the unfunded actuarial liabilities over a period of ten years, a period consistent with the estimated employment tenure of those employees receiving fully subsidized benefits. The net OPEB asset at September 30, 2015 was $0.6 million.

Note L – Other Post-Employment Benefits (continued)

The following table shows the components of OUC's OPEB cost, current year contributions and changes in the net OPEB asset at September 30:

(Dollars in thousands)	2015
Actuarial required contribution (ARC)	$ 14,117
Interest earnings on net OPEB asset	(149)
Adjustment to ARC	245
Annual OPEB expense	**$ 14,213**
Amount paid to OPEB Trust	$ 14,117
Annual OPEB expense	(14,213)
Excess amount reimbursed from OPEB Trust	(1,196)
Decrease in net OPEB asset	(1,292)
Net OPEB asset - beginning of year	1,920
Net OPEB asset - end of year	**$ 628**

The following table summarizes the three-year trend information for the OPEB plan including the annual OPEB cost. In addition, the schedule includes the amount and percentage of current year funds contributed.

(Dollars in thousands)	Annual OPEB cost	Current year contributions	Excess amount reimbursed from OPEB trust	Net OPEB Asset	Percentage of annual OPEB cost contributed
2015	$ 14,213	$ 14,117	$ (1,196)	$ 628 **(1)**	90.9%
2014	$ 13,636	$ 13,558	$ -	$ 1,920	99.4%
2013	$ 14,398	$ 14,325	$ -	$ 1,998	99.5%

(1) In 2015, OUC began paying the full actuarially determined contribution directly to the OPEB Trust. In return, OUC was reimbursed by the Trust for the actuarially expected costs of retiree coverage. The $1.2 million difference between the Trust reimbursement and $7.9 million in actual costs was netted against the contribution to the Trust, resulting in a decrease in the percentage of the annual OPEB costs contributed to 90.9%.

Funded status and funding progress: At September 30, 2015, the plan was 41.2 percent funded. The actuarial accrued liability for benefits was $166.9 million and the actuarial value of the plan assets was $68.7 million for an unfunded actuarial accrued liability (UAAL) of $98.2 million. Covered payroll (including 289 employees receiving fully subsidized benefits and 763 employees receiving implicit subsidy benefits) was $73.0 million and the ratio of the UAAL to the covered payroll was 134.5 percent.

The Schedule of Funding Progress, which presents multi-year trend information, follows the Notes to the Financial Statements under the heading of Required Supplementary Information.

Note M – 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 typically executed in conjunction with a bond transaction 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.

Note M – Hedging Activities (continued)

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 will 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 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 and 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 exposed to rollover risk on swaps and hedges that mature or terminate prior to the maturity of the hedged item. This risk is mitigated through OUC’s underlying derivative policies, the creditworthiness of its counterparties and the volume and nature of its fuel derivatives.

- **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.

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.

Note M – Hedging Activities (continued)

Interest rate derivatives: OUC's interest rate swaps have been determined effective and, as such, changes in the fair value of these derivatives have been included on the Statement of Net Position.

The following statement summarizes the changes in fair value for the interest rate derivative contracts outstanding for the year ended September 30:

(Dollars in thousands)	2014 fair value	Change in fair value	Settlement / (termination) amount	2015 fair value	Net settlement charges	2015 notional amount
Interest rate swap agreements						
2007 Bonds (1)	$ (1,032)	$ 143	$ -	$ (889)	$ 672	$ 36,015
Forward interest rate contracts						
2011A Bonds (1)	(21,975)	(4,323)	-	(26,298)	3,665	$ 100,000
Accumulated (decrease) / increase in fair value hedging derivatives	**$ (23,007)**	**$ (4,180)**	**$ -**	**$ (27,187)**	**$ 4,337**	

(1) Additional interest rate swap information is included in Note G.

Fuel derivatives: Fuel derivatives are settled in the period in which the option expires and are recognized as fuel expenses on the Statement of Revenues, Expenses and Changes in Net Position. Settlement gains and losses for the year ended September 30, 2015 for fuel related derivatives resulted in net losses of $8.2 million. The outstanding fuel derivatives were determined to be effective and as such, the changes in fair value are recorded on the Statement of Net Position as either a Deferred outflow of resources or Deferred inflow of resources until such time as the contract matures.

