



INTERIM FINANCIAL REPORT



SIX MONTHS ENDED
March 2016

Orlando Utilities Commission

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

Management's Discussion and Analysis

Income before contributions for the six months ended March 31, 2016 was \$49.5 million, \$14.8 million higher than budget and \$11.8 million higher than prior year.

Operating Revenues:

Variance to Budget – Operating revenues, for the six months ended March 2016, were \$2.9 million lower than budget. This variance was primarily due to lower than budgeted fuel revenues of \$11.2 million as a result of lower coal and natural gas pricing. Offsetting these decreases was higher than budgeted resale energy revenues of \$5.1 million driven by higher than expected demand sales to the City of Vero Beach of \$3.0 million and increased sales to St. Cloud customers of \$1.5 million, as a result of warmer weather and higher than expected growth. Additionally, higher retail energy sales of \$2.7 million and chilled water revenue of \$1.2 million were also driven by favorable weather conditions.

Variances to Prior Year – Operating revenues were \$6.8 million higher than that of the prior year primarily due to increased retail energy revenues and water revenues of \$7.8 million and \$2.2 million, respectively, as a result of customer growth. Resale energy revenues were \$1.4 million higher than the prior year due to increased sales to St. Cloud customers offset by unplanned demand sales in 2015 to Lakeland Electric. These increases were offset by decreased fuel revenues of \$5.2 million as a result of continued lower coal and natural gas pricing.

Operating Expenses:

Variances to Budget – Operating expenses were \$17.0 million or 4.9 percent lower than budget. Unit/department expenses were \$5.7 million lower than budget due to lower than expected benefit costs, supplies expense, and outside service costs. Lower than expected fuel for generation and purchased power expenses of \$11.2 million, as a result of favorable coal and natural gas pricing, also contributed to the decrease.

Variances to Prior Year – Operating expenses were \$4.9 million lower than that of the prior year due to lower fuel for generation and purchased power expense of \$5.2 million, as a result of continued lower fuel costs. Unit/department costs were \$2.2 million lower than that of the prior due to decreased medical costs. Offsetting this decrease was increased depreciation and amortization expenses and payments to other governments and taxes costs of \$1.2 million each.

Non-Operating Income and Expenses:

Variance to the Budget and Prior Year – Net non-operating expenses through March 2016 were \$0.7 million lower than budget and in line with prior year. The variance to budget was primarily driven by decreased interest expense as a result of the Series 2009A Bond refunding, which lowered interest cost by 2.9 percent. Unfavorable market valuation adjustments offset the favorable variance to budget.

Contributions in Aid of Construction:

Contributions in aid of construction of \$6.6 million were \$0.3 million lower than budget and \$0.3 million higher than prior year due to the timing of system development contributions for electric and water delivery projects.

Dividend Payment:

The dividend agreement with the City of Orlando was based on 60.0 percent of annual budgeted income before contributions. The budgeted amount for fiscal year 2016 is \$55.7 million and is paid in equal monthly amounts throughout the year. The amount paid for the six months ended March 2016 was \$27.9 million which was \$1.3 million higher than that of the prior year.

Utility Plant:

Utility plant increased \$20.0 million as of March 2016 compared to March 2015. The increase was primarily due to capital acquisitions for major projects, including the completion of several large transmission line upgrades and the landfill gas project from Holopaw to St. Cloud. Additionally, the commencement of several technology projects, including the Customer Care & Billing (CC&B) upgrade currently in progress, contributed to the increase in utility plant. These increases were offset by systematic depreciation charges.

Restricted and Internally Designated Assets:

Restricted and internally designated assets of \$595.3 million were \$102.6 million higher than prior year. OUC received construction fund proceeds of \$112.1 million as a result of the issuance of the Series 2015A Bonds. Since October 2014, \$47.6 million of construction and capital reserve funds were released to fund capital improvement projects. Other designated funds increased \$35.9 million due to an increase in customer deposits, a rise in fuel stabilization funds and the deferral of funds related to a regulatory action approved by the Board in September 2015. Additionally, the Crystal River Unit 3 (CR 3) settlement agreement with Duke Energy was finalized in October 2015. As a result, OUC transferred the decommissioning trust funds of \$13.5 million to Duke Energy. In return, Duke Energy remitted a settlement payment of \$12.6 million to OUC. These funds were designated as renewal and replacement.

Current Assets:

Current assets of \$265.8 million were \$31.6 million higher than prior year. The increase was primarily due to additional cash on hand of \$28.1 million as a result of operations. The prepaid long-term service agreement for Stanton Energy Center Unit B increased \$22.4 million as a result of additional purchased warranty coverage and a prepayment for future project outage costs. Additionally, collateral deposits related to fuel and investment hedges increased \$3.8 million and \$1.1 million, respectively. Offsetting these increases was a decrease of \$11.0 million in fuel for generation due to a decrease in the amount of coal on hand. Inventory also decreased from the prior year by \$8.4 million primarily due to a one-time adjustment to the allowance for obsolescence reserve of \$8.1 million in September 2015.

