



FOCUSED ON THE
FUTURE

Orlando Utilities Commission



2016 ANNUAL REPORT AND
AUDITED FINANCIAL STATEMENTS

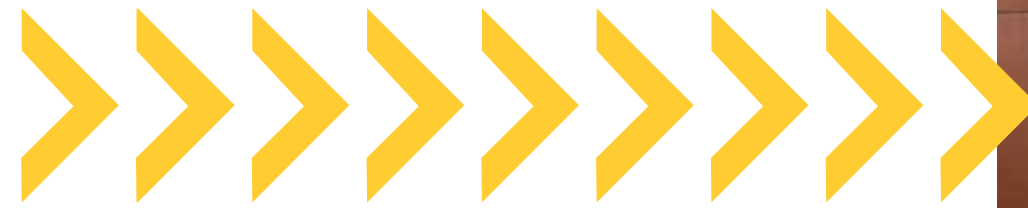


OUC 
The Reliable One[®]



OUC is Focused on the Future. The utility's solid foundation of financial strength and operational excellence, as well as a commitment to sustainability and rapidly growing service territory, provide it with the resources and opportunities necessary to become The Best Utility in the Nation.

LETTER FROM THE GENERAL MANAGER AND COMMISSION PRESIDENT



This has been an extraordinary year for OUC and making strides towards our goal of becoming the Best Utility in the Nation. We remain one of the most reliable electric utilities in the nation and #1 in Florida for the 18th year in a row and were able to lower electric rates for our customers. Thanks to OUC's long-term fuel diversification strategy, we were able to reduce our fuel rate by 9 percent in 2016, effectively lowering the overall residential bill in Orlando by about 3.1 percent. This represents approximately \$23 million in annual customer savings.

We also exceeded our targets for new revenues by growing or adding business opportunities. OUC renewed purchase power agreements with the cities of Bartow and Lake Worth and renegotiated our agreement with the City of Vero Beach, protecting OUC revenues while lowering rates for customers. We also expanded our centralized transmission operations, partnering with Kissimmee Utility Authority and Beaches Energy to consolidate transmission operations under one control center at our Pershing facility. In addition, OUC took advantage of favorable markets to refinance bonds, resulting in \$20.2 million in savings.

If there has been one constant in OUC's service territory, it is steady,

sustainable growth. Metro Orlando was #1 in the nation for job growth with more than 52,000 jobs created – an average of 150 per day. We were also one of America's fastest growing communities, with more than 60,000 new residents. Many of our major growth centers like Downtown Orlando, Lake Nona, Orlando International Airport and our biggest customer, Universal Orlando Resort, continue to add new projects and jobs that will ensure steady demand for reliable electric and water service.

When it comes to our water operations, OUC is committed to ensuring the highest quality water from well to tap. Our in-house laboratory conducts 20,000 tests per year and technicians test for more than 135 regulated and unregulated substances, including lead and copper.

As the Lake Nona area rapidly grows, OUC is working hard to keep pace by adding water infrastructure. Work has begun on the Southeast Pipeline Water Main Project, a 2-mile extension of a 20-inch water main.

In order to stay ahead of the curve and integrate innovative products and services into our operations, we have undertaken a Smart Grid Strategic Roadmap that will ensure we not only optimize the use of our existing technology like digital meters, but also enhance our grid to

maximize efficiency and provide for widespread use of distributed energy resources like renewables and electric vehicles.

Our Conservation Voltage Reduction pilot program – which is part of Smart Grid Strategic Roadmap – used data from smart meters to optimize the voltage through circuits serving nearly 82,000 customers with annual energy savings estimated to reach 5.2 million kWh, enough to power about 450 homes.

On the sustainability front, we increased our use of renewable landfill gas, securing up to 8 MW of methane gas from a landfill in Broward County. Work is underway to add 12 MW of solar on the landfill at the Stanton Energy Center, and we are evaluating the uses of bi-facial solar panels at our Pershing facility. These projects and others bring us closer to our strategic plan goal of generating 20 percent of retail sales from clean energy by 2020.

OUC's efforts are getting noticed, and we are living up to our name not only as *The Reliable One*, but *Sustainable, too*. In 2016, a report from the Florida Solar Energy Industries Association (FSEIA) put OUC in a category all its own. Drawing on feedback from solar energy contractors, FSEIA named OUC the only utility to earn all A's and B's, well ahead of other large utilities in Florida.

Finding ways to weave sustainability through everything we do is driving our efforts to continue to look for opportunities to harness the sun and develop new programs that make it easier for customers to be green. We are in the process of a major upgrade of roadway lights to LED fixtures that will improve visibility and save money. We launched a solar aggregation program that provides an opportunity for OUC to pool customers in order to achieve economies of scale, reduce the cost of solar and make it more economical and accessible. OUC enhanced its electric vehicle programs in 2016, offering two new commercial options: *Charge It*, where OUC owns and maintains the equipment with electric usage billed separately, and *Own It*, where OUC provides a turnkey solution.

As OUC focuses on a future that includes strong and steady economic growth, it's more important than ever to have a highly skilled, compassionate workforce that can not only adapt to changing markets, but also support the community the company serves. OUC's commitment to the community is second to none. Each year, OUC employees volunteer more than 10,000 hours, participate in more than 150 events, and work with some 400 community groups.