The following is a summary of the changes in fair value for the fuel related derivative transactions for the year ended September 30:

(Dollars in thousands)	2014 fair value	Change in fair value	2015 fair value	2015 notional amount	Volume
Natural gas	$ 436	$ (436)	$ -	-	MMBTU
Crude oil	12	(12)	-	-	MBBLS
Total current fuel hedge assets	**448**	**(448)**	**-**		
Natural gas	226	(226)	-	-	MMBTU
Crude oil	-	-	-	-	MBBLS
Total non-current fuel hedge assets	**226**	**(226)**	**-**		
Accumulated decrease in fair value hedging derivatives	**$ 674**	**$ (674)**	**$ -**		
Natural gas	$ (483)	$ (7,666)	$ (8,149)	12,730	MMBTU
Crude oil	(29)	(670)	(699)	28	MBBLS
Total current fuel hedge liabilities	**(512)**	**(8,336)**	**(8,848)**		
Natural gas	(239)	(4,843)	(5,082)	9,850	MMBTU
Crude oil	(50)	(485)	(535)	30	MBBLS
Total non-current fuel hedge liabilities	**(289)**	**(5,328)**	**(5,617)**		
Accumulated decrease in fair value hedging derivatives	**$ (801)**	**$ (13,664)**	**$ (14,465)**		

Million British Thermal Units (MMBTU)
Thousand Barrels (MBBLS)

Note N – Subsequent Events

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 (London Interbank Offer Rate). 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.

On October 30, 2015, full ownership interest of the Crystal River Unit 3 (CR 3) nuclear generation facility along with all future liabilities associated with the unit were transferred from the joint owners to Duke Energy via a special warranty deed. This transfer was initiated by Duke Energy's decision to close CR 3 as a result of delamination within the unit. In addition the decommissioning trust funds held by OUC of $13.5 million were reassigned to Duke Energy. In return, Duke Energy remitted a settlement payment of $12.6 million to OUC. These funds will be designated as renewal and replacement funds, as per the policy, and used to facilitate future capital improvements.

Pension Plan

Schedule of changes in net pension liability and related ratios: The following schedules present multi-year trend information that demonstrates the components of change in the net pension liability 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 net pension liability for September 30:

(Dollars in thousands)		2015
Total pension liability		
Service cost	$	5,935
Interest on the total pension liability		29,891
Benefit changes		15,187
Difference between expected and actual experience		(2,546)
Assumption changes		(14,449)
Benefit payments, including refunds of employee contributions		(23,095)
Net change in total pension liability		**10,923**
Total pension liability - beginning of year		**410,636**
Total pension liability - end of year	**$**	**421,559**
Plan fiduciary net position		
Contributions - employer	$	21,198
Contributions - employee		882
Net investment income		28,906
Benefit payments, including refunds of employee contributions		(23,095)
Administrative expense		(85)
Net change in plan fiduciary net position		**27,806**
Plan fiduciary net position - beginning of year		**301,185**
Plan fiduciary net position - end of year	**$**	**328,991**
Net pension liability - beginning of year	**$**	**109,451**
Net pension liability - ending of year	**$**	**92,568**
Plan fiduciary net position as a percentage of total pension liability		**78.0%**
Covered employee payroll	**$**	**84,539**
Net pension liability as a percentage of covered employee payroll		**109.5%**

Notes to schedule:

Benefit changes: In 2014, the plan was amended to begin paying past and future COLAs from the plan, as of January 1, 2015.