Other Assets:

Other assets decreased \$20.0 million from the prior year due to the write-down of deferred asset retirement obligation costs and the receipt of funds due from Duke Energy as a result of the finalization of the CR 3 settlement agreement of \$2.6 million and \$13.1 million, respectively. Additionally, planned regulatory asset amortization of \$5.0 million contributed to the decrease.

Deferred Outflows of Resources:

Deferred outflows of resources of \$143.7 million increased \$31.3 million since March 2015. The increase was primarily due to derivative instrument valuation changes of \$7.9 million, unrealized pension costs of \$17.3 million and deferred bond costs associated with the defeasance of the Series 2009A Bonds of \$14.1 million. These increases were offset by the systematic amortization of debt refunding costs of \$7.9 million.

Payables from Restricted and Current Assets:

Payables from restricted and current assets were \$5.9 million higher than that of March 2015. The change was the result of an increase in unrealized short-term fuel hedge losses of \$6.7 million.

Other Liabilities:

Other liabilities were \$13.3 million lower than that of the prior year. The variance was primarily driven by a decrease in the asset retirement obligation of \$15.4 million primarily due to the finalization of the CR 3 settlement agreement with Duke Energy offset by an increase in the net pension liability of \$3.2 million.

Long-term Debt:

Over the past twelve months, net long-term debt increased \$59.2 million. The increase was primarily due to the issuance of the Series 2015A Bonds and related premium of \$94.9 million and \$18.0 million, respectively. Additionally in October 2015, OUC issued the Series 2015B variable rate demand bonds in the amount of \$115.1 million to refund the \$100.0 million Series 2009A Bonds resulting in net present value interest savings of \$32.0 million over the life of the new bonds. These increases were offset by the payment of outstanding debt principal on October 1, 2015 of \$55.8 million and the systematic amortization of previously issued bond premiums of \$15.8 million.

OUC's credit ratings are:

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

Deferred Inflows of Resources:

At March 31, 2016, deferred inflows of resources increased \$43.0 million from that of March 2015. The change was due to the prior-year Board approved regulatory action to defer \$13.8 million of retail energy revenues, an increase in fuel stabilization of \$15.9 million and an increase to unrealized pension gains of \$17.6 million. These increases were offset by the continued systematic recognition of other regulatory credits related to Stanton Energy Center Unit A and Unit B of \$3.2 million and \$1.1 million, respectively.

Cash Flows:

OUC's cash and cash equivalents as of March 2016 were \$152.3 million, \$4.7 million lower than that of the beginning of the fiscal year and \$4.0 million higher than March 2015. The decrease over the past six months was due to a decrease in cash from operating activities.

In addition, cash related to financing activities showed significant activity as a result of the Series 2015B Bond issuance of \$115.1 million. The proceeds were used to purchase an escrow for the refunding of the \$100.0 million Series 2009A Bonds.

Capital Plan:

At March 31, 2016 capital expenditures of \$68.8 million were \$20.7 million under budget. Lower Support Services project spending of \$9.8 million was due to the timing of CC&B project spending. Capital expenditures in Water were under budget by \$3.9 million due to the postponement of projects to later in the year. Additionally, due to lower than expected project costs, Electric Transmission projects were \$5.6 million under budget.

Quarterly Report - Capital Project Approvals

In conjunction with the Procurement Policy, the Commission has delegated its approval authority to the General Manager & CEO for capital projects between the amounts of \$100,000 and \$500,000.

The following capital projects were approved at the appropriate levels for the period of December 2015 to March 2016.

