

# The *Reliable* One AND SUSTAINABLE, TOO

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OUC Annual Report & Audited Financial Statements 2014

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## FINANCIAL AND STATISTICAL HIGHLIGHTS

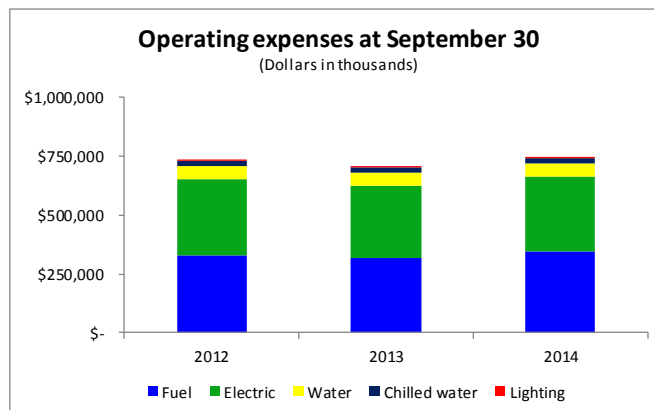
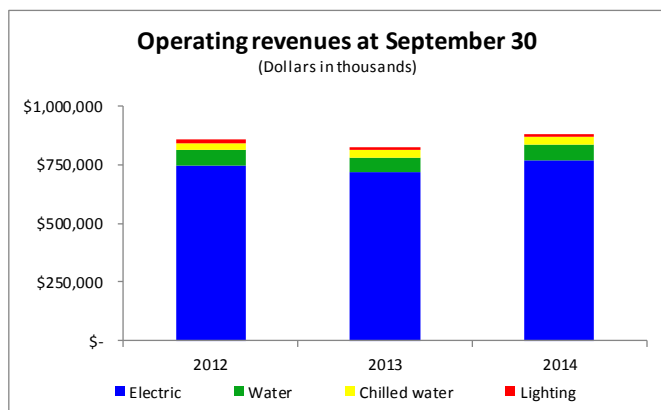
### FINANCIAL HIGHLIGHTS

(Dollars in thousands)

	2014	2013	% Increase / - Decrease
Total operating revenues	\$ 879,985	\$ 825,358	6.6%
Total operating expenses	\$ 747,928	\$ 708,563	5.6%
Fuel for generation and purchased power	\$ 347,896	\$ 315,867	10.1%
Interest, gain and net other income	\$ 17,111	\$ 19,493	-12.2%
Interest expense	\$ 59,887	\$ 62,355	-4.0%
Income before contributions	\$ 89,281	\$ 73,933	20.8%
Annual dividend	\$ 48,622	\$ 47,000	3.5%
Utility plant, net	\$ 2,354,626	\$ 2,312,844	1.8%
Total assets and deferred outflows of resources	\$ 3,319,287	\$ 3,325,545	-0.2%
Long-term debt and Other bonds payable	\$ 1,579,363	\$ 1,646,469	-4.1%
Net position	\$ 1,166,249	\$ 1,104,219	5.6%
Debt service coverage	2.52	2.42	4.1%
Senior bond ratings (1)	AA, Aa2, AA	AA, Aa2, AA	

### STATISTICAL HIGHLIGHTS

Electric metered services	220,628	214,424	2.9%
Electric sales (MWH)	7,551,150	7,011,759	7.7%
Average annual residential usage (KWH)	11,488	11,134	3.2%
Average residential revenue per KWH	\$ 0.1220	\$ 0.1197	1.9%
Water metered services	135,106	133,771	1.0%
Water sales (MGAL)	25,357	24,980	1.5%
Average annual residential usage (KGAL)	123	120	2.5%
Average residential revenue per KGAL	\$ 2.49	\$ 2.49	0.0%



(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.

# AUDITED FINANCIAL STATEMENTS

## ORLANDO UTILITIES COMMISSION

September 30, 2014 and 2013

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### Commission Members & Officers

**Dan Kirby, AIA, AICP**  
President

**Linda Ferrone**  
First Vice President

**Maylen Dominguez**  
Second Vice President

**Gregory D. Lee**  
Commissioner

**Buddy H. Dyer**  
Mayor - Commissioner

**Kenneth P. Ksionek**  
Secretary

**John E. Hearn**  
**W. Christopher Browder**  
**Elizabeth M. Mason**  
Assistant Secretaries

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS



Ernst & Young LLP  
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390 North Orange Avenue  
Orlando, FL 32801-1671

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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 years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the OUC's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS



### ***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, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 6 through 15 and the schedules of funding progress on page 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we also have issued our report dated December 9, 2014 on our consideration of OUC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OUC's internal control over financial reporting and compliance.

*Ernst + Young LLP*

December 9, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

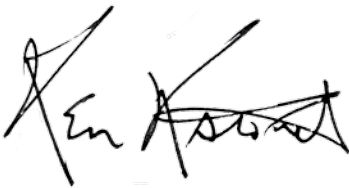
This discussion should be read in conjunction with the Financial Statements and Notes to the Financial Statements.

### 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.

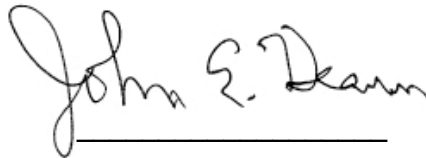
To ensure the integrity of our financial statements, OUC maintains a system of internal accounting controls that are supported by written policies and procedures and an organizational structure that appropriately assigns responsibilities to mitigate risks. These controls have been put in place to ensure 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.



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Kenneth P. Ksionek  
General Manager &  
Chief Executive Officer



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John E. Hearn  
Vice President &  
Chief Financial Officer



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Gina R. Johnson  
Director of Accounting  
& Budgeting Services

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Overview of the Financial Statements

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

## Background

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

## Setting of Rates

The setting of electric and water rates are the responsibility of the Board. Rate changes are implemented after public workshops are held and approved by the Board. In August 2012, the Board approved an average residential and small commercial customer bill decrease of 4.6 percent effective for 2013. No electric rate increases were approved for 2014. Additionally, there were no water rate changes approved for 2014 or 2013.

## 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 2014 and 2013, regulatory actions taken by the Board resulted in the deferral of current period revenues in the amount of \$8.0 million and the deferral of unanticipated costs of \$21.5 million, respectively. These actions will be recognized through the ratemaking process in future periods. See Note F for additional information.

## Basic Financial Statements

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

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Condensed Statements of Net Position

(Dollars in thousands)	Years ended September 30		
	2014	(Restated) *	(Restated) *
	2014	2013	2012
<b>Assets</b>			
Utility plant, net	\$ 2,354,626	\$ 2,312,844	\$ 2,298,199
Restricted and internally designated assets	551,263	557,654	593,647
Current assets	253,034	281,419	309,082
Other assets	84,634	89,567	71,440
<b>Total assets</b>	<b>3,243,557</b>	<b>3,241,484</b>	<b>3,272,368</b>
<b>Deferred outflows of resources</b>	<b>75,730</b>	<b>84,061</b>	<b>94,824</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 3,319,287</b>	<b>\$ 3,325,545</b>	<b>\$ 3,367,192</b>
<b>Liabilities</b>			
Long-term debt	\$ 1,481,003	\$ 1,548,109	\$ 1,612,662
Current liabilities	350,679	333,371	328,682
Other liabilities and credits	85,727	84,505	79,728
<b>Total liabilities</b>	<b>1,917,409</b>	<b>1,965,985</b>	<b>2,021,072</b>
<b>Deferred inflows of resources</b>	<b>235,629</b>	<b>255,341</b>	<b>279,152</b>
<b>Net Position</b>			
Net investment in capital assets	884,604	789,341	744,184
Restricted	265	329	1,543
Unrestricted	281,380	314,549	321,241
<b>Total net position</b>	<b>1,166,249</b>	<b>1,104,219</b>	<b>1,066,968</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 3,319,287</b>	<b>\$ 3,325,545</b>	<b>\$ 3,367,192</b>

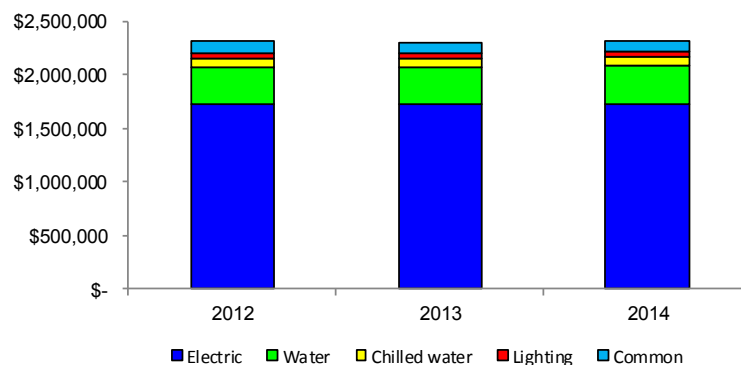
\*Additional details related to the restatement are included in Note B.

## 2014 Compared to 2013

### Assets

**Utility plant, net:** Utility plant, net increased \$41.8 million inclusive of accumulated depreciation. Current year plant additions were \$169.1 million of which 39.8 percent or \$67.4 million was incurred for distribution capital additions including several transmission line upgrades. Generation facility upgrade projects at each of the OUC-owned Stanton Energy plants contributed \$43.3 million to the increase in utility plant. Also during the year, OUC spent \$14.8 million to facilitate implementation of the final phases of the electric and water Advanced Metering Infrastructure (AMI) upgrades. Capital additions were offset by systematic depreciation charges of \$113.6 million.

**Utility Plant, net at September 30**  
(Dollars in thousands)





## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Restricted and internally designated assets:** Restricted and internally designated assets decreased \$6.4 million in 2014. This decrease was driven by the utilization of \$23.3 million in fuel stabilization funds, net of interest earnings. Offsetting this decrease was an approved Board action to designate \$8.0 million in operating cash and investments in conjunction with the deferral of unexpected resale electric revenues. Additionally, deposits and advances increased \$8.0 million as a result of net unspent designated system development costs and other customer deposits.

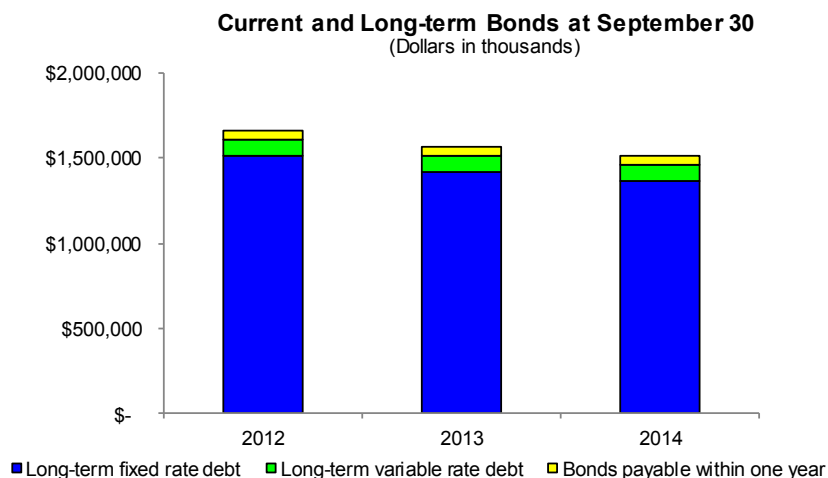
**Current assets:** Current assets were \$28.4 million lower in 2014 than 2013. Operating cash and investments decreased \$14.3 million due to funding of utility plant additions and current period principal and interest debt service payments offset by cash provided from operations. Additionally, \$8.0 million was designated to base rate stabilization as a result of a regulatory action approved by the Board. Fuel for generation inventory decreased \$5.3 million since 2013 as a result of increased generation at the Stanton Energy Center facilities. Miscellaneous receivables were \$3.5 million lower due to outstanding receivables, in the prior year, related to the semi-annual Build America Bond interest credit and a one-time receivable from the City of St. Cloud for the transition of customer deposits in the amounts of \$1.8 million and \$2.6 million, respectively. In addition, Prepaid and other expenses were lower than the prior year due to decreased outstanding fuel contracts of \$3.5 million. These variances were offset by increased current year Customer accounts receivable of \$8.3 million.

**Other assets:** Other assets decreased \$4.9 million in 2014 as a result of planned amortization of existing regulatory assets and goodwill of \$7.4 million offset by an increase in the prepaid long-term service agreement, the asset retirement obligation and the net pension asset of \$1.8 million, \$1.3 million and \$1.1 million, respectively. Additionally, OUC decreased the regulatory asset value related to the impairment of the Crystal River Unit 3 generation facility to \$13.4 million and reported an expense of \$1.9 million in the Statement of Revenues, Expenses and Changes in Net Position as a result of the execution of a Settlement, Release and Acquisition agreement with Duke Energy.

**Deferred outflows of resources:** In 2014, Deferred outflows of resources decreased by \$8.3 million as a result of systematic amortization of losses on refunded bonds of \$6.5 million and fair value hedging derivative instrument valuation changes of \$1.8 million.

### Liabilities

**Long-term debt:** In 2014, Long-term debt decreased \$67.1 million as compared to 2013. The primary driver of this change was the reclassification of the current year annual debt service requirements in the amount of \$53.3 million and the systematic amortization of bond-related premiums and discounts.