OUC Commission 2016

front row, left to right:
Mayor Buddy Dyer,
Gregory D. Lee | Commission President,
Cesar Calvet | First Vice President

back row, left to right:
Ken Ksionek | General Manager & CEO,
Dan Kirby, AIA, AICP, LEED AP |
Second Vice President

The mass shooting at Orlando's Pulse nightclub in June shocked the world. As news spread, several employees delivered bottled water and snacks to blood donation centers. Others helped comfort and assist victims' families wracked with grief by helping to secure hotel rooms for those visiting from out of town, while OUC lighting crews hung banners around town in support of Orlando United. The Florida Municipal Electric Association (FMEA) honored OUC's community service efforts with the *2016 Building Strong Communities Award*, which recognizes utilities for their efforts to not only take an interest in seeing their communities succeed, but also actively work toward making them better places to live.

So as you can see, OUC made great progress in 2016, and we expect even greater things in 2017 as we strive to become *The Best Utility in the Nation serving the Greenest City in the Southeast!*

Gregory D. Lee
Commission President

Ken Ksionek
General Manager & CEO

2016 YEAR IN REVIEW

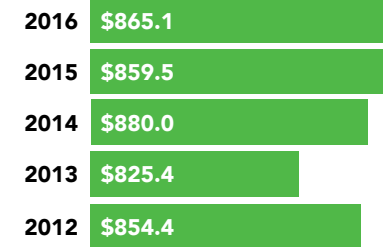
OUC is committed to building upon the company's core tenets of affordability, reliability, and sustainability to develop innovative products and services that create value for the customer.

As customer expectations rise and more energy options become available, competitive rates are not only a strategic goal, they are essential to the utility's ability to recruit, retain and expand business in its service territory.

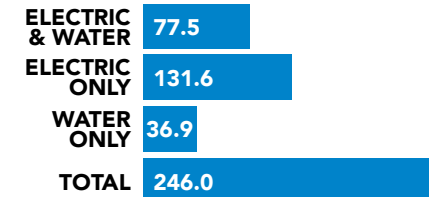
The strategy is working. In 2016, rates were lowered, growth continued, and revenue and savings increased for OUC and its customers. All while the utility stayed focused on being The Reliable One and Sustainable, too.



Operating Revenues in Millions



OUC Customers in Thousands



SAVING CUSTOMERS MONEY BY LOWERING RATES

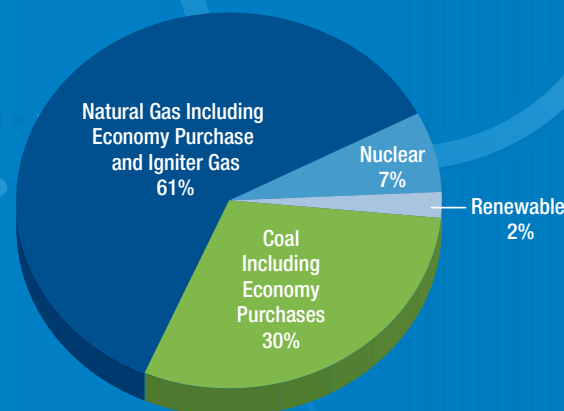
\$23.3M TOTAL ANNUAL CUSTOMER SAVINGS

AVERAGE BILL FOR ORLANDO RESIDENTIAL CUSTOMERS IN 2016:

DOWN 3.1% SINCE 2014

DOWN 11.5% SINCE 2012

FUEL DIVERSITY PAYS OFF
OUC'S COMMITMENT TO FUEL DIVERSITY HELPS KEEP COSTS LOW AND IS WHY THE UTILITY WAS ABLE TO REDUCE ITS FUEL RATE BY 9 PERCENT IN 2016.



LIVING UP TO OUR NAME

ACCOLADES FOR RELIABILITY, SUSTAINABILITY AND COMMUNITY

#1 RELIABILITY IN FLORIDA

18 YEARS IN A ROW WHEN COMPARED TO 2015 DATA SUBMITTED TO THE FLORIDA PUBLIC SERVICE COMMISSION (PSC)

"A" FOR SOLAR FRIENDLINESS

BY THE FLORIDA SOLAR INDUSTRIES ASSOCIATION FOR INNOVATIVE PROGRAMS THAT INCREASE SOLAR ADOPTION

2016 BUILDING STRONG COMMUNITIES

BY THE FLORIDA MUNICIPAL ELECTRIC ASSOCIATION FOR ACTIVELY MAKING BETTER PLACES TO LIVE

SUPPORTING STRONG, STEADY GROWTH IN ORLANDO

#1 IN JOB GROWTH

52,200 NEW JOBS (NEARLY 150 PER DAY)
4.6% ANNUAL EMPLOYMENT GROWTH

#1 IN POPULATION GROWTH

60,000-PLUS NEW RESIDENTS (164 PER DAY)
2.6% POPULATION GROWTH (2,387,138)

Sources: U.S. Department of Labor and U.S. Census Bureau

EXECUTIVE TEAM



Ken Ksionek
General Manager
& Chief Executive Officer



Jan Aspuru
Vice President, Electric & Water Production



Chris Browder
Vice President & General Counsel



Clint Bullock
Vice President,
Electric & Water Delivery



Maggie Duque
Vice President,
Customer Service



Linda Ferrone
Vice President,
Strategy, Sustainability and Emerging Technologies



Roseann Harrington
Vice President, Marketing,
Communications & Community Relations



Byron Knibbs
Vice President,
Emerging Technologies

With more than 300 years of combined experience, the OUC Executive Team has all the right stuff – expert knowledge, leadership ability and a passion for innovation – to lead OUC – The Reliable One into a promising, sustainable future.