Pension plan (continued)

Schedule of employer contributions to the pension plan: The following schedule presents multi-year trend information regarding employer contributions to the plan. The amounts presented are determined as of September 30:

(Dollars in thousands)	Actuarially determined contributions	Actual contribution	Contribution deficiency / (excess)(1)	Covered employee payroll (CEP) (2)	Contributions as a percentage of CEP
2015	$ 20,500	$ 18,573	$ 1,927	$ 87,659	21.2%
2014	$ 21,184	$ 21,198	$ (14)	$ 84,539	25.1%
2013	$ 18,893	$ 17,729	$ 1,164	$ -	-
2012	$ 17,120	$ 16,151	$ 969	$ -	-
2011	$ 17,162	$ 15,726	$ 1,436	$ -	-
2010	$ 15,012	$ 15,020	$ (8)	$ -	-
2009	$ 9,970	$ 10,249	$ (279)	$ -	-
2008	$ 5,665	$ 5,907	$ (242)	$ -	-
2007	$ 5,872	$ 6,020	$ (148)	$ -	-
2006	$ 5,840	$ 5,989	$ (149)	$ -	-

(1) Funding requirements were adjusted to include approved non-binding ad-hoc cost of living (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 non-binding benefits. Effective January 1, 2015, the plan was amended to begin paying these benefits, as well as future COLA benefits, through the plan. In 2014, the actual employer contribution did not include ad-hoc COLA payments, in the amount of $2.0 million, that were paid to beneficiaries outside the Trust. Contributions paid inside and outside the Trust totaled $23.2 million and exceeded the required contribution of $21.2 million. This excess was treated as an overpayment for the fiscal year ended September 30, 2014 and was used to offset the required contribution for the fiscal year ended September 30, 2015.

(2) Covered employee payroll, was not available prior to 2014.

Notes to schedule:

Valuation date: October 1, 2013. Actuarially determined contributions are calculated as of October 1, which is twelve months prior to the beginning of the fiscal year in which contributions are made and reported.

Actuarial cost method: Aggregate Actuarial Cost Method

Amortization method and remaining amortization period: Not applicable

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 percent corridor around market value.

Inflation: 2.5 percent

Salary increases: 5.0 percent

Investment rate of return: 7.75 percent

Experience studies: Demographic and economic experience is reviewed each year for consistency with the assumptions (i.e., retirement, turnover rates, investment returns, etc.), and changes are made as needed.

Mortality: RP-2000 Combined Healthy Participant Mortality Tables for males and females with future mortality improvements projected from 2000 to all future years by using Scale AA.

The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities. Information regarding funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose. The information presented is intended to approximate the funding progress of the plan.

Schedule of investment returns: The following schedule presents 10 years of information on the annual money-weighted rate of return, calculated as the internal rate of return on pension plan investments, net of pension plan investment expense. A money-weighted rate of return expresses investment performance, net of pension plan investment expense, and is adjusted for the varying amounts actually invested on a monthly basis. This scheduled, including pension plan investment expense, was measured using the accrual basis of accounting.

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Annual money-weighted rate of return, net of investment expense	1.39%	9.62%	12.83%	20.89%	-0.35%	9.99%	-2.56%	-14.30%	-7.81%	7.45%	13.95%

Other Post-Employment Benefit Plan

Schedule of funding progress: The following funding schedule presents multi-year trend information that approximates the funded status of the Other Post-Employment Benefits Plan as of October 1, 2013. This schedule has been prepared using the entry age actuarial method, which was also used to prepare OUC's actuarial valuation.

Schedule of funding progress
(Dollars in thousands)

Actuarial valuation date (1)	Actuarial value of assets (a)	Actuarial accrued liability (AAL) - entry age (b)		Unfunded AAL (UAAL) (b - a)	Funded ratio (a / b)	Covered payroll (c)	UAAL as a % of covered payroll ((b - a) / c)
10/1/2013	$ 68,728	$ 166,882	(2)	$ 98,154	41.2%	$ 72,990	134.5%
10/1/2012	$ 55,322	$ 188,470		$ 133,148	29.4%	$ 70,692	188.3%
10/1/2011	$ 40,349	$ 177,301		$ 136,952	22.8%	$ 71,121	192.6%

(1) In 2015, OUC adopted a 2-year prospective valuation methodology. As such, the actuarial valuation report dated October 1, 2013 was used f or both years ended September 30, 2015 and 2014.

(2) The decrease in the AAL was due to plan changes, effective January 1, 2014, which included a reduction in the premium subsidy for dependent coverage provided to retirees in the defined benefit pension plan.

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