As of September 30, 2014, 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Current liabilities:** Current liabilities increased \$17.3 million in 2014 as compared to 2013 as a result of an increase in supplier payables, including fuel purchases, and customer deposits in the amounts of \$9.5 million and \$2.9 million, respectively. In addition, OUC recorded accruals for a tax liability related to an unexpected customer classification change, an environmental restoration at the Lake Ivanhoe site and an anticipated de-obligation of federal assistance awards of \$2.9 million, \$1.1 million and \$2.0 million, respectively. These variances were offset by lower short-term fuel hedge derivatives of \$2.9 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 \$1.2 million in 2014 as compared to 2013. The change was driven by an increase in the asset retirement obligation related to St. Lucie Unit 2 nuclear generation facility.

**Deferred inflows of resources:** Deferred inflows of resources decreased \$19.7 million in 2014. This decrease was due to several changes including the planned utilization of fuel and base rate stabilization funds of \$23.8 million and \$1.1 million, respectively. In addition, the unamortized gain on sale amount decreased \$3.0 million due to systematic recognition of the deferred gain from the Indian River power generation facility to mitigate depreciation-related costs for the Stanton A generation facility. These variances were offset by an OUC Board approved deferral of \$8.0 million in resale energy revenue in 2014, which will be recognized through the rates over the next five years.

### 2013 Compared to 2012

#### Assets

**Utility plant, net:** Utility plant, net increased \$14.6 million in 2013. Total capital additions in 2013 were \$161.9 million and included \$34.7 million for generation facility upgrades, \$30.3 million in transmission system enhancements and \$28.5 million in information technology upgrades, which included customer-focused web initiatives. Distribution and water capital additions of \$39.3 million and \$24.3 million included the Advanced Metering Infrastructure (AMI) upgrades of \$11.2 million and \$12.6 million, respectively. These additions were offset by systematic depreciation in the amount of \$119.0 million.

Effective February 2013, Duke Energy announced the closing of its Crystal River 3 nuclear generation facility (CR 3) as a result of discovering delamination and cracks in the concrete containment structure. As a result, OUC reclassified \$17.6 million of impaired assets under the heading of Regulatory assets. See Note I for more information.

**Restricted and internally designated assets:** Restricted and internally designated assets decreased \$36.0 million in 2013. This decrease was driven by the use of the remaining construction bond funds of \$32.1 million for capital projects and the planned decrease in fuel stabilization funds in the amount of \$14.4 million as a result of an electric retail fuel rate decrease implemented in March 2012. These decreases were offset by increased deposits and advances of \$10.2 million as a result of an increase in unspent system development charges of \$6.0 million and the transition of \$2.6 million in St. Cloud electric customer deposits from the City of St. Cloud.

**Current assets:** In 2013, Current assets decreased \$27.7 million from that of the prior year. Operating cash and investments decreased \$25.1 million as a result of satisfying current period principal and interest debt service payments of \$119.4 million, the utilization of cash from operations to fund utility plant additions offset by cash provided from operations. Prepaid and other expenses decreased primarily due to lower collateral deposit requirements of \$18.1 million and decreased hedge derivative instruments due within one year of \$2.4 million. Offsetting these amounts was a \$10.8 million increase in fuel for generation as a result of an increase in coal on hand. Miscellaneous receivables were \$7.0 million higher than in 2012, primarily due to the timing of receivables for the semi-annual Build America Bond interest credit and the transfer of customer deposits from the City of St. Cloud in the amounts of \$1.8 million and \$2.6 million, respectively.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As a result of Duke Energy's notice that CR 3 would no longer be operational, the associated inventory of \$0.9 million was reclassified on the Statement of Net Position under the heading of Regulatory assets. See Note I for further information.

**Other assets:** Other assets increased \$18.1 million in 2013 as compared to 2012. In November 2012, OUC finalized plans to replace existing electric and water meters with an Advanced Metering Infrastructure. In conjunction with the approval of this plan, the Board voted to defer the impaired value of electric and water meters of \$1.8 million and \$4.4 million, respectively. These costs will be recognized in fiscal years 2014 and 2015 consistent with the Board action. Additionally with the announcement of Duke Energy's decision to close CR 3, the Board recognized a regulatory asset for OUC's ownership portion in the property, plant, equipment and supplies of \$15.3 million, net of \$3.2 million from insurance proceeds. This amount will be adjusted and recognized based on the final net realizable value, as determined by negotiations and the settlement with Duke Energy. This was offset by lower fuel hedge derivative instruments of \$2.0 million.

**Deferred outflows of resources:** Deferred outflows of resources decreased \$10.8 million during 2013. This change was driven by a decrease in the fair value of interest rate swap derivatives and fuel hedge assets of \$10.8 million and \$7.1 million, respectively. These changes were offset by an increase of \$7.2 million in refunded bond losses due to the refunding of the Series 1996A, 2003A, 2003B, and 2005B Bonds in January 2013 offset by systematic amortization.

### Liabilities

**Long-term debt:** In 2013, Long-term debt decreased \$64.6 million as compared to 2012. The primary driver of this change was the reclassification of scheduled principal payments under the heading Current liabilities of \$52.0 million. In addition, Fair value derivative instrument losses associated with interest rate swap agreements decreased \$10.8 million as a result of a strengthened market.

In January 2013, the Series 1996A, 2003A, 2003B, and 2005B Bonds, totaling \$290.7 million, were refunded with the Series 2013A Bonds. The net impact of the refunding decreased OUC long-term debt by \$1.8 million.

As of September 30, 2013, OUC had a credit rating of "AA" from both Standard & Poor's and Fitch Ratings and rating of "Aa2" from Moody's Investors Service.

**Current liabilities:** Current liabilities increased \$4.7 million in 2013 as compared to 2012. The primary driver of this change was the increase in customer meter deposits of \$2.6 million as a result of the transition of St. Cloud electric customer deposits from the City of St. Cloud to OUC in preparation for the conversion of these customers to the OUC customer billing system. Accounts payable and accrued expenses also contributed to the changes as a result of higher outstanding vendor payables.

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 \$4.8 million in 2013 as a result of an increase in the asset retirement obligation associated with St. Lucie Unit 2 nuclear generation facility and unapplied contributions in aid of construction of \$2.9 million and \$5.3 million, respectively, offset by decreased fuel hedge derivative instruments of \$2.8 million.

**Deferred inflows of resources:** Deferred inflows of resources decreased \$23.8 million from 2012 as a result of the planned use of fuel stabilization funds of \$13.4 million in response to the Board approved fuel-rate reduction in March 2012. In addition, continued systematic recognition of the deferred gain from the Indian River Plant decreased deferred inflows \$4.8 million. Fair value hedge changes for fuel hedge agreements decreased \$4.3 million.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Condensed Statements of Revenues, Expenses and Changes in Net Position

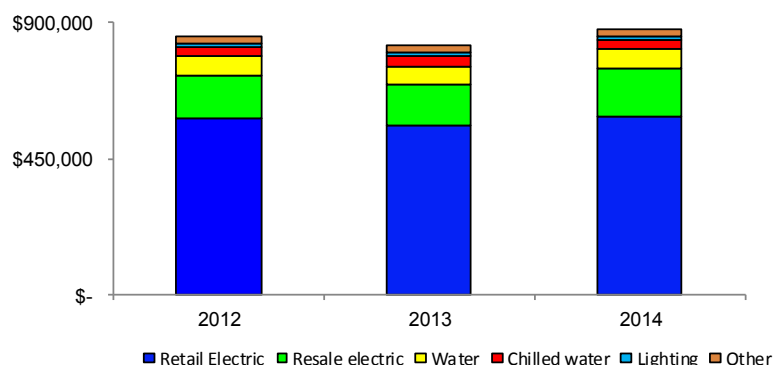
(Dollars in thousands)	Years ended September 30		
	2014	2013	2012
Operating revenues	\$ 879,985	\$ 825,358	\$ 854,383
Operating expenses	747,928	708,563	735,713
<b>Operating income</b>	<b>132,057</b>	<b>116,795</b>	<b>118,670</b>
Net non-operating expenses	42,776	42,862	45,993
<b>Income before contributions</b>	<b>89,281</b>	<b>73,933</b>	<b>72,677</b>
Contributions in aid of construction	21,371	10,318	8,619
Annual dividend	(48,622)	(47,000)	(47,161)
<b>Increase in net position</b>	<b>62,030</b>	<b>37,251</b>	<b>34,135</b>
<b>Net position - beginning of year</b>	<b>1,104,219</b>	<b>1,066,968</b>	<b>1,032,833</b>
<b>Net position - end of year</b>	<b>\$ 1,166,249</b>	<b>\$ 1,104,219</b>	<b>\$ 1,066,968</b>

## 2014 Compared to 2013

### Changes in Net Position

**Operating revenues:** Operating revenues increased \$54.6 million or 6.6 percent as compared to 2013. Total retail electric revenues increased \$30.7 million with increases in retail energy and fuel revenues of \$13.1 million and \$17.6 million, respectively. This increase was driven by a 3.4 percent increase in consumption. Additionally, fuel revenues increased as a result of rising natural gas costs. Total resale revenues increased \$22.4 million in 2014, inclusive of the Board approved action to defer \$8.0 million. Consistent with retail electric revenues, resale electric revenues earned through the St. Cloud inter-local agreement were \$5.2 million higher than the prior year. In 2014, OUC also benefited from wholesale market opportunities due to extreme weather conditions and an extended outage at the McIntosh 3 generation facility. Additionally, agreements executed with the City of Winter Park and City of Lake Worth began in January 2014.

**Operating Revenues at September 30**  
(Dollars in thousands)



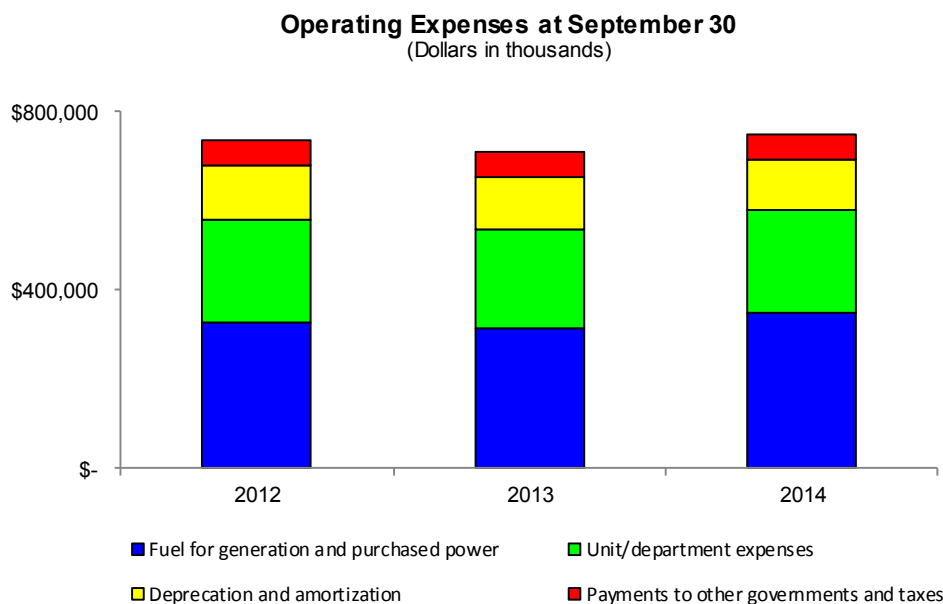
**Operating expenses:** In 2014, Total operating expenses were \$39.4 million or 5.6 percent higher than in 2013. Fuel for generation and purchased power costs contributed the largest portion of this change with a \$32.0 million increase in 2014 as compared to 2013 or 10.1 percent. This increase was driven by higher resale and retail sales due to an extended outage at Lakeland's McIntosh Unit 3 and increased native load requirements.

Unit/department expenses in 2014 were \$11.7 million higher than 2013. The variance was driven by increased labor, pension and medical costs.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Depreciation and amortization was \$113.6 million, a decrease of \$5.4 million or 4.5 percent as compared to 2013. This change was primarily due to additional depreciation study savings offset by accelerated depreciation costs associated with the write-down of retired assets and incremental year-over-year systematic depreciation related to the capitalization of new assets.

Payments to other governments and taxes were \$1.0 million higher in 2014 as compared to 2013 as a result of the agreed upon revenue-based payment to the City of Orlando.



**Net non-operating expenses:** Total net non-operating expenses for 2014 were in-line with 2013. However, there were material fluctuations which included lower interest expenses, as a result of the annualized impact of the January 2013 bond refunding, offset by a decrease in the amortization of the gain on sale of assets of \$1.8 million, to reflect the impact of the depreciation study changes.

**Contributions in aid of construction:** Contributions in aid of construction increased \$11.1 million in 2014 as compared to 2013 due to the completion of a St. Cloud transmission project.