Chip Merriam
Vice President, Legislative,
Regulatory & Compliance



Jerry Sullivan
Chief Information Officer
& Vice President,
Information Technology



Mindy Willis
Chief Financial Officer & Vice President,
Financial & Support Services

FINANCIAL HIGHLIGHTS

(Dollars in thousands)	2016	2015 (Restated) (1)	% Increase / -Decrease
Total operating revenues excluding fuel revenue	\$ 596,479	\$ 575,189	3.7%
Total operating revenues	\$ 865,149	\$ 859,452	0.7%
Total operating expenses	\$ 728,978	\$ 723,062	0.8%
Fuel for generation and purchased power	\$ 301,483	\$ 316,875	-4.9%
Interest, gain and net other income	\$ 19,346	\$ 19,088	1.4%
Interest expense	\$ 57,361	\$ 58,656	-2.2%
Income before contributions	\$ 98,156	\$ 96,822	1.4%
Annual dividend	\$ 55,719	\$ 53,211	4.7%
Utility plant, net	\$ 2,410,356	\$ 2,375,846	1.5%
Total assets and deferred outflows of resources	\$ 3,606,199	\$ 3,556,889	1.4%
Long-term debt and Other bonds payable	\$ 1,574,451	\$ 1,626,147	-3.2%
Net position	\$ 1,285,382	\$ 1,226,361	4.8%
Debt service coverage	2.53	2.54	-0.4%
Senior bond ratings (2)	AA, Aa2, AA	AA, Aa2, AA	

(1) Details related to the restatement are included in Note B.

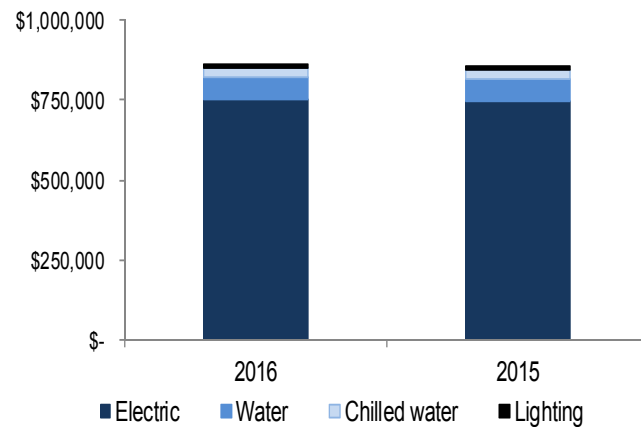
(2) Bond Rating Agencies: Fitch Ratings, Moody's Investors Service and Standard & Poor's, respectively.

For more detailed statistical information, see OUC's Ten-Year Financial & Statistical Information report.

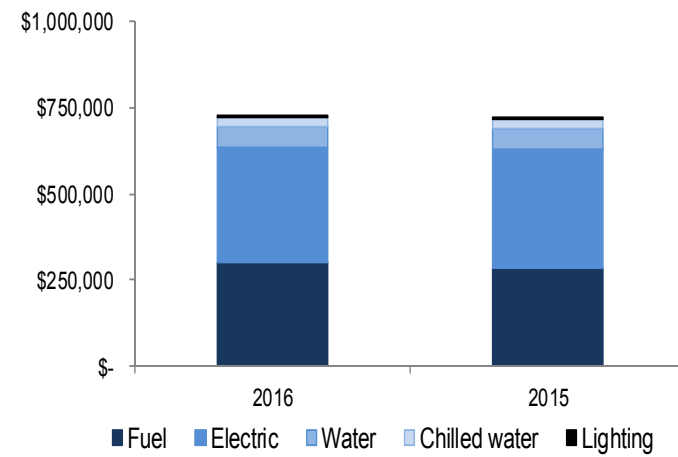
STATISTICAL HIGHLIGHTS

Electric metered services	233,411	226,300	3.1%
Electric sales (MWH)	7,914,684	7,731,958	2.4%
Average annual residential usage (KWH)	11,999	11,760	2.0%
Average residential revenue per KWH	\$ 0.1143	\$ 0.1158	-1.3%
Water metered services	139,201	137,176	1.5%
Water sales (MGAL)	27,579	26,424	4.4%
Average annual residential usage (KGAL)	79	80	-1.3%
Average residential revenue per KGAL	\$ 2.7052	\$ 2.6962	0.3%

Operating Revenues at September 30
(Dollars in thousands)



Operating Expenses at September 30
(Dollars in thousands)



ORLANDO UTILITIES COMMISSION

September 30, 2016

TABLE of CONTENTS

Report of Independent Certified Public Accountants	3
Management's Discussion and Analysis	5
Statement of Net Position	15
Statement of Revenues, Expenses and Changes in Net Position	17
Statement of Cash Flows	18
Notes to the Financial Statements	19
Required Supplementary Information	58
Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	61

COMMISSION MEMBERS and OFFICERS

Gregory D. Lee
President

Cesar Calvet
First Vice President

Dan Kirby, AIA, AICP, LEED AP
Second Vice President

Buddy Dyer
Mayor – Commissioner

Ken Ksionek
Secretary

Mindy Willis
Chris Browder
Elizabeth Mason
Assistant Secretaries



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Report of Independent Certified Public Accountants

To Management and the Commissioners of Orlando Utilities Commission

Report on the Financial Statements

We have audited the accompanying financial statements of Orlando Utilities Commission (OUC), as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise OUC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OUC as of September 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 6-15 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 8, 2016 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 8, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

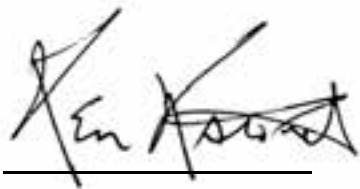
This discussion should be read in conjunction with the Financial Statements and Notes to the Financial Statements.

