



**INTERIM FINANCIAL**  
R E P O R T



**NINE MONTHS ENDED**  
June 2016

# Orlando Utilities Commission

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

## Management's Discussion and Analysis

Income before contributions for the nine months ended June 30, 2016 was \$68.3 million, \$12.1 million higher than budget and \$3.7 million lower than prior year.

### Operating Revenues:

**Variance to Budget** – Operating revenues, for the nine months ended June 2016, were \$7.8 million lower than budget. This variance was primarily due to lower than budgeted fuel revenues of \$22.8 million as a result of lower coal and natural gas pricing. Additionally, Service fees and other revenue were \$0.9 million lower than budget as a result of a decrease in reconnection charges. Offsetting these decreases were higher than budgeted resale energy revenues of \$7.9 million. The increase in resale sales was driven by higher than expected demand sales to the City of Vero Beach of \$4.3 million and increased sales to St. Cloud customers of \$2.8 million, as a result of warmer weather and higher than expected growth. Higher retail energy sales of \$7.3 million and chilled water revenue of \$1.2 million were also driven by favorable weather conditions.

**Variances to Prior Year** – Operating revenues were \$6.2 million lower than that of the prior year primarily due to decreased fuel revenues of \$18.2 million as a result of lower fuel costs. This decrease was offset by increased retail energy revenues and water revenues of \$8.2 million and \$2.8 million, respectively, as a result of customer growth and warmer weather. Resale energy revenues were \$1.3 million higher than the prior year due to increased sales to St. Cloud customers offset by unplanned demand sales in 2015 to Lakeland Electric.

### Operating Expenses:

**Variances to Budget** – Operating expenses were \$18.0 million or 3.4 percent lower than budget. Lower than expected fuel for generation and purchased power expenses of \$22.8 million, as a result of favorable coal and natural gas pricing, contributed to the decrease. Offsetting the decrease was increased depreciation and amortization expense of \$2.5 million resulting from required modifications to the meter data management hardware and software systems to align with the new customer care and billing system implementation. Additionally, unit/department costs were \$2.1 million higher than expected due to a combination of increased costs from the extended Stanton Energy Center Unit 1 outage and pension market valuation changes.

**Variances to Prior Year** – Overall operating expenses were in line with the prior year. Lower fuel for generation and purchased power expense of \$18.2 million were a result of continued lower fuel costs. Offsetting the decrease were increased depreciation and amortization expenses and payments to other governments and taxes of \$5.1 million and \$1.4 million, respectively. Additionally, unit/department expenses were \$12.0 million higher than June 2015 primarily due to higher benefit costs in fiscal 2016 of \$7.3 million.

### Non-Operating Income and Expenses:

**Variance to the Budget and Prior Year** – Net non-operating expenses through June 2016 were \$1.9 million lower than budget and \$2.8 million lower than prior year. Both the budget and prior year variance were driven by decreased interest expense as a result of the Series 2009A Bond refunding. Additionally, the variance to the prior year was driven by the implementation of a new home warranty program, which has generated revenue of \$0.6 million in 2016.

### Contributions in Aid of Construction:

Contributions in aid of construction of \$11.8 million were \$0.9 million higher than budget due to timing of system development contributions and \$2.6 million higher than that of the prior year due to the receipt of system development contributions for the Holopaw landfill gas project.

## **Dividend Payment:**

The dividend agreement with the City of Orlando was based on 60.0 percent of annual budgeted income before contributions. The budgeted amount for fiscal year 2016 is \$55.7 million and is paid in equal monthly amounts throughout the year. The amount paid for the nine months ended June 2016 was \$41.8 million which was \$1.9 million higher than that of the prior year.

## **Utility Plant:**

Utility plant increased \$24.8 million as of June 2016 compared to June 2015. The increase was primarily due to the completion of several large transmission line upgrades and the inter-connection requirements for the delivery of landfill gas from Holopaw. Additionally, the commencement of several technology projects, including the Customer Care & Billing (CC&B) upgrade currently in progress, contributed to the increase in utility plant in progress. These increases were offset by systematic depreciation charges.

## **Restricted and Internally Designated Assets:**

Restricted and internally designated assets of \$584.5 million were \$2.5 million higher than prior year. The change was primarily due to an increase in designated funds of \$45.1 million due to a rise in fuel stabilization funds, an increase in customer deposits, and the deferral of funds related to a regulatory action approved by the Board in September 2015. These were offset by the release of \$66.1 million of construction funds from the Series 2015A Bonds. Additionally, decommissioning funds in the amount of \$13.5 million for the Crystal River Unit 3 (CR 3) were transferred to Duke Energy and in return, settlement funds in the amount of \$12.6 million were received by OUC and designated to the renewal and replacement fund.