### 2013 Compared to 2012

#### Changes in Net Position

**Operating revenues:** Operating revenues decreased \$29.0 million or 3.4 percent in 2013 as compared to 2012. Total retail electric revenues decreased \$23.8 million with decreases in retail energy and fuel revenues of \$15.5 million and \$8.3 million, respectively. The decrease in retail energy revenues was driven by a Board approved 4.6 percent decrease in electric base rates in October 2012. Retail fuel revenues decreased as a result of the annualized impact of the fuel rate decrease approved by the Board in March 2012 and lower utilization of fuel stabilization due to decreased fuel costs. Total resale revenues decreased \$5.7 million in 2013 as a result of a decrease in resale energy of \$4.5 million coupled with a decrease of \$1.2 million in resale fuel. Consistent with retail electric revenues, resale electric revenues earned through the St. Cloud inter-local agreement were lower than prior year due to the electric rate reductions.

Water revenues decreased \$0.9 million due to a 1.3 percent decrease in water consumption as compared to 2012. Other revenues increased \$1.1 million primarily due to increased reconnection and other energy service revenues.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Operating expenses:** In 2013, Total operating expenses were \$27.2 million or 3.7 percent lower than in 2012. Fuel for generation and purchased power costs decreased \$10.2 million in 2012 or 3.1 percent as a result of lower coal commodity costs.

Unit/department expenses decreased \$14.1 million or 6.0 percent in 2013. Minority-owned generation facility operating costs at Stanton Unit A and St Lucie Unit 2 were \$3.9 million and \$2.0 million, respectively, lower than those incurred in 2012 as a result of major outages. Labor costs were \$3.7 million lower than the prior year as a result of position vacancies and the reassignment of labor resources as part of the mutual aid agreement to support communities affected by Super Storm Sandy. Additionally in 2013, OUC completed a study that analyzed the classification of costs associated with material handling, procurement and the movement of fuels. Based on FERC guidance, \$4.1 million was reclassified from Unit/department expense to Fuel for generation and purchased power. These changes were offset by increased benefit costs of \$2.6 million as a result of higher pension and medical costs.

Depreciation and amortization was \$119.0 million in 2013, a decrease of \$1.7 million or 1.4 percent from 2012. This change was due primarily to savings garnered as a result of the implementation of the depreciation study OUC conducted during 2013 of \$11.6 million. The impact of the study results was offset by accelerated depreciation costs associated with the write-down of water meters in preparation for the Advanced Meter Infrastructure implementation of \$3.3 million, the recognition of previously deferred remediation costs for the Martin Substation of \$0.8 million and incremental year-over-year systematic depreciation related to the capitalization of new assets.

Payments to other governments and taxes were slightly lower than the amounts incurred in 2012 as a result of decreased operating revenues.

**Net non-operating expenses:** Total net non-operating expenses decreased \$3.1 million or 6.8 percent in 2013 as compared to 2012. A component of this change was due to lower current period interest expenses, inclusive of interest rate swaps, in the amount of \$7.8 million as a result of the January 2013 bond refunding transaction. Offsetting this change was the recognition of \$2.2 million less in interest earnings in 2013 stemming from the timing of investment valuations. Also contributing to the decrease was the reversal of unrealized regulatory compliance costs of \$0.9 million in 2012.

**Contributions in aid of construction:** Contributions in aid of construction increased \$1.7 million in 2013 as compared to 2012 as a result of increased water system growth projects.

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

OUC continues to reinforce its core value of maintaining reliability while providing customers with competitive rates and supporting electric and water sustainability initiatives. In 2014, OUC completed the implementation of customer-facing projects initiated in 2013 and began to introduce new web technologies, including self-service and mobile features. These new technologies enable OUC customers to better manage their utility accounts while reducing their consumption and costs. The new technologies also allow OUC to control costs by migrating customers to more economical and efficient customer service channels. In conjunction with the implementation of the Advanced Metering Infrastructure program, these technologies enable customers to strengthen their support of conservation efforts while allowing OUC to maintain high reliability standards.

In 2014, revenues of \$880.0 million, net of a Board approved regulatory deferral of \$8.0 million related to unexpected increase in wholesale energy sales, were slightly below the 2014 budgeted expectation. The 2015 operating budget reflects a measured retail sales growth as the Orlando area continues to rebound; with operating revenues in the near term, net of fuel revenue, projected to increase 1.0 percent. There is currently no electric rate increase planned for 2015; however a water rate increase is being considered.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

In 2015, OUC will implement GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, (Statement No. 68). The primary objective of this statement is to improve accounting and financial reporting for pension plans by providing decision-useful information and creating transparency. Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows and inflows of resources and expenses. For defined benefit pension plans, Statement No. 68 further identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to the actuarial present value and attribute that present value to periods of employee service. OUC is currently evaluating the financial impact of this implementation to the Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position.

OUC is subject to legislative and regulatory mandates that impact its operations. Electric utilities are subject to emissions requirements issued under the Clean Air Interstate Rule (CAIR) which limits emissions of nitrogen oxides (NO<sub>x</sub>) and sulfur dioxide (SO<sub>2</sub>), the byproducts of fuel combustion in power plants. The EPA is working to finalize the new Cross-State Air Pollution Rule (CSAPR) which will further limit the NO<sub>x</sub> and SO<sub>2</sub> emissions by 2015. The estimated costs of compliance with CSAPR are expected to be significant and are being evaluated by OUC. Additionally, the EPA has promulgated the Mercury Air Toxins rule (MAT) to further regulate mercury emissions. OUC is currently implementing processes to assess its current emission levels as well as making plant modifications to address compliance. While the costs for the proposed MAT requirements are not anticipated to be material, further compliance measures may prove to be significant. Finally, the EPA has announced that a new carbon dioxide (CO<sub>2</sub>) rule under the authority of Section 111(b) of the Clean Air Act will be finalized by June 2015. Compliance costs associated with this ruling will be assessed upon issuance. See Note I for further information.

OUC received public assistance awards of \$17.1 million, \$11.6 million and \$3.4 million from the Federal Emergency Management Agency (FEMA) for damages resulting from the 2004 hurricanes Charley, Frances and Jeanne, respectively. The Office of Inspector General of the Department of Homeland Security (OIG) conducted an audit to determine whether OUC accounted for and expended FEMA grant funds in accordance with federal regulations and FEMA guidelines. The audit revealed that although funds were expended in accordance with guidelines, OUC did not follow federal procurement requirements, but did follow its own procurement processes for certain emergency situations where bidding is not reasonably possible. As a result, OIG recommended that FEMA de-obligate \$4.1 million, \$6.1 million and \$0.6 million for each of the three hurricanes, respectively. OUC responded by stating that competitive bidding for contract work during this period was unfeasible due to a shortage of viable bidders and wide spread power outages in Florida during that time. At FEMA's request, OUC provided a "Reasonable Cost" analysis of the contract costs cited in the OIG reports. As a result of previous rulings related to repayment of FEMA awards, OUC estimates that the de-obligation for the three hurricanes will be \$2.0 million and has recorded this obligation under the heading of Accounts payable and accrued expenses in the Statements of Net Position.

Finally in February 2013, Duke Energy announced their decision to close the jointly owned Crystal River 3 nuclear generation facility (CR 3) as a result of delamination within the reactor containment building. OUC's Board approved the impairment and reclassification of its ownership share of CR 3 property, plant, equipment and inventory of \$15.3 million, net of insurance proceeds, as a regulatory asset. On September 30, 2014, the joint owners of CR 3 executed a Settlement, Release and Execution agreement to address the damages claimed by the joint owners and permitting Duke Energy to file an application with the Nuclear Regulatory Commission for a license amendment. Upon approval of the license amendment, OUC will transfer both their ownership in CR 3 along with their current decommissioning trust funds back to Duke Energy. In exchange, Duke Energy will assume all past and future liabilities associated with the maintenance and decommissioning of the CR 3 facility as well as make settlement payments to OUC of \$13.0 million. OUC will recognize the transaction in accordance with GASB Statement No. 62 upon completion of this process.

## STATEMENTS OF NET POSITION

Years ended September 30

(Dollars in thousands)	2014	(Restated) * 2013
<b>Assets</b>		
Utility plant		
Utility plant in service	\$ 3,749,368	\$ 3,680,510
Allowances for depreciation and amortization	(1,615,754)	(1,572,345)
Utility plant in service, net	2,133,614	2,108,165
Land	69,455	69,214
Construction work in progress	151,557	135,465
<b>Total utility plant, net</b>	<b>2,354,626</b>	<b>2,312,844</b>
Restricted and internally designated assets		
Restricted assets	53,212	52,376
Internally designated assets	498,051	505,278
<b>Total restricted and internally designated assets</b>	<b>551,263</b>	<b>557,654</b>
Current assets		
Cash and investments	38,081	60,333
Customer accounts receivable, less allowance for doubtful accounts (2014 - \$8,420 and 2013 - \$23,124)	76,034	67,697
Miscellaneous receivables	13,702	17,231
Accrued utility revenue	37,983	39,275
Fuel for generation	24,821	30,168
Materials and supplies inventory, net	42,226	42,561
Accrued interest receivable	1,456	2,117
Prepaid and other expenses	18,283	21,824
Hedging derivative instrument maturing within one year	448	213
<b>Total current assets</b>	<b>253,034</b>	<b>281,419</b>
Other assets		
Net pension and other post-employment benefits assets	31,368	30,265
Regulatory assets	34,900	42,096
Other long-term assets	18,140	17,118
Hedging derivative instrument	226	88
<b>Total other assets</b>	<b>84,634</b>	<b>89,567</b>
<b>Total assets</b>	<b>3,243,557</b>	<b>3,241,484</b>
<b>Deferred outflows of resources</b>		
Accumulated decrease in fair value of hedging derivatives	23,808	25,622
Unamortized loss on refunded bond	51,922	58,439
<b>Total deferred outflows of resources</b>	<b>75,730</b>	<b>84,061</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 3,319,287</b>	<b>\$ 3,325,545</b>

See Notes to the Financial Statements

\*Additional details related to the restatement are included in Note B.



## STATEMENTS OF NET POSITION

Years ended September 30

(Dollars in thousands)	2014	(Restated) * 2013
<b>Liabilities</b>		
Current liabilities		
Payable from restricted assets		
Current portion of long-term debt	\$ 53,310	\$ 51,950
Accrued interest payable on notes and bonds	29,826	31,031
Customer meter deposits	52,784	49,892
<b>Total payable from restricted and designated assets</b>	<b>135,920</b>	<b>132,873</b>
Payable from current assets		
Accounts payable and accrued expenses	82,801	67,332
Billings on behalf of state and local governments	16,987	15,858
Compensated absences and accrued wages	12,748	11,639
Accrued governmental payments	2,479	2,979
Accrued swap payables	872	871
Other bonds payable	98,360	98,360
Hedge derivative instrument maturing within one year	512	3,459
<b>Total payable from current assets</b>	<b>214,759</b>	<b>200,498</b>
<b>Total current liabilities</b>	<b>350,679</b>	<b>333,371</b>
Other liabilities		
Asset retirement obligation and other liabilities	85,438	84,263
Hedge derivative instruments	289	242
<b>Total other liabilities and credits</b>	<b>85,727</b>	<b>84,505</b>
Long-term debt		
Bond and note principal	1,359,650	1,412,960
Unamortized discount/premium	98,346	113,228
Fair value of derivative instruments	23,007	21,921
<b>Total long-term debt</b>	<b>1,481,003</b>	<b>1,548,109</b>
<b>Total liabilities</b>	<b>1,917,409</b>	<b>1,965,985</b>
<b>Deferred inflows of resources</b>		
Accumulated increase in fair value of hedging derivatives	674	301
Regulatory credits	233,029	252,936
Unamortized gain on refunded bond	1,926	2,104
<b>Total deferred inflows of resources</b>	<b>235,629</b>	<b>255,341</b>
Net position		
Net investment in capital assets	884,604	789,341
Restricted	265	329
Unrestricted	281,380	314,549
<b>Total net position</b>	<b>1,166,249</b>	<b>1,104,219</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 3,319,287</b>	<b>\$ 3,325,545</b>

See Notes to the Financial Statements

\*Additional details related to the restatement are included in Note B.