Management's Report

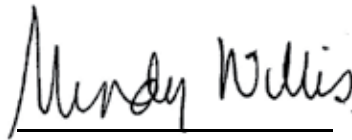
The management of Orlando Utilities Commission (OUC) has prepared — and is responsible for — the integrity of the financial statements and related information included in this report. The financial statements have been prepared in accordance with generally accepted accounting principles and follow the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

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

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



Ken Ksionek
General Manager &
Chief Executive Officer



Mindy Willis
Vice President &
Chief Financial Officer



Gina Johnson
Director of Accounting
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. Effective July 1, 2016, the Board approved a fuel rate decrease of 9.0 percent across all electric customer classes as a result of leveraging OUC's diversified fuel mix. No electric rate changes were approved for 2015. Planned water rate increases approved by the Board as part of the budget process were deferred in 2016 and 2015. Rates workshops are planned for calendar year 2017 to discuss future electric and water rate designs.

Financial Reporting

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

OUC is a regulated enterprise and applies the Regulated Operations provision of GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." In accordance with these principles, the Board has taken various regulatory actions for ratemaking purposes that have resulted in the deferral or recognition of certain revenues or expenses. In both 2016 and 2015, regulatory actions taken by the Board resulted in the deferral of current period revenues in the amounts of \$13.0 million and \$14.6 million, respectively. Additionally in 2015, the Board approved the deferred outflow of resources of \$117.7 million associated with the implementation of new defined benefit pension plan guidance, GASB Statement No. 68. See Note G for additional information related to this implementation and the planned recognition through the ratemaking process in future periods.

Basic Financial Statements

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

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

Condensed Statements of Net Position

(Dollars in thousands)	As of September 30		
	2016	2015 (Restated)*	2014
Assets			
Utility plant, net	\$ 2,410,356	\$ 2,375,846	\$ 2,354,626
Restricted and internally designated assets	625,270	610,291	551,263
Current assets	251,445	283,540	253,034
Other assets	160,422	178,728	84,634
Total assets	3,447,493	3,448,405	3,243,557
Deferred outflows of resources	158,706	108,484	75,730
Total assets and deferred outflows of resources	\$ 3,606,199	\$ 3,556,889	\$ 3,319,287
Liabilities			
Long-term debt	\$ 1,476,091	\$ 1,527,787	\$ 1,481,003
Current liabilities	333,935	344,777	350,679
Other liabilities and credits	215,443	186,269	85,727
Total liabilities	2,025,469	2,058,833	1,917,409
Deferred inflows of resources	295,348	271,695	235,629
Net position			
Net investment in capital assets	945,883	893,645	884,604
Restricted	-	270	265
Unrestricted	339,499	332,446	281,380
Total net position	1,285,382	1,226,361	1,166,249
Total liabilities, deferred inflows of resources and net position	\$ 3,606,199	\$ 3,556,889	\$ 3,319,287

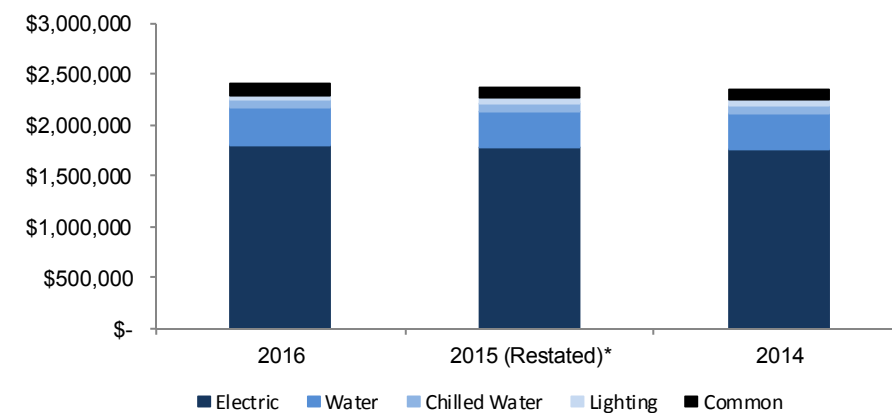
* Details related to the restatement as of September 30, 2015 are included in Note B. The Statement of Net Position as of September 30, 2014 was not restated for the effects of GASB Statements No. 68 or 83.

2016 Compared to 2015

Assets

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

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



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

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

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

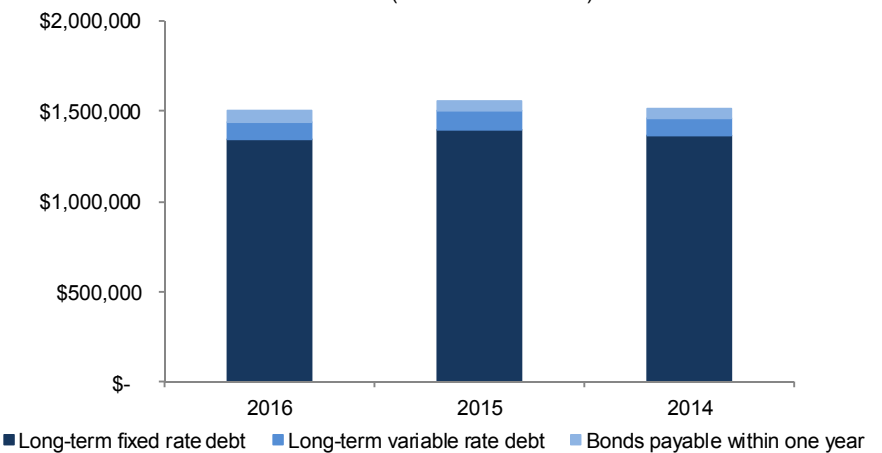
Other assets: Other assets decreased \$18.3 million from the prior year due to the write-down of the CR 3 deferred asset retirement obligation of \$16.5 million, as a result of the settlement agreement, and the planned regulatory asset amortization of \$16.1 million. These decreases were offset by an increase in long-term service payments for generation facilities at the Stanton Energy Center of \$13.1 million.