	<u>Approval Period</u>	<u>Approval Amount</u>
Electric and Water Production		
Southeast Re-pump Plant - Install 5 MGD High Service Pump and VFD	Jan-16	\$ 137,729
SEC elevator #2 - Replace drive and associated controls	Feb-16	\$ 154,800
Stanton Unit 1 - Replace 3 roof top A/C systems	Mar-16	\$ 150,000
Electric and Water Delivery		
Southwood to Metrowest Transmission Line - Change order for additional costs	Dec-15	\$ 247,000
Dowden Rd. & SR 417 - Install transformers and cable	Dec-15	\$ 210,190
Whaley Creek Subdivision - Install pad mounted transformer and underground cable	Jan-16	\$ 274,833
USTA Project - Install pad mounted transformers and underground conductor	Jan-16	\$ 254,227
Lancaster Park Phase I - Install pad mounted transformers and underground cable	Jan-16	\$ 234,809
Boggy Creek Improvement District - Install 51 decorative poles and fixtures	Feb-16	\$ 280,928
Laureate Park Phase 6 - Install transformers and underground conductor	Feb-16	\$ 252,904
Jones Road Subdivision - Install transformers and underground cable	Feb-16	\$ 218,406
Laureate Park Phase 5B - Install 68 decorative poles	Feb-16	\$ 206,977
OUC power system - Retrofit and upgrade 26 Alstom LFCB relays to SEL-411L.	Mar-16	\$ 482,000
GOAA South Terminal Project - Install pad-mounted transformers and underground cable	Mar-16	\$ 322,848
Whaley Creek Phase I - Install 75 poles and 88 fixtures	Mar-16	\$ 268,135
Whaley Creek Phase I - Install pad-mounted transformers and underground cable	Mar-16	\$ 268,012
Financial Services		
Gardenia Call Center - Remodel	Feb-16	\$ 113,984

Orlando Utilities Commission

Statements of Revenues, Expenses and Changes in Net Position based on Budget - Unaudited

Dollars in thousands

	Actual		Budget		Actual		Actual		
	Year to Date		Year to Date		Year to Date		Year to Date		
	March 2016	March 2016	March 2016	March 2016	March 2015	March 2015	March 2015	March 2015	
				Variance to Budget			Variance to Prior Year		
Operating revenues									
Retail energy	\$ 171,985	\$ 169,254	\$ 2,731	1.6%	\$ 164,216	\$ 7,769	4.7%		
Resale energy	40,757	35,661	5,096	14.3%	39,384	1,373	3.5%		
Fuel	117,401	128,612	(11,211)	-8.7%	122,553	(5,152)	-4.2%		
Electric revenues	330,143	333,527	(3,384)	-1.0%	326,153	3,990	1.2%		
Water revenues	33,369	33,308	61	0.2%	31,164	2,205	7.1%		
Other revenues									
Lighting service revenues	6,509	6,693	(184)	-2.7%	6,407	102	1.6%		
Chilled water revenues	14,292	13,083	1,209	9.2%	13,591	701	5.2%		
Service fees & other revenues	13,056	13,693	(637)	-4.7%	13,234	(178)	-1.3%		
Total operating revenues	397,369	400,304	(2,935)	-0.7%	390,549	6,820	1.7%		
Operating expenses									
Fuel for generation and purchased power	117,401	128,612	(11,211)	-8.7%	122,553	(5,152)	-4.2%		
Capacity payment	16,073	16,224	(151)	-0.9%	16,067	6	0.0%		
Unit/department	111,744	117,472	(5,728)	-4.9%	113,915	(2,171)	-1.9%		
Depreciation and amortization	56,748	57,269	(521)	-0.9%	55,565	1,183	2.1%		
Payments to other governments and taxes	25,699	25,062	637	2.5%	24,498	1,201	4.9%		
Total operating expenses	327,665	344,639	(16,974)	-4.9%	332,598	(4,933)	-1.5%		
Non-operating income and (expenses)									
Interest income	2,824	3,113	(289)	-9.3%	3,200	(376)	-11.8%		
Other income	5,292	5,268	24	0.5%	4,755	537	11.3%		
Interest expense	(28,355)	(29,354)	999	-3.4%	(28,262)	(93)	0.3%		
Total non-operating income and (expenses)	(20,239)	(20,973)	734	-3.5%	(20,307)	68	-0.3%		
Income before contributions	49,465	34,692	14,773	42.6%	37,644	11,821	31.4%		
Revenue from contributions in aid of construction	6,628	6,948	(320)	-4.6%	6,304	324	5.1%		
Dividend payments	(27,860)	(27,860)	-	0.0%	(26,605)	(1,255)	4.7%		
Increase in net position	28,233	\$ 13,780	\$ 14,453	104.9%	17,343	\$ 10,890	62.8%		
Net position - beginning of period	1,226,361				1,166,248				
Net position - end of period	\$ 1,254,594				\$ 1,183,591				