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years ended September 30	
(Dollars in thousands)	2014	2013
Operating revenues		
Retail electric revenues	\$ 590,123	\$ 559,400
Resale electric revenues	157,009	134,573
Water revenues	63,415	62,497
Chilled water revenues	30,534	30,323
Lighting revenues	12,876	12,697
Other revenues	26,028	25,868
<b>Total operating revenues</b>	<b>879,985</b>	<b>825,358</b>
Operating expenses		
Fuel for generation and purchased power	347,896	315,867
Unit/department expenses	231,191	219,457
Depreciation and amortization	113,601	118,964
Payments to other governments and taxes	55,240	54,275
<b>Total operating expenses</b>	<b>747,928</b>	<b>708,563</b>
<b>Operating income</b>	<b>132,057</b>	<b>116,795</b>
Non-operating income and expenses		
Interest income	4,848	4,512
Other income, net	9,375	10,289
Amortization of gain on sale of assets	2,888	4,692
Interest expense	(59,887)	(62,355)
<b>Total net non-operating expenses</b>	<b>(42,776)</b>	<b>(42,862)</b>
<b>Income before contributions</b>	<b>89,281</b>	<b>73,933</b>
Contributions in aid of construction	21,371	10,318
Annual dividend	(48,622)	(47,000)
<b>Increase in net position</b>	<b>62,030</b>	<b>37,251</b>
<b>Net position - beginning of year</b>	<b>1,104,219</b>	<b>1,066,968</b>
<b>Net position - end of year</b>	<b>\$ 1,166,249</b>	<b>\$ 1,104,219</b>

See Notes to the Financial Statements

## STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Years ended September 30	
	2014	2013
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 857,969	\$ 808,235
Cash paid for fuel and purchased power	(326,155)	(318,861)
Cash paid for unit/department expenses excluding salaries and benefits	(57,821)	(60,574)
Cash paid for salaries and benefits	(148,339)	(137,864)
Cash paid to other governments and taxes	(55,739)	(54,317)
<b>Net cash provided by operating activities</b>	<b>269,915</b>	<b>236,619</b>
<b>Cash flows from non-capital related financing activities</b>		
Dividend payment	(48,622)	(47,000)
Build America Bond interest received	5,487	1,982
<b>Net cash used in non-capital related financing activities</b>	<b>(43,135)</b>	<b>(45,018)</b>
<b>Cash flows from capital related financing activities</b>		
Utility plant net of contributions in aid of construction	(144,399)	(149,974)
Debt interest payments	(65,904)	(68,942)
Collateral deposits	(1,600)	11,100
Principal payments & refunding costs on long-term debt	(51,950)	(358,766)
Debt issuances	-	308,305
Debt issue expense	(1,435)	(2,896)
<b>Net cash used in capital related financing activities</b>	<b>(265,288)</b>	<b>(261,173)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investment securities	403,529	398,949
Gain on sale of investments	338	421
Purchases of investment securities	(301,646)	(487,028)
Investments and other income received	9,608	10,904
<b>Net cash provided by / (used in) investing activities</b>	<b>111,829</b>	<b>(76,754)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>73,321</b>	<b>(146,326)</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>150,545</b>	<b>296,871</b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ 223,866</b>	<b>\$ 150,545</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 132,057	\$ 116,795
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization of plant charged to operations	113,601	118,964
Depreciation and amortization charged to fuel for generation & purchased power	2,804	2,017
Depreciation of vehicles and equipment charged to unit/department expenses	3,636	3,960
Changes in assets and liabilities		
Decrease / (increase) in receivables and accrued revenue	3,483	(544)
Decrease / (increase) in fuel and materials and supplies inventories	11,987	(8,261)
Increase in accounts payable	17,257	11,108
Increase in deposits payable and liabilities	2,392	2,062
Decrease in stabilization and deferred credits	(17,302)	(9,482)
<b>Net cash provided by operating activities</b>	<b>\$ 269,915</b>	<b>\$ 236,619</b>
<b>Reconciliation of cash and cash equivalents</b>		
Restricted and internally designated equivalents	\$ 137,210	\$ 61,919
Cash and investments	3,629	5,758
Debt service and related funds	83,027	82,868
<b>Cash and cash equivalents - end of the year</b>	<b>\$ 223,866</b>	<b>\$ 150,545</b>
<b>Non-cash investing, capital and financing activities</b>		
Increase in donated utility plant assets	\$ 3,646	\$ 4,451
Decrease in fair value of investments	\$ (176)	\$ (3,112)
Decrease / (increase) in accounts payable related to utility plant purchases	\$ 647	\$ (1,587)

See Notes to the Financial Statements

## 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.

### 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"*. Under this guidance, certain expenses and revenues are deferred and recognized 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.

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.

## NOTES TO FINANCIAL STATEMENTS

### Note B – Summary of Significant Accounting Policies (continued)

In August 2012, the Board approved an electric base rate reduction for 2013. This rate change yielded an average 4.6 percent residential and small commercial customer rate decrease. There were no electric rate changes in 2014, nor are there any proposed electric rate changes for 2015.

Water rates have not been changed since 2009. OUC is evaluating a water rate change for 2015 to cover rising operating costs.

**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 the depreciation study completed in 2013, FERC guidelines or the license period of the asset. The impact of the depreciation study resulted in a decrease in depreciation expense of \$22.7 million and \$11.6 million for the years ended September 30, 2014 and 2013, respectively.

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 or loss 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 rates for 2014 and 2013 inclusive of impairment expenses were 3.1 percent and 3.6 percent, respectively. Depreciation is calculated using the following estimated lives:

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

In addition, nuclear fuel is included in utility plant and recognized 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 Statements of Revenues, Expenses and Changes in Net Position. Realized gains associated with a bond refunding are included as a component of the unamortized amount on refunding. 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)	2014	2013
Realized gains	\$ 338	\$ 421
Prior year unrealized gains	\$ 67	\$ 1,311

There were no gains associated with a bond refunding for the years ended September 30, 2014 and 2013.

Investments maintained in OUC's Defined Benefit and Other Post-Employment Benefit Trust funds were reported at quoted market value as of their actuarial valuation date. See valuation information related to these trust funds following the footnotes under the heading of Required Supplemental Information.

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

**Accounts receivable:** OUC recognizes revenue and the associated Customer accounts receivable, 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 Statements of Revenues, Expenses and Changes in Net Position.

In 2014, doubtful accounts in the amount of \$14.6 million were sold for \$0.3 million. Included in this amount were aged agency receivables in the amount of \$1.8 million. In 2013, provisions were established for aged agency receivables and billed as a component of the agency remittance process.

The net customer receivable balance of \$76.0 million and \$67.7 million at September 30, 2014 and 2013 includes an allowance for doubtful accounts of \$8.4 million and \$23.1 million, respectively. In 2014 and 2013, the net customer receivable amount for billings on behalf of the state and other local governments were \$9.4 million and \$9.0 million inclusive of an allowance for doubtful accounts of \$0.9 million and \$2.2 million, respectively. Agency billings are not reflected in the Statements of Revenues, Expenses and Changes in Net Position.

As of September 30, 2014 and 2013, Miscellaneous accounts receivables, including participation billing, were \$13.7 million and \$17.2 million net of allowance for doubtful accounts of \$0.6 million and \$0.4 million, respectively.

## NOTES TO FINANCIAL STATEMENTS

### Note B – Summary of Significant Accounting Policies (continued)

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

(Dollars in thousands)	2014	2013
<b>Customer accounts receivable, net</b>		
Customer receivables	\$ 57,236	\$ 52,781
Agency receivables	9,389	8,974
Wholesale receivables	9,409	5,942
<b>Total customer accounts receivable, net</b>	<b>76,034</b>	<b>67,697</b>
<b>Miscellaneous accounts receivable, net</b>	<b>13,702</b>	<b>17,231</b>
<b>Total accounts receivable, net</b>	<b>\$ 89,736</b>	<b>\$ 84,928</b>

Bad debt expenses were \$3.3 million and \$3.1 million for the years ended September 30, 2014 and 2013, respectively.

**Accrued utility revenue:** This amount represents services provided to retail customers but not billed at the end of the fiscal year for electric, water, chilled water and lighting. Accrued unbilled revenue at September 30, 2014 and 2013 was \$38.0 million and \$39.3 million, respectively, including unbilled electric fuel revenues in the amount of \$12.2 million and \$12.7 million, respectively.

**Fuel for generation:** Fuel oil and coal were reported at current cost, based on market fuel indices. Fuel for generation at September 30, 2014 and 2013 was \$24.8 million and \$30.2 million, respectively.

**Materials and supplies inventory:** Materials and supplies were reported at current cost based on contractual material and supply agreements. Materials and supplies inventory, net at September 30, 2014 and 2013 was \$42.2 million and \$42.6 million including an allowance for obsolescence of \$4.8 million and \$4.3 million, respectively. The allowance for obsolescence was calculated at a rate of 25.0 percent for inventory with no activity for more than three years.

**Prepaid and other expenses:** Prepaid expenses represent costs that are anticipated to be recognized in the Statements of Revenues, Expenses and Changes in Net Position in the near future, including service agreement costs and margin deposits. Prepaid expenses at September 30, 2014 and 2013 were \$18.3 million and \$21.8 million, respectively, for which interest rate swap margin deposits were \$12.2 million and \$10.6 million, respectively.

**Net pension and other post-employment benefits (OPEB) assets:** Changes to the net pension and net OPEB assets are recorded in accordance with calculations provided to OUC by its actuaries in conjunction with the respective annual actuarial valuation reports. The net asset balances were \$29.4 million and \$28.3 million for pension and \$1.9 million and \$2.0 million for OPEB at September 30, 2014 and 2013, respectively. As part of the GASB Statement No. 68 implementation, OUC will evaluate the financial statement impact related to the net pension asset and make any necessary adjustments in 2015.

## NOTES TO FINANCIAL STATEMENTS

### Note B – Summary of Significant Accounting Policies (continued)

**Hedging derivative instruments:** All effective derivative instruments are included on the Statements of Net Position as either an asset or liability measured at fair 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 a part of Fuel for generation and purchased power costs and Interest expense, respectively, in the Statements of Revenues, Expenses and Changes in Net Position. Changes in the fair value of investment derivative instruments were recognized in the Statements 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 credit worthiness and overall program compliance. In addition, the Energy Risk Management Program incorporates specific volume and financial limits for natural gas derivatives which begin at 40.0 percent of the approved retail 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 retail 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 under 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)	2014	2013
Supplier payables	\$ 29,726	\$ 27,165
Fuel and purchased power payables	39,348	32,969
Accrued self-insurance expenses	2,411	3,357
Other accounts payable and accrued expenses	11,316	3,841
<b>Total accounts payable and accrued expenses</b>	<b>\$ 82,801</b>	<b>\$ 67,332</b>

Other accounts payable and accrued expenses under this heading include taxes billed on behalf of various governmental authorities and pollution remediation. Pollution remediation of \$2.7 million and \$1.6 million at September 30, 2014 and 2013, respectively, 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 not 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, 2014 and 2013, the estimated liability for Compensated absences and accrued wages was \$12.7 million and \$11.6 million, respectively.

**Other Bonds Payable:** Variable rate bonds with final maturities extending past one year that are not supported by an underlying liquidity facility are classified as current under the heading Other bonds payable.

**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, 2014 and 2013 was \$46.0 million and \$43.9 million, respectively for SL 2 and \$17.6 million each year for CR 3.

The operational license expiration date for SL 2 is fiscal year 2043. See Note I 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, 2014 and 2013, these balances were \$13.3 million and \$13.6 million, respectively.

**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 Statements of Revenues, Expenses and Changes in Net Position.

**Net position:** 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”.

## NOTES TO FINANCIAL STATEMENTS

### Note B – Summary of Significant Accounting Policies (continued)

**Implementation of new accounting standards:** In 2014, OUC adopted GASB Statement No. 65 *“Items Previously Reported as Assets and Liabilities”*, (Statement No. 65), which was issued by GASB in 2012. The application of this standard established accounting and financial reporting standards that required the reclassification of certain items previously reported as assets and liabilities to that of Deferred outflows of resources or Deferred inflows of resources or as Outflows or Inflows of resources. The implementation of this statement also limited the use of the term deferred in the financial statement presentation.

At September 30, 2013, OUC had \$8.7 million of unamortized debt issuance costs. Statement No. 65 required debt issuance costs to be recognized as Outflows of resources in the period incurred. In 2014 as a result of Board action, OUC elected to follow accounting guidance for regulated operations and recorded previously incurred debt issuance costs as a regulatory asset. These costs will be amortized using the straight-line method through 2023 and recognized under the heading Interest expense on the Statements of Revenues, Expenses and Changes in Net Position. Debt issuance costs incurred subsequent to September 30, 2014 will be recognized as an Outflow of resources. Adoption of Statement No. 65 also impacted the Statements of Net Position, as certain assets and liabilities were reclassified under the headings Deferred outflows of resources or Deferred inflows of resources. For comparative purposes, the Statement of Net Position for 2013 included within this document has been restated for these changes. Noted below are the specific areas impacted:

(Dollars in thousands)	Year ended September 30	
	(Restated) 2013	(Previously reported) 2013
<b>Assets</b>		
Other assets		
Regulatory assets	\$ 42,096	\$ 33,373
Unamortized debt costs	\$ -	\$ 3,497
<b>Deferred outflows of resources</b>		
Loss on refunded debt	\$ 58,439	\$ -
<b>Liabilities</b>		
Other liabilities and credits		
Regulatory liabilities	\$ -	\$ 252,936
Long-term debt		
Unamortized discount/premium	\$ 113,228	\$ 51,666
<b>Deferred inflows of resources</b>		
Regulatory credits	\$ 252,936	\$ -
Gain on refunded debt	\$ 2,104	\$ -

The Statements of Revenues, Expenses and Changes in Net Position were not impacted by the implementation of Statement No. 65.

## NOTES TO FINANCIAL STATEMENTS

### Note B – Summary of Significant Accounting Policies (continued)

**Recent accounting standards:** In 2012 and 2013, GASB issued Statement No. 68, *“Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27”*, (Statement No. 68) and Statement No. 71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date”*, (Statement No. 71).

Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses related to pensions. For defined benefit pension plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discounts projected benefit payments to their actuarial present value, and attributes that present value to periods of employee service. Note disclosures and required supplementary information requirements about pensions also are addressed.