Deferred outflows of resources: In 2016, Deferred outflows of resources increased by \$50.2 million. The increase was primarily due to unrealized pension adjustments of \$39.8 million as a result of fluctuations in the market and actuarial assumption changes. See Note L for additional information regarding this change. In addition, unamortized loss on refunded bonds increased \$16.1 million, as a result of the defeasance of the Series 2006, 2009A and 2009B Bonds. In December 2015, Florida Power & Light, the owner-operator of SL 2, provided an updated asset retirement obligation (ARO) valuation which required a \$4.2 million increase in the fair value retirement obligation asset. These increases were offset by the systematic amortization of refunded bond losses of \$7.1 million and derivative valuation changes of \$2.5 million.

Liabilities

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

Long-term and Other Bonds at September 30
(Dollars in thousands)



As of September 30, 2016, 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 decreased \$10.8 million in 2016 as compared to 2015 as a result of a decrease in outstanding vendor payables, including fuel purchases, and short-term fuel hedge derivative losses in the amounts of \$8.0 million and \$5.7 million, respectively. These variances were offset by increased billings on behalf of state and local governments of \$2.2 million and customer meter deposits of \$1.6 million.

The Series 2011A Bonds continue to be reported as a current liability. 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 this classification of the bonds.

Other liabilities and credits: Other liabilities were \$29.2 million higher than that of 2015. The change was primarily driven by an increase in the Net pension liability of \$40.2 million as a result of market fluctuations. The ARO liability increased \$5.6 million as a result of an updated ARO valuation for SL 2, which required a \$4.2 million increase in the ARO liability, and the systematic accretion of \$1.4 million. Additionally, unapplied contributions in aid of construction increased \$4.6 million. These variances were offset by a decrease in the ARO of \$17.6 million for the CR 3 settlement agreement with Duke Energy and a \$2.7 million decrease in the valuation of long-term fuel hedge derivatives.

Deferred inflows of resources: Deferred inflows of resources increased \$23.7 million in 2016. The change was due to an increase in fuel stabilization of \$17.3 million, Board approval to defer \$13.0 million to base rate stabilization and an increase in the valuation of unrecognized fuel hedge derivatives of \$2.6 million. These increases were offset by the continued systematic recognition of other regulatory credits recognized to offset costs at the Stanton Energy Center of \$7.1 million.

2015 Compared to 2014

Assets

Utility plant, net: Utility plant, net increased \$21.2 million in 2015. Total capital additions were \$145.2 million and included \$25.9 million for generation facility upgrades, \$35.6 million in energy delivery upgrades and \$16.5 million in water enhancements. Transmission capital additions of \$34.8 million included major line upgrades of \$25.0 million. Additionally, Information technology project spending included an upgrade to the Outage Management System of \$2.2 million and year-to-date spending for the new Customer Care & Billing system of \$6.7 million. These additions were offset by systematic depreciation in the amount of \$115.9 million. In addition, OUC early implemented GASB Statement No. 83, and as of September 30, 2015, the fair value retirement obligation asset of \$2.9 million was reclassified to Deferred outflows of resources.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other assets: Other assets increased \$94.1 million in 2015 as compared to 2014. Effects of implementing GASB Statement No. 68 and GASB Statement No. 71 for defined benefit pension plans of \$88.3 million were to be applied to the Statement of Net Position in the year of implementation as a reduction to Net position. Additionally, as of September 30, 2014, OUC had advanced funded pension plan assets of \$29.4 million. GASB Statement No. 68 guidance required that these costs be adjusted to beginning Net position as of October 1, 2014. To ensure recovery of these pension costs, the Board approved a regulatory accounting action to defer \$117.7 million, as permitted under GASB Statement No. 62. Other long-term assets increased \$12.4 million due to additional purchased warranty coverage for the Stanton Energy Center Unit B and a prepayment for the 2018 turbine inspection. Offsetting these increases was the planned amortization of existing regulatory assets and goodwill of \$5.5 million.

Deferred outflows of resources: Deferred outflows of resources increased \$32.8 million during 2015 as a result of the deferral of unrealized pension plan contributions of \$18.6 million, as part of the GASB Statement No. 71 implementation. Derivative instrument valuation changes also increased from that of 2014 by \$17.8 million. In addition, OUC early implemented GASB Statement No. 83 as of September 30, 2015. As a result, the fair value retirement obligation asset related to SL 2 of \$2.9 million, previously included under the heading Utility plant, net was reclassified to Deferred outflows of resources. These increases were offset by the systematic amortization of debt refunding costs of \$6.5 million.

Liabilities

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

Current liabilities: Current liabilities decreased \$5.9 million in 2015 as compared to 2014. Accounts payable and accrued expenses decreased \$13.9 million as a result of moderating fuel prices, the reversal of a prior year accrual for an anticipated gross receipts tax obligation of \$2.9 million and resolution of a previously anticipated de-obligation of federal assistance awards of \$2.0 million. Offsetting the decrease was an increase in the valuation of unrecognized short-term fuel hedge derivatives of \$8.3 million and an increase in the amount of bonds payable within one year of \$2.6 million.

Other liabilities and credits: Other liabilities increased \$100.5 million in 2015. As a result of implementing GASB Statement No. 68 for defined benefit pension plans, OUC reported the actuarially computed Net pension liability of \$92.6 million as of September 30, 2015. Also contributing to the increase was the ARO associated with SL 2 and an increase in the valuation of long-term fuel hedge derivatives of \$2.6 million and \$5.3 million, respectively.