## **Current Assets:**

Current assets of \$294.6 million were \$15.2 million higher than prior year. The increase was primarily due to an increase in the prepaid long-term service and warranty agreement for Stanton Energy Center Unit B of \$19.5 million. Additionally, collateral deposits related to fuel hedges increased \$2.0 million. Offsetting these increases was decreased inventory of \$7.0 million primarily due to a one-time adjustment to the allowance for obsolescence reserve of \$8.1 million in September 2015.

## **Other Assets:**

Other assets decreased \$25.1 million from the prior year due to the write-down of deferred asset retirement obligation costs and the receipt of funds due from Duke Energy for the CR 3 settlement agreement of \$2.8 million and \$13.1 million, respectively. Additionally, planned regulatory asset amortization of \$10.5 million contributed to the decrease.

## **Deferred Outflows of Resources:**

Deferred outflows of resources of \$140.5 million increased \$39.3 million since June 2015. The increase was due to unrealized pension costs of \$27.2 million, deferred bond costs associated with the defeasance of the Series 2009A Bonds of \$14.1 million and derivative valuation changes of \$6.1 million. These increases were offset by the systematic amortization of debt refunding costs of \$6.0 million.

## **Payables from Restricted and Current Assets:**

Payables from restricted and current assets were \$2.8 million lower than that of June 2015. The change was due to the final determination of the estimated governmental gross receipts tax agency payable and storm grant receipts of \$2.9 million and \$2.0 million in September 2015, respectively. These decreases were offset by increased customer deposits of \$1.3 million and vendor payables of \$3.6 million.

## Other Liabilities:

Other liabilities were \$4.3 million lower than that of the prior year. The variance was driven by a decrease in the asset retirement obligation of \$17.6 million for the CR 3 settlement agreement with Duke Energy offset by an increase in the net pension liability of \$13.3 million.

## Long-term Debt:

Over the past twelve months, net long-term debt decreased \$45.9 million. The decrease was primarily due to the payment of outstanding debt principal on October 1, 2015 of \$55.8 million and the systematic amortization of previously issued bond premiums of \$15.7 million. These decreases were offset by the issuance of the Series 2015B variable rate demand bonds in the amount of \$115.1 million to refund the \$100.0 million Series 2009A Bonds.

OUC's credit ratings are:

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

## Deferred Inflows of Resources:

At June 30, 2016, deferred inflows of resources increased \$52.6 million from that of June 2015. The change was due to the prior-year Board approved regulatory action to defer \$13.8 million of retail energy revenues, an increase in fuel stabilization of \$23.9 million and an increase to unrealized pension gains of \$17.1 million. These increases were offset by the continued systematic recognition of other regulatory credits related to Stanton Energy Center Unit A and Unit B of \$2.8 million and \$1.1 million, respectively.

## Cash Flows:

OUC's cash and cash equivalents as of June 2016 were \$150.4 million, \$6.7 million lower than that of the beginning of the fiscal year and \$15.6 million higher than that of June 2015. The decrease over the past nine months is a result of the timing of operating activities.

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

## Capital Plan:

At June 30, 2016, capital expenditures of \$104.5 million were \$30.6 million under budget. Lower Support Services project spending of \$11.1 million was due to the timing of CC&B project spending particularly related to the milestone payments with the system implementer. Capital expenditures in Water were also under budget by \$7.9 million due to the postponement of projects to 2017 and increased contributions in aid of construction. Additionally, Electric Transmission projects were \$6.5 million under budget due to lower than expected project costs.

**Orlando Utilities Commission**  
**Statements of Revenues, Expenses and Changes in Net Position based on Budget - Unaudited**