Statement No. 71 addresses an issue regarding application of the transition provisions of Statement No. 68.

The impact of Statements No. 68 and No. 71 is currently being evaluated and is anticipated to be material to the presentation of OUC’s financial position. These statements will be implemented, as required by GASB, in 2015.

**Reclassifications:** Certain amounts in 2013 have been reclassified to conform to the 2014 presentation.

## NOTES TO FINANCIAL STATEMENTS

### Note C – Utility Plant

Activities for the years ended September 30, 2014 and 2013 were as follows:

(Dollars in thousands)	2013	Additions	Transfers	Retirements/ reclassifications	2014
Utility plant					
Electric	\$ 2,787,317	\$ 14,845	\$ 92,787	\$ (44,736)	\$ 2,850,213
Water	514,842	3,845	18,068	(5,375)	531,380
Chilled Water	115,504	-	1,376	(5)	116,875
Lighting	69,405	-	2,356	(506)	71,255
Shared/Customer Service	193,442	3,244	7,947	(24,988)	179,645
<b>Total utility plant</b>	<b>3,680,510</b>	<b>21,934</b>	<b>122,534</b>	<b>(75,610)</b>	<b>3,749,368</b>
Accumulated depreciation					
Electric	(1,220,202)	(78,338)	1,367	38,774	(1,258,399)
Water	(192,567)	(14,869)	303	7,537	(199,596)
Chilled Water	(34,882)	(3,645)	(17)	(15)	(38,559)
Lighting	(26,278)	(3,512)	(567)	215	(30,142)
Shared/customer service	(98,416)	(12,477)	(1,086)	22,921	(89,058)
<b>Total accumulated depreciation</b>	<b>(1,572,345)</b>	<b>(112,841)</b>	<b>-</b>	<b>69,432</b>	<b>(1,615,754)</b>
Total depreciable utility plant, net	2,108,165	(90,907)	122,534	(6,178)	2,133,614
Land and other non-depreciable assets	69,214	251	-	(10)	69,455
Construction work in progress	135,465	146,954	(122,534)	(8,328)	151,557
<b>Utility plant, net</b>	<b>\$ 2,312,844</b>	<b>\$ 56,298</b>	<b>\$ -</b>	<b>\$ (14,516)</b>	<b>\$ 2,354,626</b>

(Dollars in thousands)	2012	Additions	Transfers	Retirements/ reclassifications	2013
Utility plant					
Electric	\$ 2,762,807	\$ 11,812	\$ 43,855	\$ (31,157)	\$ 2,787,317
Water	509,709	4,936	19,311	(19,114)	514,842
Chilled Water	115,637	-	274	(407)	115,504
Lighting	67,041	-	2,416	(52)	69,405
Shared/Customer Service	201,040	2,841	12,275	(22,714)	193,442
<b>Total utility plant</b>	<b>3,656,234</b>	<b>19,589</b>	<b>78,131</b>	<b>(73,444)</b>	<b>3,680,510</b>
Accumulated depreciation					
Electric	(1,164,162)	(78,563)	(6)	22,529	(1,220,202)
Water	(188,042)	(17,484)	(6)	12,965	(192,567)
Chilled Water	(31,346)	(3,943)	-	407	(34,882)
Lighting	(23,196)	(3,102)	16	4	(26,278)
Shared/customer service	(105,436)	(14,683)	(4)	21,707	(98,416)
<b>Total accumulated depreciation</b>	<b>(1,512,182)</b>	<b>(117,775)</b>	<b>-</b>	<b>57,612</b>	<b>(1,572,345)</b>
Total depreciable utility plant, net	2,144,052	(98,186)	78,131	(15,832)	2,108,165
Land and other non-depreciable assets	70,022	6	-	(814)	69,214
Construction work in progress	84,125	142,343	(78,131)	(12,872)	135,465
<b>Utility plant, net</b>	<b>\$ 2,298,199</b>	<b>\$ 44,163</b>	<b>\$ -</b>	<b>\$ (29,518)</b>	<b>\$ 2,312,844</b>

In 2014, the depreciation study recommendations were implemented and group asset reporting was transitioned to industry standards for group asset depreciation, the retirement of aged assets and the incorporation of net salvage value.

In 2013, the Board approved the write-down of the existing electric and water meter assets in conjunction with the implementation of the Advanced Metering Infrastructure (AMI) project, resulting in a reduction to Utility plant, net of \$1.8 million and \$4.4 million, respectively. These amounts were classified as a regulatory asset and are being amortized during fiscal years 2014 and 2015.

## NOTES TO FINANCIAL STATEMENTS

### Note D – Power Generation Facility Operations

#### Jointly Owned Generation Facilities

**OUC operated:** OUC maintains fiscal, budgetary and operating control at four power generation facilities for which there are undivided participant ownership interests. These undivided ownership interests are with the Florida Municipal Power Agency (FMPA) and Kissimmee Utility Authority (KUA). Each agreement is limited to the generation facilities and excludes the external facilities. OUC also maintains operational control of a wastewater treatment facility at the Stanton Units 1 and 2 site 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, Duke Energy at their Crystal River Unit 3 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 Statements 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

**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 are remitted back to OUC at their proportionate ownership interest of shared facilities. Allowance for depreciation and amortization of utility plant is determined by each participant based on their 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:

(Dollars in thousands)	2014			2013		
	Utility plant	Accumulated depreciation	Net book value	Utility plant	Accumulated depreciation	Net book value
SEC 2	\$ 463,544	\$ 206,792	\$ 256,752	\$ 452,074	\$ 196,118	\$ 255,956
SEC 1	365,112	213,019	152,093	363,833	206,022	157,811
MAC 3	189,385	123,307	66,078	185,584	119,718	65,866
SL 2	193,828	91,841	101,987	189,872	89,513	100,359
SEC A	84,638	35,753	48,885	87,479	34,377	53,102
IRP	56,105	41,467	14,638	65,732	50,235	15,497
<b>Total</b>	<b>\$ 1,352,612</b>	<b>\$ 712,179</b>	<b>\$ 640,433</b>	<b>\$ 1,344,574</b>	<b>\$ 695,983</b>	<b>\$ 648,591</b>

## NOTES TO FINANCIAL STATEMENTS

### Note D – Power Generation Facility Operations (continued)

#### 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, 2014 and 2013 was \$232.4 million and \$238.4 million, respectively.

### 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 Statements of Net Position. The use of these funds is designated in accordance with applicable debt indentures, Board action, or any other laws and regulations established through legislation.

Securities are recorded at their fair values with gains and losses recorded as a component of Interest income in the Statements of Revenue, Expense and Changes in Net Position. At September 30, 2014 and 2013 the total amount of deposits and investments were \$589.2 million and \$617.9 million, respectively on the Statements of Net Position.

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

- **Interest Rate Risk:** OUC's Treasury policy requires a minimum of 10.0 percent of the operating portfolio be held in highly marketable securities with maturities not exceeding 30 days. This requirement enables OUC to mitigate fair value changes within the portfolio and reduce its exposure to this risk. In addition, the Treasury policy limits maturities based on investment type and credit strength and entrusts OUC's management to execute 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, \$146.2 million and \$124.8 million of investments held in money market funds and interest-bearing qualified public depository accounts were exposed to this risk as of September 30, 2014 and 2013, respectively. 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 of \$1 per share 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.

## NOTES TO FINANCIAL STATEMENTS

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

- **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	2014	2013
U.S. agencies		
Federal Home Loan Mortgage Corporation (Freddie Mac)	<5%	14%
Federal National Mortgage Association (Fannie Mae)	8%	8%
Federal Home Loan Banks	12%	7%
U.S. treasury notes	11%	8%
Commercial paper		
Mountcliff Funding LLC	<5%	5%

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

Investment type	Credit guidelines	Maximum portfolio weighting	Portfolio weighting at September	
			2014	2013
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%	19%	23%
Municipal notes	Minimum "A1" rating by a nationally recognized rating agency.	25%	4%	3%
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 of \$1 per share 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%	16%	16%
Depository accounts	Investments held by or purchased from institutions certified with the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes.	30%	25%	20%
Local government surplus funds investment pool	Qualified under the laws of the State of Florida.	25%	-	-
U.S. treasury notes	Direct obligations that are unconditionally guaranteed by the United States Government.	100%	12%	8%
U.S. agencies	Indebtedness issued by government-sponsored enterprises (GSE), which are non-full faith and credit by the United States Government.	100%	24%	30%
Floating NAV mutual funds	Morningstar rating of at least 4 out of 5 stars.	10%	-	-
Repurchase and reverse repurchase agreements	Secured transactions executed under a master repurchase agreement with collateral limited to direct governmental and agency obligations with terms of <10 years and held and maintained by a third party trust at a market value of 102% of the cash value.	50% and 20%, respectively	-	-

## NOTES TO FINANCIAL STATEMENTS

### 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)	Weighted average maturity in years	
		2014	2013
Municipal notes	Aaa / AAA-Aa2 / AA	3.90	4.02
U.S. treasury notes	Aaa / AA+ / AAA	3.87	3.93
U.S. agencies	Aaa / AA+ / AAA	3.75	3.62
Corporate notes	Aaa / AAA - A3 / A-	2.38	2.44
Commercial paper	A-1 / P-1 / F1	0.27	0.38

(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)	2014		2013	
	\$		\$	
<b>Cash</b>		<b>3,629</b>		<b>5,758</b>
<b>Cash equivalents</b>				
Depository accounts		146,247		124,795
Commercial paper		63,990		19,992
U.S. agencies		10,000		-
Total cash equivalents		220,237		144,787
<b>Total cash and cash equivalents</b>		<b>223,866</b>		<b>150,545</b>
<b>Investments</b>				
U.S. agencies		131,735		186,334
U.S. treasury notes		63,333		46,260
Corporate notes		109,857		138,648
Commercial paper		32,000		75,779
Municipal notes		28,418		20,318
<b>Total investments</b>		<b>365,343</b>		<b>467,339</b>
<b>Total cash, cash equivalents and investments</b>	<b>\$</b>	<b>589,209</b>	<b>\$</b>	<b>617,884</b>
<b>Restricted and internally designated assets</b>				
Restricted assets				
Nuclear generation facility decommissioning funds	\$	53,212	\$	52,376
Total restricted assets		53,212		52,376
Internally designated assets				
Stabilization funds		144,425		159,775
Debt service sinking funds		83,027		82,868
Renewal and replacement fund		53,752		53,752
Deposits and advances		88,379		80,415
Capital reserve		118,968		118,968
Self-insurance fund		9,500		9,500
Total internally designated assets		498,051		505,278
<b>Total restricted and internally designated assets</b>		<b>551,263</b>		<b>557,654</b>
<b>Cash and investments</b>		<b>38,081</b>		<b>60,333</b>
<b>Less accrued interest receivable from restricted and internally designated assets</b>		<b>(135)</b>		<b>(103)</b>
<b>Total cash, cash equivalents and investments</b>	<b>\$</b>	<b>589,209</b>	<b>\$</b>	<b>617,884</b>



## NOTES TO FINANCIAL STATEMENTS

### Note F – Regulatory Deferrals

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

#### Regulatory assets

**Loss on defeasance:** In December 2006, OUC used \$109.8 million from the Liability Reduction Fund to defease portions of the Series 2001, 2001A and 2003A Bonds in anticipation of yielding a favorable rate differential between the interest earnings from the Liability Reduction Fund and the defeased debt. In conjunction with this defeasance, a loss in the amount of \$10.9 million was deferred and is being amortized over an eight year period, the original scheduled recovery period. The amount of deferred loss at September 30, 2014 and 2013 was \$0.4 million and \$2.5 million respectively.

**Unamortized issue costs:** In conjunction with the implementation of GASB Statement No. 65, OUC established a regulatory asset for unrecognized costs previously incurred in connection with the issuance of debt obligations, 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 cost as of September 30, 2014 and 2013 was \$7.6 million and \$8.7 million, respectively.

**Unamortized interest costs:** This amount represents the deferral of interest costs incurred in association with the 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, 2014 and 2013 was \$3.3 million and \$3.7 million, respectively. 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 exceed the amounts charged to customers and the income earned from the associated restricted retirement obligation investments. As such, the asset retirement obligation regulatory asset at September 30, 2014 and 2013 was \$7.1 million and \$5.7 million, respectively.

**Unamortized meter assets:** In 2013, OUC began upgrading all electric and water meters with an Advanced Metering Infrastructure (AMI). In conjunction with this program, the remaining asset value for the existing electric and water meters of \$1.8 million and \$4.4 million, respectively, was deferred. The deferral balance as of September 30, 2014 was \$0.9 million and \$2.2 million respectively. The remainder of the asset write-down costs will be recognized in 2015.

**Unamortized impaired assets:** In February 2013, Duke Energy announced their decision to close the Crystal River 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 funds of \$15.3 million. Based on the net realizable value, as determined by the final settlement with Duke Energy, the balance of impaired assets at September 30, 2014 was \$13.4 million.

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

(Dollars in thousands)	(Restated)*	
	2014	2013
Loss on defeasance	\$ 412	\$ 2,493
Unamortized issue costs	7,647	8,723
Unamortized interest costs	3,264	3,672
Asset retirement obligation costs	7,079	5,749
Unamortized meter assets	3,098	6,196
Unamortized impaired assets	13,400	15,263
<b>Total regulatory assets</b>	<b>\$ 34,900</b>	<b>\$ 42,096</b>

\* See Note B of the financial statements for discussion on the restatement.