Orlando Utilities Commission
Statements of Net Position - Unaudited

Dollars in thousands

	March 2016	March 2015	Variance to Prior Year	
Assets				
Utility plant	\$ 2,380,803	\$ 2,360,802	\$ 20,001	0.8%
Restricted and internally designated assets	595,288	492,657	102,631	20.8%
Current assets	265,810	234,173	31,637	13.5%
Other assets	138,897	158,855	(19,958)	-12.6%
Deferred outflows of resources	143,705	112,362	31,343	27.9%
Total assets and deferred outflows of resources	\$ 3,524,503	\$ 3,358,849	\$ 165,654	4.9%
Liabilities				
Payables from restricted assets	\$ 83,099	\$ 83,528	\$ (429)	-0.5%
Payables from current assets	189,029	182,744	6,285	3.4%
Other liabilities	190,570	203,904	(13,334)	-6.5%
Long-term debt, net	1,538,656	1,479,498	59,158	4.0%
Total liabilities	2,001,354	1,949,674	51,680	2.7%
Deferred inflows of resources	268,555	225,584	42,971	19.0%
Net position	1,254,594	1,183,591	71,003	6.0%
Total liabilities, deferred inflows of resources and net position	\$ 3,524,503	\$ 3,358,849	\$ 165,654	4.9%

Orlando Utilities Commission
Statements of Cash Flows - Unaudited

Dollars in thousands

	March 2016	March 2015
Cash flow from operating activities		
Cash received from customers	\$ 444,929	\$ 425,838
Cash paid for fuel and purchased power	(133,591)	(184,757)
Cash paid for unit department expenses	(75,881)	(60,585)
Cash paid for salaries and benefits	(63,951)	(75,109)
Cash paid for other payments and taxes	(26,371)	(24,833)
Net cash provided by operating activities	145,135	80,554
Cash flows from non-capital related financing activities		
Dividend to the City of Orlando	(27,860)	(26,605)
Net cash used in non-capital related financing activities	(27,860)	(26,605)
Cash flows from capital related financing activities		
Utility plant net of contributions in aid of construction	(63,208)	(57,715)
Debt interest payments	(47,908)	(32,313)
Collateral deposits	(1,700)	(4,900)
Principal payments on long-term debt and use of bond proceeds	(156,851)	(52,310)
Debt issuances and related costs	114,508	(461)
Net cash used in capital related financing activities	(155,159)	(147,699)
Cash flows from investing activities		
Proceeds from sale and maturities of investment securities	302,641	183,719
Gain on sale of investments	206	256
Purchases of investment securities	(275,938)	(171,287)
Investments and other expenses paid	6,262	5,531
Net cash provided by investing activities	33,171	18,219
Net decrease in cash and cash equivalents	(4,713)	(75,531)
Cash and Cash Equivalents - beginning of year	157,048	223,866
Cash and Cash Equivalents - current	\$ 152,335	\$ 148,335
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 69,704	\$ 57,951
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	56,748	55,565
Depreciation and amortization charged to fuel for generation and purchased power	1,652	1,593
Depreciation of vehicles and equipment charged to unit department expenses	652	567
Changes in assets and liabilities		
Decrease in receivables and accrued revenue	33,227	32,557
Decrease / (increase) in fuel and materials and supplies inventories	15,858	(1,344)
Decrease in accounts payable	(25,446)	(46,673)
Decrease in deposits paid and deferred items	(19,515)	(25,898)
Increase in stabilization and deferred revenue accounts	12,255	6,236
Net cash provided by operating activities	\$ 145,135	\$ 80,554

**Orlando Utilities Commission
Capital Plan**

Dollars in thousands

	Adopted 2015 Plan	Year to Date March 2016 Budget	Year to Date March 2016 Actual	Variance to Budget	
Electric Production (1)	\$ 43,630	\$ 21,631	\$ 21,784	\$ (153)	-0.7%
Transmission	36,800	21,079	15,605	5,474	26.0%
Transmission contributions	(1,000)	(500)	(585)	85	-17.0%
Transmission, net	35,800	20,579	15,020	5,559	27.0%
Electric Delivery	29,470	14,734	15,014	(280)	-1.9%
Electric Delivery contributions	(4,600)	(2,300)	(1,742)	(558)	24.3%
Electric Delivery, net	24,870	12,434	13,272	(838)	-6.7%
Lighting	5,065	2,529	2,952	(423)	-16.7%
Lighting contributions	(100)	(50)	(1,718)	1,668	-3336.0%
Lighting, net	4,965	2,479	1,234	1,245	50.2%
Water	29,712	13,408	11,429	1,979	14.8%
Water contributions	(8,122)	(4,061)	(5,946)	1,885	-46.4%
Water, net	21,590	9,347	5,483	3,864	41.3%
Chilled Water	1,850	1,535	98	1,437	93.6%
Chilled Water contributions	(425)	(142)	-	(142)	100.0%
Chilled Water, net	1,425	1,393	98	1,295	93.0%
Support Services	36,670	21,876	11,927	9,949	45.5%
Support Services contributions	(750)	(188)	-	(188)	100.0%
Support Services, net	35,920	21,688	11,927	9,761	45.0%
Total OUC	\$ 168,200	\$ 89,551	\$ 68,818	\$ 20,733	23.2%

(1) - Totals are net of participant share