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

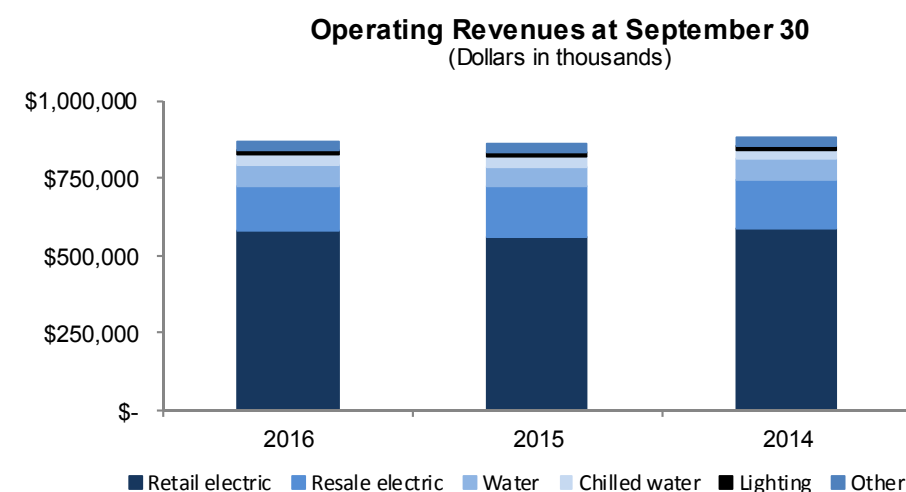
Condensed Statements of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)	Years ended September 30		
	2016	2015	2014
Operating revenues	\$ 865,149	\$ 859,452	\$ 879,985
Operating expenses	728,978	723,062	748,037
Operating income	136,171	136,390	131,948
Net non-operating expenses	38,015	39,568	42,667
Income before contributions	98,156	96,822	89,281
Contributions in aid of construction	16,584	16,501	21,371
Annual dividend	(55,719)	(53,211)	(48,622)
Increase in net position	59,021	60,112	62,030
Net position - beginning of year	1,226,361	1,166,249	1,104,219
Net position - end of year	\$ 1,285,382	\$ 1,226,361	\$ 1,166,249

2016 Compared to 2015

Changes in Net Position

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



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

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

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

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

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

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

2015 Compared to 2014

Changes in Net Position

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

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

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

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

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

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

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

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

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

In 2016, revenues of \$865.1 million, net of a \$13.0 million Board-approved regulatory deferral of resale energy sales, were \$13.2 million below the 2016 budget due to lower fuel revenues driven by lower coal and natural gas costs and a 9.0 percent fuel rate decrease across all customer classes effective in July 2016. The lower fuel revenue variance was offset by increased retail energy sales due to warmer than normal conditions in Central Florida. The 2017 operating budget reflects a slight revenue increase as the Orlando area continues to grow. There are currently no electric or water rate increases planned for 2017.

Funding for new generation facility opportunities is included in the five-year capital plan, with funds of \$140.5 million budgeted in 2021. OUC is conducting a study to evaluate an appropriate course of action based on existing generation facilities, available commodity fuel supply and transportation infrastructure requirements. Once the analysis is complete, OUC will evaluate its next steps.

In 2017, OUC plans to adopt GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions" (OPEB), (Statement No. 75). Employers are required to report the difference between the actuarial total OPEB liability and the OPEB plan's fiduciary net position as the net OPEB liability on the Statement of Net Position. Previously, a liability was recognized only to the extent that contributions made were less than the annual actuarially determined contribution (ADC). As of September 30, 2016, OUC's contributions to the OPEB plan have exceeded the ADC and a net OPEB asset of \$0.3 million was reported on the Statement of Net Position. The impact of implementing Statement No. 75 will result in a net OPEB liability of \$81.2 million replacing the currently reported net OPEB asset on the Statement of Net Position. To ensure that these costs are recovered through rates, a request for a regulatory action, as permitted under GASB Statement No. 62, will be presented to the Board for approval in 2017.

As OUC is subject to legislative and regulatory mandates, rulings regarding environmental matters can have a significant impact on operational and financial results. Electric utilities are subject to emissions requirements which limit emissions of nitrogen oxides (NOx) and sulfur dioxide (SO2), the byproducts of fuel combustion in power plants. Beginning with ozone season 2015, NOx emissions from OUC's generating units were required to meet Cross State Air Pollution Rule (CSAPR) emission limits. OUC met the compliance-required limitations through the use of purchased emission allowances. Future compliance costs will be evaluated upon the EPA's issuance of a revised CSAPR, but are expected to be significant. Additionally, the EPA has promulgated the Mercury Air Toxins Standards rule (MATS) to further regulate mercury emissions. OUC has operated under the requirements of the MATS rule since April 2015. If further requirements are mandated, plant modification costs may be significant. Finally, the EPA has announced a new carbon dioxide (CO2) rule under the authority of Section 111(d) of the Clean Air Act which sets carbon pollution reduction goals for states based on the ability of each state to comply or achieve the goals. OUC's intentions are to lessen the impact of any rule requirements and allow a "glide path" that would extend compliance of the rule and allow for the full depreciation of OUC assets. See Note J for further information.

OUC is currently evaluating options available to refund the Series 2011A Bonds of \$98.4 million. The bonds are variable rate debt in the Windows mode without a third-party liquidity provider. The agreement provides for a seven month remarketing period and as such these bonds are classified as Other bonds payable under the heading of Payable from current assets on the Statement of Net Position. The transaction will also include a partial unwind of the 2011A interest rate swap agreement. This transaction is expected to be completed in January 2017.