## NOTES TO FINANCIAL STATEMENTS

### 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, 2014 and 2013 was \$96.7 million and \$120.5 million, respectively.

**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 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 2014, the Board approved the deferral of \$8.0 million as a result of higher than expected sales during the year.

**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 2013. The balance was \$16.0 million for each of the periods ended September 30, 2014 and 2013.

**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 nuclear generation development costs and continue to remain outstanding at September 30, 2014.

**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 twenty 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, gains in the amount of \$2.9 million and \$4.7 million were recognized for the years ended September 30, 2014 and 2013, respectively. The deferred gain on sale of assets at September 30, 2014 and 2013 was \$67.5 million and \$70.4 million, respectively 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.

**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 accordance with the Board's Capital Asset Disposal Policy and included as a regulatory liability on the Statements of Net Positions. The deferred gain on settlement amount at September 30, 2014 and 2013 was \$2.6 million and \$2.7 million, respectively. This regulatory liability will be recognized systematically over a period consistent with the life of the asset.

## NOTES TO FINANCIAL STATEMENTS

### Note F – Regulatory Deferrals (continued)

In conjunction with the recording of these regulatory credits, the Board internally designated funds in the amount of \$144.4 million and \$159.8 million at September 30, 2014 and 2013, respectively.

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

(Dollars in thousands)	2014	2013
Fuel stabilization	\$ 96,655	\$ 120,465
Rate stabilization	48,124	41,224
Deferred wholesale trading profits	16,000	16,000
Other stabilization funds	2,175	2,175
<b>Deferred revenue regulatory credits</b>	<b>162,954</b>	<b>179,864</b>
Deferred gain on sale of assets	67,496	70,384
Deferred gain on settlement	2,579	2,688
<b>Deferred gain regulatory credits</b>	<b>70,075</b>	<b>73,072</b>
<b>Total regulatory credits</b>	<b>\$ 233,029</b>	<b>\$ 252,936</b>

### Note G – Long-Term Debt

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

Series (Dollars in thousands)	Final principal payment	Interest rates (%)	2013	Additions during year	Decreases during year	2014	Current portion
2003T Bonds	2018	4.97 - 5.07%	\$ 26,580	\$ -	\$ 3,905	\$ 22,675	\$ 4,095
2006 Bonds	2023	4.00 - 5.00%	123,515	-	-	123,515	1,800
2007 Bonds	2014	5.00%	41,980	-	20,570	21,410	21,410
2009A Bonds	2039	5.25%	100,000	-	-	100,000	-
2009B Bonds	2033	5.00%	114,125	-	-	114,125	-
2009C Bonds	2017	3.50 - 5.00%	87,905	-	16,235	71,670	16,880
2010A Bonds	2040	5.662%	200,000	-	-	200,000	-
2010C Bonds	2022	3.00 - 5.25%	83,805	-	6,740	77,065	7,075
2011B Bonds	2023	3.00 - 5.00%	69,675	-	-	69,675	-
2011C Bonds	2027	4.00 - 5.00%	86,450	-	-	86,450	-
2012A Bonds	2027	3.00 - 4.00%	52,935	-	-	52,935	-
2013A Bonds	2025	3.00 - 5.00%	241,925	-	4,500	237,425	2,050
<b>Total fixed rate debt</b>			<b>1,228,895</b>	<b>-</b>	<b>51,950</b>	<b>1,176,945</b>	<b>53,310</b>
2007 Bonds	2016	Variable rate (1)	36,015	-	-	36,015	-
2008 Bonds	2033	Variable rate (1)/(2)	200,000	-	-	200,000	-
2011A Bonds	2027	Variable rate (1)/(3)	98,360	-	-	98,360	-
<b>Total variable rate debt</b>			<b>334,375</b>	<b>-</b>	<b>-</b>	<b>334,375</b>	<b>-</b>
<b>Total debt</b>			<b>1,563,270</b>	<b>\$ -</b>	<b>\$ 51,950</b>	<b>1,511,320</b>	<b>\$ 53,310</b>
Less: Bonds payable within one year			(51,950)	\$ (53,310)	\$ (51,950)	(53,310)	
Less: Other bonds payable (3)			(98,360)	-	-	(98,360)	
Less current portion			(150,310)	<b>\$ (53,310)</b>	<b>\$ (51,950)</b>	(151,670)	
<b>Total long-term debt</b>			<b>\$ 1,412,960</b>			<b>\$ 1,359,650</b>	

(1) Variable rates ranged from 0.03% to 3.177% for the year ended September 30, 2014.

(2) The Series 2008 Variable Rate Demand Obligation Bonds of \$200.0 million are supported by a Stand By 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)

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

Series (Dollars in thousands)	Final principal payment	Interest rates (%)	2012	Additions during year	Decreases during year	2013	Current portion
1996A Bonds	2023	3.75%	\$ 60,000	\$ -	\$ 60,000	\$ -	\$ -
2003A Bonds	2022	4.00 - 5.00%	45,950	-	45,950	-	-
2003B Bonds	2022	4.75 - 5.00%	69,695	-	69,695	-	-
2003T Bonds	2018	4.87 - 5.07%	30,305	-	3,725	26,580	3,905
2005B Bonds	2025	4.55 - 5.00%	120,000	-	120,000	-	-
2006 Bonds	2023	4.00 - 5.00%	123,515	-	-	123,515	-
2007 Bonds	2014	5.00%	61,515	-	19,535	41,980	20,570
2009A Bonds	2039	5.25%	100,000	-	-	100,000	-
2009B Bonds	2033	5.00%	114,125	-	-	114,125	-
2009C Bonds	2017	3.50 - 5.00%	103,845	-	15,940	87,905	16,235
2010A Bonds	2040	5.662%	200,000	-	-	200,000	-
2010C Bonds	2022	3.00 - 5.25%	90,260	-	6,455	83,805	6,740
2011B Bonds	2023	3.00 - 5.00%	69,675	-	-	69,675	-
2011C Bonds	2027	4.00 - 5.00%	86,450	-	-	86,450	-
2012A Bonds	2027	3.00 - 4.00%	52,935	-	-	52,935	-
2013A Bonds	2025	1.50 - 5.00%	-	241,925	-	241,925	4,500
Total fixed rate debt			1,328,270	241,925	341,300	1,228,895	51,950
2007 Bonds	2016	Variable rate (1 )	36,015	-	-	36,015	-
2008 Bonds	2033	Variable rate (1 )/(2)	200,000	-	-	200,000	-
2011A Bonds	2027	Variable rate (1 )/(3)	98,360	-	-	98,360	-
Total variable rate debt			334,375	-	-	334,375	-
Total debt			1,662,645	\$ 241,925	\$ 341,300	1,563,270	\$ 51,950
Less: Bonds payable within one year			(50,610)	\$ (51,950)	\$ (50,610)	(51,950)	
Less: Other bonds payable (3)			(98,360)	-	-	(98,360)	
Less current portion			(148,970)	\$ (51,950)	\$ (50,610)	(150,310)	
<b>Total long-term debt</b>			<b>\$ 1,513,675</b>			<b>\$ 1,412,960</b>	

(1) Variable rates ranged from 0.04% to 3.212% for the year ended September 30, 2013.

(2) The Series 2008 Variable Rate Demand Obligation Bonds of \$200.0 million are supported by a Stand By Bond Purchase Agreement (SBPA), which will expire on April 7, 2014.

(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
2015	\$ 55,880	\$ 58,453	\$ (3,674)	\$ 3,915	\$ 114,574
2016	60,765	56,629	(3,963)	3,546	116,977
2017	59,510	54,989	(3,963)	3,084	113,620
2018	70,260	53,366	(3,963)	2,680	122,343
2019	61,750	49,999	(3,962)	2,680	110,467
2020-2024	382,325	196,323	(19,817)	13,400	572,231
2025-2029	301,765	121,128	(19,817)	6,700	409,776
2030-2034	203,395	93,790	(19,817)	-	277,368
2035-2039	213,895	49,981	(12,626)	-	251,250
2040-thereafter	48,465	2,744	(960)	-	50,249
<b>Subtotal long-term debt</b>	<b>1,458,010</b>	<b>737,402</b>	<b>(92,562)</b>	<b>36,005</b>	<b>2,138,855</b>
<b>Current portion</b>	<b>53,310</b>	<b>60,655</b>	<b>(3,678)</b>	<b>4,045</b>	<b>114,332</b>
<b>Total long-term debt</b>	<b>\$ 1,511,320</b>	<b>\$ 798,057</b>	<b>\$ (96,240)</b>	<b>\$ 40,050</b>	<b>\$ 2,253,187</b>

**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.
- **Additional bonds test:** 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. Consistent with prior lien resolutions, proceeds must first be used to pay debt service.

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

## NOTES TO FINANCIAL STATEMENTS

### Note G – Long-Term Debt (continued)

In January 2013, OUC issued the fixed rate Series 2013A Bonds at a par of \$241.9 million and a premium of \$66.4 million. The proceeds from the offering were escrowed for the refunding of the Series 2003A and Series 2003B Bonds and the advance refunding of the Series 1996A and 2005B Bonds in the amount of \$46.0 million, \$64.7 million, \$60.0 million and \$120.0 million, respectively. The refunding included an unamortized loss of \$21.7 million which was included under the heading of Deferred outflow of resources on the Statements of Net Position and will be amortized over the life of the refunded issues. The transactions resulted in a present value savings of \$53.3 million.

Bond issue proceeds were invested to ensure that there are sufficient funds available to satisfy the outstanding debt principal, at the time of maturity, for refunded bonds. The refunded bonds are summarized below for the period ended September 30, 2013. There were no bonds refunded during the period ended September 30, 2014.

Debt issued	Par amount issued	Par amount refunded	PV savings	Reclassified bond costs / (credits)	Deferred charges	Savings % of refunded bonds	Debt refunded
2013A Bonds	\$ 241,925	\$ 290,690	\$ 53,326	\$ 4,243	\$ 17,466	18%	1996A, 2003A, 2003B & 2005B Bonds

The balance outstanding at September 30, 2014 and 2013 for defeased bonds was \$226.6 million and \$318.5 million, respectively.

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

In accordance with each interest rate swap agreement, margin deposit thresholds have been established. These thresholds require OUC to remit deposits to mitigate exposure to counterparty credit risk. As a result of continued market volatility and the fair value liability of certain interest-rate swaps in excess of their contractual thresholds, margin deposits in the amount of \$12.2 million and \$10.6 million were held by OUC counterparties at September 30, 2014 and 2013, respectively.

The following schedule summarizes OUC's fair value position, based on quoted market rates, for its outstanding swap agreements at September 30, 2014 and 2013. 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	2014 Fair value liability	2013 Fair value liability	Counterparty	Counterparty credit rating
2007	22,615	Fixed	3.640%	CPI + 105 bps	1/23/2007	10/1/2015	(590)	(819)	Goldman Sachs	Baa1 / A- / A
2007	13,400	Fixed	3.660%	CPI + 105 bps	1/23/2007	10/1/2016	(442)	(548)	Goldman Sachs	Baa1 / A- / A
2011A	100,000	Fixed	3.780%	67% of Libor	6/1/2011	10/1/2027	(21,975)	(20,554)	Morgan Stanley	Baa2 / A- / A
<b>Total</b>							<b>\$ (23,007)</b>	<b>\$ (21,921)</b>		

## NOTES TO FINANCIAL STATEMENTS

### 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, 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. On September 30, 2014, 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, 2014 coverage was available for workers' compensation claims in excess of \$0.5 million, decreasing \$0.1 million from the limit on September 30, 2013.

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

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

Self-insurance program liability at September 30, 2014 and 2013 was as follows:

(Dollars in thousands)	2013	Payments, net	Incurred claims	2014
Workers compensation	\$ 565	\$ (249)	\$ 184	\$ 500
General and automobile liability	281	(217)	274	338
Health and medical claims	2,511	(16,936)	15,998	1,573
<b>Total</b>	<b>\$ 3,357</b>	<b>\$ (17,402)</b>	<b>\$ 16,456</b>	<b>\$ 2,411</b>

(Dollars in thousands)	2012	Payments, net	Incurred claims	2013
Workers compensation	\$ 632	\$ (311)	\$ 244	\$ 565
General and automobile liability	286	(151)	146	281
Health and medical claims	2,142	(16,914)	17,283	2,511
<b>Total</b>	<b>\$ 3,060</b>	<b>\$ (17,376)</b>	<b>\$ 17,673</b>	<b>\$ 3,357</b>

#### 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 auto liability is \$0.2 million or a total of \$0.3 million for the same incident or occurrence; greater liability can result only through an act of the Florida Legislature. Furthermore, any defense of sovereign immunity shall not be deemed to have been waived or the limits of liability increased as a result of obtaining or providing insurance in excess of statutory limitations.