Dollars in thousands

	Actual		Budget		Actual		Actual	
	Year to Date		Year to Date		Year to Date		Year to Date	
	June 2016		June 2016		June 2015		June 2015	
								Variance to Prior Year
				Variance to Budget				
<b>Operating revenues</b>								
Retail energy	\$ 265,736	\$ 258,463	\$ 7,273	2.8%	\$ 257,574	\$ 8,162	3.2%	
Resale energy	62,692	54,781	7,911	14.4%	61,414	1,278	2.1%	
Fuel	181,806	204,558	(22,752)	-11.1%	200,052	(18,246)	-9.1%	
Electric revenues	510,234	517,802	(7,568)	-1.5%	519,040	(8,806)	-1.7%	
Water revenues	51,187	51,602	(415)	-0.8%	48,433	2,754	5.7%	
Other revenues								
Lighting service revenues	9,916	10,040	(124)	-1.2%	9,783	133	1.4%	
Chilled water revenues	21,786	20,624	1,162	5.6%	21,775	11	0.1%	
Service fees & other revenues	19,683	20,539	(856)	-4.2%	19,944	(261)	-1.3%	
<b>Total operating revenues</b>	<b>612,806</b>	<b>620,607</b>	<b>(7,801)</b>	<b>-1.3%</b>	<b>618,975</b>	<b>(6,169)</b>	<b>-1.0%</b>	
<b>Operating expenses</b>								
Fuel for generation and purchased power	181,806	204,558	(22,752)	-11.1%	200,052	(18,246)	-9.1%	
Capacity payment	24,132	24,336	(204)	-0.8%	23,972	160	0.7%	
Unit/department	182,045	179,954	2,091	1.2%	170,066	11,979	7.0%	
Depreciation and amortization	88,366	85,903	2,463	2.9%	83,310	5,056	6.1%	
Payments to other governments and taxes	38,504	38,091	413	1.1%	37,087	1,417	3.8%	
<b>Total operating expenses</b>	<b>514,853</b>	<b>532,842</b>	<b>(17,989)</b>	<b>-3.4%</b>	<b>514,487</b>	<b>366</b>	<b>0.1%</b>	
<b>Non-operating income and (expenses)</b>								
Interest income	5,175	4,632	543	11.7%	3,896	1,278	32.8%	
Other income	7,922	7,901	21	0.3%	7,154	768	10.7%	
Interest expense	(42,704)	(44,030)	1,327	-3.0%	(43,482)	778	-1.8%	
<b>Total non-operating income and (expenses)</b>	<b>(29,607)</b>	<b>(31,497)</b>	<b>1,890</b>	<b>-6.0%</b>	<b>(32,432)</b>	<b>2,825</b>	<b>-8.7%</b>	
<b>Income before contributions</b>	<b>68,346</b>	<b>56,268</b>	<b>12,078</b>	<b>21.5%</b>	<b>72,056</b>	<b>(3,710)</b>	<b>-5.1%</b>	
<b>Revenue from contributions in aid of construction</b>	<b>11,837</b>	<b>10,973</b>	<b>864</b>	<b>7.9%</b>	<b>9,225</b>	<b>2,612</b>	<b>28.3%</b>	
<b>Dividend payments</b>	<b>(41,790)</b>	<b>(41,790)</b>	<b>-</b>	<b>0.0%</b>	<b>(39,908)</b>	<b>(1,882)</b>	<b>4.7%</b>	
<b>Increase in net position</b>	<b>38,393</b>	<b>\$ 25,451</b>	<b>\$ 12,942</b>	<b>50.9%</b>	<b>41,373</b>	<b>\$ (2,980)</b>	<b>-7.2%</b>	
<b>Net position - beginning of period</b>	<b>1,226,361</b>				<b>1,166,248</b>			
<b>Net position - end of period</b>	<b>\$ 1,264,754</b>				<b>\$ 1,207,621</b>			

**Orlando Utilities Commission**  
**Statements of Net Position - Unaudited**

Dollars in thousands

	June 2016	June 2015	Variance to Prior Year	
<b>Assets</b>				
Utility plant	\$ 2,389,856	\$ 2,365,072	\$ 24,784	1.0%
Restricted and internally designated assets	584,538	582,015	2,523	0.4%
Current assets	294,594	279,429	15,165	5.4%
Other assets	132,198	157,281	(25,083)	-15.9%
Deferred outflows of resources	140,476	101,159	39,317	38.9%
<b>Total assets and deferred outflows of resources</b>	<b>\$ 3,541,662</b>	<b>\$ 3,484,956</b>	<b>\$ 56,706</b>	<b>1.6%</b>
<b>Liabilities</b>				
Payables from restricted assets	\$ 70,184	\$ 69,506	\$ 678	1.0%
Payables from current assets	191,733	195,243	(3,510)	-1.8%
Other liabilities	199,472	203,786	(4,314)	-2.1%
Long-term debt, net	1,538,283	1,584,156	(45,873)	-2.9%
<b>Total liabilities</b>	<b>1,999,672</b>	<b>2,052,691</b>	<b>(53,019)</b>	<b>-2.6%</b>
<b>Deferred inflows of resources</b>	<b>277,236</b>	<b>224,644</b>	<b>52,592</b>	<b>23.4%</b>
<b>Net position</b>	<b>1,264,754</b>	<b>1,207,621</b>	<b>57,133</b>	<b>4.7%</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 3,541,662</b>	<b>\$ 3,484,956</b>	<b>\$ 56,706</b>	<b>1.6%</b>