On October 6, 2016, Hurricane Matthew impacted OUC operations and nearly 40,000 of its customers in Orange, and Osceola counties. OUC expects the financial impact of the storm to be approximately \$6.0 million. See Note O for additional information.

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

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STATEMENTS OF NET POSITION

(Dollars in thousands)	As of September 30,	
	2016	2015 (Restated)*
Assets		
Utility plant, net		
Utility plant in service	\$ 4,013,013	\$ 3,873,052
Allowances for depreciation and amortization	(1,829,442)	(1,714,590)
Utility plant in service, net	<u>2,183,571</u>	<u>2,158,462</u>
Land	72,569	72,651
Construction work in progress	<u>154,216</u>	<u>144,733</u>
Total utility plant, net	<u>2,410,356</u>	<u>2,375,846</u>
Restricted and internally designated assets		
Restricted assets	42,044	99,328
Internally designated assets	<u>583,226</u>	<u>510,963</u>
Total restricted and internally designated assets	<u>625,270</u>	<u>610,291</u>
Current assets		
Cash and investments	48,026	53,627
Customer receivables, net	75,551	74,268
Miscellaneous receivables, net	3,677	11,980
Accrued utility revenue	36,880	39,038
Fuel for generation	15,440	30,012
Materials and supplies inventory, net	35,425	32,491
Accrued interest receivable	1,747	2,329
Prepaid and other expenses	32,659	39,795
Hedging derivative instruments maturing within one year	<u>2,040</u>	<u>-</u>
Total current assets	<u>251,445</u>	<u>283,540</u>
Other assets		
Net other post-employment benefits assets	307	628
Regulatory assets	117,268	147,516
Other long-term assets	42,306	30,584
Hedging derivative instruments	<u>541</u>	<u>-</u>
Total other assets	<u>160,422</u>	<u>178,728</u>
Total assets	<u>3,447,493</u>	<u>3,448,405</u>
Deferred outflows of resources		
Accumulated decrease in fair value of hedging derivatives	39,144	41,652
Fair value retirement obligation asset	6,833	2,851
Unrealized pension contributions and losses	58,361	18,573
Unamortized loss on refunded bonds	<u>54,368</u>	<u>45,408</u>
Total deferred outflows of resources	<u>158,706</u>	<u>108,484</u>
Total assets and deferred outflows of resources	<u>\$ 3,606,199</u>	<u>\$ 3,556,889</u>

See Notes to the Financial Statements for additional information.
*Details related to the restatement are included in Note B.

STATEMENTS OF NET POSITION

(Dollars in thousands)	As of September 30,	
	2016	2015 (Restated)*
Liabilities		
Current liabilities		
Payable from restricted and designated assets		
Current portion of long-term debt	\$ 60,765	\$ 55,880
Accrued interest payable on notes and bonds	24,905	30,508
Customer meter deposits	<u>56,521</u>	<u>54,930</u>
Total payable from restricted and designated assets	<u>142,191</u>	<u>141,318</u>
Payable from current assets		
Accounts payable and accrued expenses	52,476	60,544
Billings on behalf of state and local governments	19,394	17,212
Compensated absences and accrued wages	14,813	14,702
Accrued governmental payments	2,903	2,869
Accrued swap payables	687	924
Other bonds payable	98,360	98,360
Hedging derivative instruments maturing within one year	<u>3,111</u>	<u>8,848</u>
Total payable from current assets	<u>191,744</u>	<u>203,459</u>
Total current liabilities	<u>333,935</u>	<u>344,777</u>
Other liabilities and credits		
Net pension liability	132,811	92,568
Asset retirement obligation and other liabilities	79,746	88,084
Hedging derivative instruments	<u>2,886</u>	<u>5,617</u>
Total other liabilities and credits	<u>215,443</u>	<u>186,269</u>
Long-term debt, net		
Bond and note principal	1,338,665	1,398,675
Unamortized premium	104,279	101,925
Fair value of derivative instruments	<u>33,147</u>	<u>27,187</u>
Total long-term debt, net	<u>1,476,091</u>	<u>1,527,787</u>
Total liabilities	<u>2,025,469</u>	<u>2,058,833</u>
Deferred inflows of resources		
Unrealized pension gains	16,646	18,585
Accumulated increase in fair value of hedging derivatives	2,581	-
Regulatory credits	274,553	251,363
Unamortized gain on refunded bonds	<u>1,568</u>	<u>1,747</u>
Total deferred inflows of resources	<u>295,348</u>	<u>271,695</u>
Net position		
Net investment in capital assets	945,883	893,645
Restricted	-	270
Unrestricted	<u>339,499</u>	<u>332,446</u>
Total net position	<u>1,285,382</u>	<u>1,226,361</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 3,606,199</u>	<u>\$ 3,556,889</u>

See Notes to the Financial Statements for additional information.
*Details related to the restatement are included in Note B.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(Dollars in thousands)	Years ended September 30,	
	2016	2015
Operating revenues		
Retail electric revenues	\$ 583,096	\$ 563,659
Resale electric revenues	141,805	158,622
Water revenues	68,930	66,236
Chilled water revenues	30,524	30,964
Lighting revenues	13,198	13,071
Other revenues	27,596	26,900
Total operating revenues	865,149	859,452
Operating expenses		
Fuel for generation and purchased power	301,483	316,875
Unit/department expenses	252,733	241,100
Depreciation and amortization	121,019	115,857
Payments to other governments and taxes	53,743	49,230
Total operating expenses	728,978	723,062
Operating income	136,171	136,390
Net non-operating expenses		
Interest income	5,265	5,675
Other income, net	10,453	9,785
Amortization of gain on sale of assets	3,628	3,628
Interest expense	(57,361)	(58,656)
Total net non-operating expenses	(38,015)	(39,568)
Income before contributions	98,156	96,822
Contributions in aid of construction	16,584	16,501
Annual dividend	(55,719)	(53,211)
Increase in net position	59,021	60,112
Net position - beginning of year	1,226,361	1,166,249
Net position - end of year	\$ 1,285,382	\$ 1,226,361