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

## NOTES TO FINANCIAL STATEMENTS

### Note H – Insurance Programs and Claims (continued)

**Nuclear Liability Insurance:** Liability for accidents at the nuclear power plants for which OUC has a minority interest were 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. Both majority owners, Florida Power & Light (FPL) for St. Lucie Unit No. 2 (SL 2) and Duke Energy for Crystal River 3 nuclear generation facility (CR 3) maintain private liability insurance for all participants owning an undivided interest in the generation facility of \$375.0 million and \$500.0 million per site, respectively, and participate in a secondary financial protection system. In addition, both majority owners participate 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 at either of the plants, the amounts 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 and CR 3.

On behalf of all the co-owners of SL 2 and CR 3, FPL and Duke Energy, respectively, each carry in excess of \$1.6 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.

On September 30, 2014, CR 3 continues to remain inactive due to extensive damage discovered during the 2009 planned outage. Duke Energy has communicated that the CR 3 plant will be decommissioned and details of the decommissioning, including potential cost recovery from insurance proceeds, are being finalized. See Note I for additional information.



## NOTES TO FINANCIAL STATEMENTS

### 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:

	<u>(Dollars in thousands)</u>	
2015	\$	84,811
2016	\$	60,853
2017	\$	59,198
2018	\$	50,598
2019	\$	47,898
2020-2024	\$	193,573
2025 - thereafter	\$	152,396

**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/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 14 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 GE to include SEC B compressor and rotor coverage increasing the aggregate amount of the agreement \$3.1 million to \$53.1 million. Through September 30, 2014, OUC has incurred \$7.6 million under the GE CSA.

**Crystal River Unit 3 (CR 3):** During the planned outage in September 2009 for CR 3, delamination was discovered in the containment building. In March 2011, Duke Energy notified the minority owners that a second delamination was discovered and further repairs were needed. In February 2013, Duke Energy announced its decision to close the CR 3 facility.

In August 2013, the Board approved the reclassification of the \$15.3 million net book value of OUC's share of the CR 3 property, plant, equipment, and supplies as a regulatory asset. In September 2014, the joint owners executed a Settlement, Release and Acquisition agreement to address damages claimed by the joint owners and permitting Duke Energy to file an application with the Nuclear Regulatory Commission (NRC) for a license amendment. Upon approval of the license amendment by the NRC, the joint owners will transfer their ownership in CR 3 back to Duke Energy via a special warranty deed. Additionally, the joint owners will transfer their decommissioning trust funds to Duke Energy. In exchange, Duke Energy will assume all past and future liabilities associated with the maintenance and decommissioning of the CR 3 facility, as well as make a final settlement payment to the joint owners. Based on the proposed settlement agreement, OUC adjusted the regulatory asset value to \$13.4 million and reported an expense of \$1.9 million in the Statements of Revenues, Expenses and Changes in Net Position under the heading Unit/department expense as of September 30, 2014. Closing on the exchange of property under the settlement is not expected to occur until 2016.

**Vero Beach agreement:** In 2012, The City of Vero Beach (Vero Beach) approached OUC about the possibility of terminating its inter-local power supply agreement in conjunction with a proposed sale of its city-owned utility system. The termination agreement between Vero Beach and OUC was finalized in 2013, and provided for termination in return for settlement payments to OUC. OUC's termination agreement continues to be contingent on Vero Beach finalizing negotiations with other third parties as well as numerous other closing conditions. OUC has provided Vero Beach with two options to lower its rate for energy under the Vero Beach power supply agreement. These are currently under review by Vero Beach as a possible alternative to the sale of its utility system. OUC continues to provide service as per the existing Inter-local agreement in the interim.

## NOTES TO FINANCIAL STATEMENTS

### Note I – Commitments and Contingent Liabilities (continued)

**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):** 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 (NO<sub>x</sub>) and sulfur dioxide (SO<sub>2</sub>). 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 nitrogen oxides (NO<sub>x</sub>) and sulfur dioxide (SO<sub>2</sub>). Concerns regarding the implementation deadline were expressed by the Utility Air Regulatory Group (UARG), 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 recently requested and was provided in the United States Supreme Court the previously discussed Appellate review vacating the CSAPR. With the Supreme Court decision, the EPA is expected to finalize a new rule in 2015. Costs to implement will be evaluated at that time but are expected to be significant.

Additionally, following the guidance outlined in the memorandum provided by the President of the United States, the EPA has announced the development of new CO<sub>2</sub> 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 CO<sub>2</sub> emitted from any newly constructed power plant. The proposed rule does not currently apply to any existing stationary source, but the EPA has developed a unique approach to regulating existing sources. Utilizing Section 111(d) of the CAA as well as developing goals via a Guidance Memorandum entitled the "Clean Power Plan," the EPA has developed guidance, or Building Blocks, setting goals for specific states based on the ability of each state to comply or achieve the goals. This will require a significant amount of coordination with state environmental protection agencies. A final and enforceable rule is expected on or before June 1, 2015. Many states are preparing comments, as well as legal strategies, to challenge this proposed rule. OUC has been participating in the meetings individually, as well as part of industry groups including APPA, AFFORD, LPPC and other state-wide groups.

The authority that EPA has been utilizing to implement many of the rules that are either under development or under challenge was derived from a Massachusetts Supreme Court Decision regarding emissions from automobile tailpipes and has also been granted certification from the United States Supreme Court. It is OUC's expectation that the current rule will go through a significant number of changes over the next several months, in part to narrow the points of entry for challenges to the rule. OUC's intentions are to lessen the impact of a 2020 rule requirement allowing a "glide path" that would extend compliance of the rule and allow for the depreciation of OUC assets.

Finally, EPA has also proposed a rule commonly known as the Mercury Air Toxins rule (MAT) to further regulate mercury. This rule was published in December 2012 and OUC is currently adding technology to better access the emissions of mercury as well as upgrading portions of the coal generation facility to address compliance with these new requirements. While costs for the proposed technology change are not anticipated to be material, costs may be significant if further compliance measures are required.

**Note I – Commitments and Contingent Liabilities (continued)**

- Federal regulation enforcement:** In accordance with the authority granted by 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).
- 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 Statements of Revenues, Expenses and Changes in Net Position and is derived to yield a payment of 60.0 percent of net income before contributions. The revenue based payment for the years ended September 30, 2014 and 2013 were \$27.8 million and \$29.4 million, respectively.

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 2014, these payments were fixed based on projected revenues and income before contributions. The income based payments for the years ended September 30, 2014 and 2013 were \$48.6 million and \$47.0 million, respectively.

**City of St. Cloud:** In April 1997, OUC entered into an inter-local agreement with the City of St. Cloud (STC) to provide retail electric energy services to all STC customers and to maintain and operate STC’s electric transmission, distribution and generation facility rights and ownership interests. The term of the agreement commenced May 1, 1997 and, as amended in April 2003, continues until September 30, 2032. In return, OUC 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. The debt service requirement outstanding at September 30, 2013 was \$1.8 million. 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.

## NOTES TO FINANCIAL STATEMENTS

### Note J – Major Agreements (continued)

Billed revenue for this inter-local agreement is included under the heading of Resale electric revenues and was \$68.3 million and \$65.2 million, respectively, for the years ended September 30, 2014 and 2013. Revenue-based payments and net debt service payments recorded under the heading of Payments to other governments and taxes for the years ended September 30, 2014 and 2013 were \$7.9 million and \$8.7 million, respectively.

**Orange County:** OUC pays a revenue-based payment to Orange County calculated at 1.0 percent of gross retail electric and chilled water billings to customers within the County but outside the city limits of the City of Orlando and other municipalities. This payment is recorded under the heading of Payments to other governments and taxes on the Statements of Revenues, Expenses and Changes in Net Position. Revenue based payments accrued were \$1.5 million and \$1.4 million, respectively, for September 30, 2014 and 2013.

**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. The term of the agreement is twenty years with a ten year extension option. Billed revenues included under the heading of Resale electric revenues, were \$34.2 million for each of the years ended September 30, 2014 and 2013.

In accordance with the terms of the agreement, Vero Beach has executed a termination agreement. See Note I for additional information.

**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 \$20.0 million and \$19.1 million for the years ended September 30, 2014 and 2013, respectively.

**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 \$9.8 million for the year ended September 30, 2014.

**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 \$4.0 million for the year ended September 30, 2014.

### Note K – Pension Plans

#### Defined Benefit Plan

**Plan description:** OUC is the administrator of a single-employer, defined benefit pension plan and as such has the authority to make changes subject to Board approval. 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, employees who participate receive a pension benefit equal to 2.5 percent of the highest three consecutive years' average base earnings times years of employment. Benefits in this plan vest after five years of service and are earned for up to a maximum service period of 30 years. OUC also offers a

**Note K – Pension Plans (continued)**

supplementary cost of living adjustment (COLA), based on the net return on plan investments, for employees covered under the defined benefit pension plan. Approved COLA benefits from October 1, 2000 through October 31, 2013 are scheduled to be paid outside the plan through December 31, 2014. In July 2014, the plan was amended to incorporate the annual COLAs approved since October 1, 2000, as well as future COLAs, with monthly payments funded from the Pension Trust, beginning January 1, 2015. The future COLA increases will be based on the net return on plan investments for the previous fiscal year as follows:

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

- Cash balance defined benefit offering:** 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. Annually, pay credits earn interest at a rate set at the commencement of the fiscal year with an interest rate floor established at 4.0 percent. 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.

Actuarial reports are prepared annually with the most recent reports completed for the periods ending September 30, 2014 and 2013. To better match the budgetary and rate-making requirements, the actuarial reports received each February 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. Therefore, the actuarial valuation report dated October 1, 2012 was used for September 30, 2014, and the valuation report dated October 1, 2011 was used for September 30, 2013. At the October 1, 2012 valuation date, the plan included 1,079 active participants and 892 retirees, beneficiaries and terminated vested members.

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.

**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. The benefit reduction for early retirement is 1.0 percent per year. No participant contributions are required for the cash balance defined benefit offering.

The required rate of contribution, based on annual covered payroll for vested employees, for the year ending September 30, 2014 was 29.3 percent. This rate was based on a plan amendment in June 2014 to incorporate the future funding of annual COLAs into the plan, effective October 1, 2013. For comparative purposes, the required rate of contribution, inclusive of the ad-hoc COLAs approved and paid outside the plan, for the year ended September 30, 2013 was 25.0 percent.

In November 2003, OUC issued taxable pension bonds in the amount of \$55.3 million to advance fund the plan. Proceeds from this issuance were remitted to the defined benefit trust and have been included as a component of the net pension asset. The balance of the asset related to this advance funding was \$29.5 million and \$28.3 million in 2014 and 2013, respectively.

## NOTES TO FINANCIAL STATEMENTS

### Note K – Pension Plans (continued)

**Actuarial methods and assumptions:** OUC recognizes annual pension costs in accordance with GASB Statement No. 27, “Accounting for Pensions by State and Local Government Employers,” and based on information obtained from the annual actuarial report. GASB Statement No. 27 also requires recognition of a net pension asset or obligation for the cumulative differences between the annual pension cost and employer contributions to the plan.

Annual actuarial amounts are calculated using the aggregate cost method and are based upon the following approved actuarial assumptions for the valuation periods of October 1, 2012 and 2011 for required contribution levels at September 30, 2014 and 2013.

	October 1	
	2012	2011
Investment rate of return	7.75%	8.00%
Projected salary increases	5.00%	5.00%
Inflation component	4.00%	4.00%

In July 2014, the pension plan was amended to incorporate annual COLA into the plan, with monthly payments funded from the Pension Trust, beginning January 1, 2015. These substantive plan changes were communicated to plan participants prior to September 30, 2014. Prior to the plan amendment, an ad-hoc COLA benefit had been provided annually to retirees in the traditional defined benefit offering based on approval by the General Manager and Chief Executive Officer. A COLA of 1.0 percent was approved for September 30, 2014 and no COLA benefit was approved for September 30, 2013.

Approved non-binding ad-hoc COLA benefits prior to 2001 have been vested to the plan and as such are recognized as plan liabilities and included in the actuarial report. Approved non-binding COLA benefits provided for the periods of 2001 through 2013 are included in the actuarial report, however were paid outside of the plan on a pay-as-you go basis through September 30, 2014. As of October 1, 2012, costs associated with future ad-hoc COLA benefits have been included in the actuarial valuation report.

**Annual pension cost and net pension asset:** Actuarial amounts for the annual pension costs are calculated using the aggregate method, which as noted in the guidance, does not identify or separately amortize unfunded actuarial assets/obligations. The actuarial value of assets/obligations was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period as well as incorporates the recognition of the current year impacts associated with corridor changes.

The following are the pension costs and the net pension assets on September 30:

(Dollars in thousands)	2014	2013
Actuarial required contribution (ARC)	\$ 21,184	\$ 18,893
Interest earnings on net pension asset	(2,191)	(2,444)
Adjustment to ARC	2,976	2,895
Annual pension cost	21,969	19,344
Contributions applicable to pension period	23,150	17,729
Change in net pension asset	1,181	(1,615)
Beginning net pension asset	28,267	29,882
<b>Ending net pension asset</b>	<b>\$ 29,448</b>	<b>\$ 28,267</b>

## NOTES TO FINANCIAL STATEMENTS

### Note K – Pension Plans (continued)

The following table summarizes the three-year trend information for the pension plan, including the impacts of the amortization of the pension bonds.