# Orlando Utilities Commission

## Statements of Cash Flows - Unaudited

Dollars in thousands

	June 2016	June 2015
<b>Cash flow from operating activities</b>		
Cash received from customers	\$ 638,356	\$ 631,151
Cash paid for fuel and purchased power	(205,327)	(258,653)
Cash paid for unit department expenses	(64,145)	(72,099)
Cash paid for salaries and benefits	(123,907)	(111,408)
Cash paid for other payments and taxes	(38,639)	(36,864)
<b>Net cash provided by operating activities</b>	<b>206,338</b>	<b>152,127</b>
<b>Cash flows from non-capital related financing activities</b>		
Dividend to the City of Orlando	(41,790)	(39,908)
Build America Bond interest received	1,847	1,837
<b>Net cash used in non-capital related financing activities</b>	<b>(39,943)</b>	<b>(38,071)</b>
<b>Cash flows from capital related financing activities</b>		
Utility plant net of contributions in aid of construction	(84,671)	(87,705)
Debt interest payments	(77,317)	(65,489)
Collateral deposits	(3,800)	2,000
Principal payments on long-term debt and use of bond proceeds	(156,851)	(53,310)
Debt issuances and related costs	114,143	111,538
<b>Net cash used in capital related financing activities</b>	<b>(208,496)</b>	<b>(92,966)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale and maturities of investment securities	457,854	252,516
Gain on sale of investments	299	292
Purchases of investment securities	(428,545)	(368,488)
Investments and other expenses paid	5,825	5,464
<b>Net cash provided by / (used in) investing activities</b>	<b>35,433</b>	<b>(110,216)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(6,668)</b>	<b>(89,126)</b>
<b>Cash and Cash Equivalents - beginning of year</b>	<b>157,048</b>	<b>223,866</b>
<b>Cash and Cash Equivalents - current</b>	<b>\$ 150,380</b>	<b>\$ 134,740</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 97,953	\$ 104,488
<b>Adjustments to reconcile operating income to net cash provided by operating activities</b>		
Depreciation and amortization	88,366	83,310
Depreciation and amortization charged to fuel for generation and purchased power	2,885	2,388
Depreciation of vehicles and equipment charged to unit department expenses	977	854
<b>Changes in assets and liabilities</b>		
Decrease in receivables and accrued revenue	2,954	2,913
Decrease / (increase) in fuel and materials and supplies inventories	6,617	(4,632)
Decrease in accounts payable	(12,163)	(32,388)
Decrease in deposits paid and deferred items	(3,396)	(14,499)
Increase in stabilization and deferred revenue accounts	22,145	9,693
<b>Net cash provided by operating activities</b>	<b>\$ 206,338</b>	<b>\$ 152,127</b>



**Orlando Utilities Commission  
Capital Plan**

Dollars in thousands

	Adopted 2015 Plan	Year to Date June 2016 Budget	Year to Date June 2016 Actual	Variance to Budget	
Electric Production (1)	\$ 43,630	\$ 33,950	\$ 31,122	\$ 2,828	8.3%
Transmission	36,800	31,240	24,575	6,665	21.3%
Transmission contributions	(1,000)	(750)	(597)	(153)	20.4%
Transmission, net	35,800	30,490	23,978	6,512	21.4%
Electric Delivery	29,470	22,104	22,928	(824)	-3.7%
Electric Delivery contributions	(4,600)	(3,450)	(3,367)	(83)	2.4%
Electric Delivery, net	24,870	18,654	19,561	(907)	-4.9%
Lighting	5,065	3,796	4,452	(656)	-17.3%
Lighting contributions	(100)	(75)	(2,562)	2,487	-3316.0%
Lighting, net	4,965	3,721	1,890	1,831	49.2%
Water	29,712	21,869	17,374	4,495	20.6%
Water contributions	(8,122)	(6,092)	(9,523)	3,431	-56.3%
Water, net	21,590	15,777	7,851	7,926	50.2%
Chilled Water	1,850	1,692	148	1,544	91.3%
Chilled Water contributions	(425)	(177)	-	(177)	100.0%
Chilled Water, net	1,425	1,515	148	1,367	90.2%
Support Services	36,670	31,240	19,930	11,310	36.2%
Support Services contributions	(750)	(250)	-	(250)	100.0%
Support Services, net	35,920	30,990	19,930	11,060	35.7%
<b>Total OUC</b>	<b>\$ 168,200</b>	<b>\$ 135,097</b>	<b>\$ 104,480</b>	<b>\$ 30,617</b>	<b>22.7%</b>

(1) - Totals are net of participant share