(Dollars in thousands)	Annual pension cost (APC)		Current year contributions		Net Pension Asset	Percentage of APC contributed
2014	\$	21,969	\$	23,150	\$ 29,448	105.4%
2013	\$	19,344	\$	20,173	\$ 28,267	104.3%
2012	\$	17,700	\$	18,783	\$ 29,882	106.1%

**Funded status and funding progress:** For the year ending September 30, 2014, including the impacts of the plan amendment related to COLA benefits, the plan was 69.5 percent funded. The actuarial accrued liability for benefits was \$412.3 million and the actuarial value of the plan assets was \$286.7 million for an unfunded actuarial accrued liability (UAAL) of \$125.6 million. The covered payroll was \$72.5 million and the ratio of the UAAL to the covered payroll was 173.3 percent. The fair value of the plan assets, based on published investment market rates at September 30, 2014, was \$329.0 million.

For the year ending September 30, 2013, including the impacts of previously approved COLA benefits, the plan was 66.6 percent funded. The actuarial accrued liability for benefits was \$401.1 million and the actuarial value of the plan assets was \$267.0 million for an unfunded actuarial accrued liability (UAAL) of \$134.1 million. The covered payroll was \$70.1 million and the ratio of the UAAL to the covered payroll was 191.1 percent. The fair value of the plan assets, based on published investment market rates, at September 30, 2013, was \$300.7 million.

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

#### 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, 2014 and 2013 active employees enrolled in this pension plan were 783 and 780, respectively.

Under the plan, each eligible employee, at the start of their employment, is required to contribute 4.0 percent of their salary. This required contribution is matched equally by OUC. In addition, eligible employees may also voluntarily contribute to up to 2.0 percent of their salary. Employees are fully vested after one year of employment. Total contributions for the years ended September 30, 2014 and September 30, 2013 were \$5.2 million (\$2.0 million employer and \$3.2 million employee) and \$4.9 million (\$1.9 million employer and \$3.0 million employee), respectively.

### Note L – Other Post-Employment Benefits

#### Health and Medical Insurance

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

**Employees participating in the traditional defined benefit pension plan:** Under this health and medical benefit offering, 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.

## NOTES TO FINANCIAL STATEMENTS

### Note L – Other Post-Employment Benefits (continued)

Effective January 1, 2014, the plan was modified to phase out the premium subsidy for dependent coverage provided to pre-Medicare eligible retirees over a five-year period.

**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). The HRA is funded annually by OUC consistent with the funding requirements of the cash balance defined benefit offering. A notional account is funded for each employee in the amount of \$400 per year, indexed annually, and can be used to pay all eligible medical costs including medical premiums at retirement. Retirees participating in the defined contribution plan, the plan in place prior to the establishment of the cash balance defined benefit plan, were also provided an employer funded HRA based on their years of service prior to retirement.

On September 30, 2014, 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. On September 30, 2013, 1,074 plan participants (324 active employees and 750 retired employees) were eligible for fully subsidized medical and dental coverage and 774 plan participants (765 active employees and 9 retired employees) were eligible for implicit subsidy benefits.

OUC is the administrator of this single employer other post-employment benefit plan and, as such, has the authority to make changes thereto. Consistent with the defined benefit plan disclosed in Note K, OUC issues stand-alone financial statements for this plan. The most recent report was issued for the year ended September 30, 2013.

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

In 2008, an OPEB Trust (Trust), similar to the Defined Benefit Pension Trust, was established to retain funds for the future payment of other post-employment benefit costs. The Trust agreement was set-up such that OUC will fund the annual required contribution to the Trust and periodically withdraw amounts to reimburse operations for costs incurred on a pay-as you-go basis.

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, 2014 and the actuarial valuation report prepared on October 1, 2012 for the year ended September 30, 2013 was \$13.6 million and \$14.4 million, respectively. The portion of the annual OPEB cost, which was funded on a pay-as-you-go basis in 2014 and 2013, was \$7.3 million and \$7.6 million, respectively. The remaining portion of the annual OPEB cost, \$6.3 million and \$6.7 million, was paid to the Trust in 2014 and 2013, respectively.

The rate of contribution, based on annual covered payroll for the years ended September 30, 2014 and 2013 was 18.6 percent and 20.3 percent, respectively.



## NOTES TO FINANCIAL STATEMENTS

### Note L – Other Post-Employment Benefits (continued)

**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 and 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, 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 and 2012 valuations were:

Investment rate of return	7.75%
General price inflation rate	3.00%
Annual healthcare cost trend rate	8.50%

As of October 1, 2013, the amortization of the unfunded actuarial accrued liability as a level percentage of projected payrolls was changed from a twenty-year to a ten-year period to better reflect the current demographic composition of the covered population.

**Annual OPEB cost and net OPEB asset:** OUC's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) actuarially determined in accordance with the parameters of GASB Statement No. 45. In 2014 and 2013, OUC's ARC and OPEB expenses were \$13.6 million and \$14.4 million, respectively. 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, 2014 and 2013 was \$1.9 million and \$2.0 million, respectively.

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

(Dollars in thousands)	2014	2013
Actuarial required contribution (ARC)	\$ 13,558	\$ 14,358
Interest earnings on net OPEB asset	(155)	(274)
Adjustment to ARC	233	314
Annual OPEB Cost	13,636	14,398
Pay-as-you-go contributions	(7,249)	(7,623)
Change in OPEB obligation	6,387	6,775
Amount paid to OPEB Trust	6,309	6,702
Change in net OPEB asset	(78)	(73)
Beginning net OPEB asset	1,998	2,071
<b>Ending net OPEB asset</b>	<b>\$ 1,920</b>	<b>\$ 1,998</b>

## NOTES TO FINANCIAL STATEMENTS

### Note L – Other Post-Employment Benefits (continued)

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 (AOPEBC)	Current year contributions	Net OPEB Asset	AOPEBC contributed
2014	\$ 13,636	\$ 13,558	\$ 1,920	99.4%
2013	\$ 14,398	\$ 14,325	\$ 1,998	99.5%
2012	\$ 14,175	\$ 14,177	\$ 2,071	100.0%

**Funded status and funding progress:** On September 30, 2014, the most recent actuarial valuation date, 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.

At September 30, 2013, the plan was 29.4 percent funded. The actuarial accrued liability for benefits was \$188.5 million and the actuarial value of the plan assets was \$55.3 million for an unfunded actuarial accrued liability (UAAL) of \$133.1 million. Covered payroll (including 324 employees receiving fully subsidized benefits and 765 employees receiving implicit subsidy benefits) was \$70.7 million and the ratio of the UAAL to the covered payroll was 188.3 percent.

The Schedule of Funding Progress, which presents multi-year trend information, follows the Notes to the Financial Statements under the heading of Required Supplemental 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 OUC's 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.

OUC's 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.

**Note M – Hedging Activities (continued)**

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 Ratings or “A3”, issued by Moody’s Investor Services 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 on its 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 hedge 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.

**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 Statements of Net Position.

## NOTES TO FINANCIAL STATEMENTS

### Note M – Hedging Activities (continued)

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

(Dollars in thousands)	2013 Fair value	Change in fair value	Settlement / (termination) amount	2014 Fair value	Net settlement charges	2014 Notional amount
<b>Interest rate swap agreements</b>						
2007 Bonds (1)	\$ (1,367)	\$ 335	\$ -	\$ (1,032)	\$ 373	\$ 36,015
<b>Forward interest rate contracts</b>						
2011A Bonds (1)	(20,554)	(1,421)	-	(21,975)	3,672	\$ 100,000
<b>Accumulated decrease in fair value hedging derivatives</b>	<u>\$ (21,921)</u>	<u>\$ (1,086)</u>	<u>\$ -</u>	<u>\$ (23,007)</u>	<u>\$ 4,045</u>	

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

(Dollars in thousands)	2012 Fair value	Change in fair value	Settlement / (termination) amount	2013 Fair value	Net settlement charges	2013 Notional amount
<b>Interest rate swap agreements</b>						
2007 Bonds (1)	\$ (1,257)	\$ (110)	\$ -	\$ (1,367)	\$ 336	\$ 36,015
<b>Forward interest rate contracts</b>						
2011A Bonds (1)	(31,491)	10,937	-	(20,554)	3,643	\$ 100,000
<b>Accumulated decrease in fair value hedging derivatives</b>	<u>\$ (32,748)</u>	<u>\$ 10,827</u>	<u>\$ -</u>	<u>\$ (21,921)</u>	<u>\$ 3,979</u>	

(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 Statements of Revenues, Expenses and Changes in Net Position. Settlement gains and losses for the year ended September 30, 2014 for fuel related derivatives resulted in net gains of \$1.0 million; whereas, the year ended September 30, 2013 resulted in losses of \$6.8 million. The outstanding fuel derivatives were determined to be effective and as such, the changes in fair value are recorded on the Statements of Net Position as either a Deferred outflow or Deferred inflow of resources until such time as the contract matures.

## NOTES TO FINANCIAL STATEMENTS

### Note M – Hedging Activities (continued)

The following is a summary of the fuel related derivative changes for the years ended September 30:

(Dollars in thousands)	2013 Fair value	Change in fair value	2014 Fair value	2014 Notional amount	Volume
Natural gas	\$ 96	\$ 340	\$ 436	3,820	MMBTU
Crude oil	117	(105)	12	7	MBBLS
<b>Total current fuel hedge assets</b>	<b>213</b>	<b>235</b>	<b>448</b>		
Natural gas	67	159	226	3,720	MMBTU
Crude oil	21	(21)	-	-	MBBLS
<b>Total non-current fuel hedge assets</b>	<b>88</b>	<b>138</b>	<b>226</b>		
<b>Accumulated increase in fair value hedging derivatives</b>	<b>\$ 301</b>	<b>\$ 373</b>	<b>\$ 674</b>		
Natural gas	\$ (3,459)	\$ 2,976	\$ (483)	3,270	MMBTU
Crude oil	-	(29)	(29)	17	MBBLS
<b>Total current fuel hedge liabilities</b>	<b>(3,459)</b>	<b>2,947</b>	<b>(512)</b>		
Natural gas	(240)	1	(239)	1,350	MMBTU
Crude oil	(2)	(48)	(50)	24	MBBLS
<b>Total non-current fuel hedge liabilities</b>	<b>(242)</b>	<b>(47)</b>	<b>(289)</b>		
<b>Accumulated decrease in fair value hedging derivatives</b>	<b>\$ (3,701)</b>	<b>\$ 2,900</b>	<b>\$ (801)</b>		

(Dollars in thousands)	2012 Fair value	Change in fair value	2013 Fair value	2013 Notional amount	Volume
Natural gas	\$ 2,545	\$ (2,449)	\$ 96	1,170	MMBTU
Crude oil	50	67	117	13	MBBLS
<b>Total current fuel hedge assets</b>	<b>2,595</b>	<b>(2,382)</b>	<b>213</b>		
Natural gas	2,052	(1,985)	67	1,290	MMBTU
Crude oil	-	21	21	9	MBBLS
<b>Total non-current fuel hedge assets</b>	<b>2,052</b>	<b>(1,964)</b>	<b>88</b>		
<b>Accumulated increase in fair value hedging derivatives</b>	<b>\$ 4,647</b>	<b>\$ (4,346)</b>	<b>\$ 301</b>		
Natural gas	\$ (7,791)	\$ 4,332	\$ (3,459)	8,750	MMBTU
Crude oil	(24)	24	-	-	MBBLS
<b>Total current fuel hedge liabilities</b>	<b>(7,815)</b>	<b>4,356</b>	<b>(3,459)</b>		
Natural gas	(2,996)	2,756	(240)	2,760	MMBTU
Crude oil	-	(2)	(2)	3	MBBLS
<b>Total non-current fuel hedge liabilities</b>	<b>(2,996)</b>	<b>2,754</b>	<b>(242)</b>		
<b>Accumulated decrease in fair value hedging derivatives</b>	<b>\$ (10,811)</b>	<b>\$ 7,110</b>	<b>\$ (3,701)</b>		

## NOTES TO FINANCIAL STATEMENTS

### Required Supplemental Information

#### Defined Benefit Plan

The following funding schedule presents multi-year trend information that approximates the funded status of the Defined Benefit Pension Plan as of October 1, 2013. In accordance with GASB Statement No. 50, "Pension Disclosures," this information has been prepared using the entry-age actuarial method. OUC uses the aggregate actuarial cost method, which does not identify or separately amortize unfunded actuarial accrued liabilities.

**Schedule of funding progress**  
(Dollars in thousands)

Actuarial valuation date	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	\$ 286,722	\$ 412,298	\$ 125,576	69.5%	\$ 72,479	173.3%
10/1/2012	\$ 267,020	\$ 401,073	\$ 134,053	66.6%	\$ 70,147	191.1%
10/1/2011	\$ 252,225	\$ 373,054	\$ 120,829	67.6%	\$ 73,230	165.0%

#### Other Post-Employment Benefit Plan

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	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 (1)	\$ 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) The decrease in the AAL is due to plan changes, effective January 1, 2014, which include a reduction in the premium subsidy for dependent coverage provided to retirees in the Defined Benefit Plan.



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