See Notes to the Financial Statements for additional information.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Years ended September 30,	
	2016	2015
Cash flows from operating activities		
Cash received from customers	\$ 894,085	\$ 872,926
Cash paid for fuel and purchased power	(290,858)	(353,320)
Cash paid for unit/department expenses excluding salaries and benefits	(74,936)	(84,527)
Cash paid for salaries and benefits	(171,864)	(154,147)
Cash paid to other governments and taxes	(53,709)	(48,841)
Net cash provided by operating activities	302,718	232,091
Cash flows from non-capital related financing activities		
Dividend payment	(55,719)	(53,211)
Build America Bond interest subsidy received	3,694	3,674
Net cash used in non-capital related financing activities	(52,025)	(49,537)
Cash flows from capital related financing activities		
Utility plant net of contributions in aid of construction	(134,841)	(122,808)
Debt interest payments	(70,663)	(63,376)
Collateral deposits	(3,200)	(4,300)
Principal payments and refunding costs on long-term debt	(332,060)	(53,310)
Debt issuances	279,134	112,100
Debt issuance expense	(1,170)	(890)
Net cash used in capital related financing activities	(262,800)	(132,584)
Cash flows from investing activities		
Proceeds from sales and maturities of investment securities	558,397	369,525
Gain on sale of investments	391	323
Purchases of investment securities	(608,727)	(509,317)
Investments and other income received	20,731	22,681
Net cash used in investing activities	(29,208)	(116,788)
Net decrease in cash and cash equivalents	(41,315)	(66,818)
Cash and cash equivalents - beginning of year	157,048	223,866
Cash and cash equivalents - end of year	\$ 115,733	\$ 157,048
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 136,171	\$ 136,390
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization of plant charged to operations	121,019	115,857
Depreciation and amortization charged to fuel for generation and purchased power	3,856	3,183
Depreciation of vehicles and equipment charged to unit/department expenses	1,388	1,160
Changes in assets and liabilities		
Decrease in receivables and accrued revenue	9,813	6,205
Decrease in fuel and materials and supplies inventories	19,214	7,611
Decrease in accounts payable	(7,556)	(20,731)
Decrease in deposits payable and liabilities	(1,771)	(28,491)
Increase in stabilization and deferred credits	20,584	10,907
Net cash provided by operating activities	\$ 302,718	\$ 232,091
Reconciliation of cash and cash equivalents		
Restricted and internally designated equivalents	\$ 28,273	\$ 23,805
Cash and investments	2,089	2,193
Construction and related funds	-	44,717
Debt service and related funds	85,371	86,333
Cash and cash equivalents - end of year	\$ 115,733	\$ 157,048
Non-cash investing, capital and financing activities		
Increase in donated utility plant assets	\$ 5,942	\$ 4,985
(Decrease)/increase in fair value of investments	\$ (36)	\$ 1,215
Increase in accounts payable related to utility plant purchases	\$ (88)	\$ (1,994)
Increase in fair value of retirement obligation asset	\$ 4,202	\$ -

See Notes to the Financial Statements for additional information.

Note A – The Organization

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

OUC’s governing Board (the Board) consists of five members including the Mayor of the City of Orlando. Members serve without compensation and with the exception of the Mayor, who is an ex-officio member of the Board, may serve no more than two full consecutive four-year terms. As of September 30, 2016, one of the Board positions was vacant.

Note B – Summary of Significant Accounting Policies

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

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

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

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

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

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

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

Note B – Summary of Significant Accounting Policies (continued)

In 2016, the Board approved a rate decrease for retail electric fuel, effective July 1, 2016. This action resulted in an overall 9.0 percent decrease across all customer classes. There were no electric rate changes in 2015, nor are there any proposed electric rate changes for 2017.

The planned water rate increases for 2016 and 2015 were deferred and there are no proposed water rate changes for 2017. Water rates were last changed in 2009.

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

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

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

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

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

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

The consolidated average annual depreciation rate, inclusive of impairment expense, was 6.2 percent and 3.1 percent for 2016 and 2015, respectively. Depreciation is calculated using the following estimated lives:

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

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

Note B – Summary of Significant Accounting Policies (continued)

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

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

Realized and unrealized gains and losses for all investments except those executed in conjunction with a bond refunding are included in Interest income on the Statements of Revenues, Expenses and Changes in Net Position. Realized gains associated with a bond refunding are included as a component of the unamortized amount on refunding. 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)	2016	2015
Realized gains	\$ 391	\$ 323
Prior year unrealized gains	\$ 648	\$ 247

There were no gains or losses associated with a bond refunding in 2016 and 2015.

Investments maintained in OUC’s Defined Benefit Pension and Other Post-Employment Benefit Plans were reported in stand-alone plan financial statements at fair value as of their actuarial valuation date. See valuation information related to these trust funds following the footnotes under the heading of Required Supplementary 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 receivables, net of the allowance for doubtful accounts, on a cyclical basis in the period in which it was earned. The allowance for doubtful accounts was calculated based upon OUC’s historical experience with collections and current energy and local economic market conditions. Bad debt expenses for estimated doubtful accounts were recorded as a reduction of operating revenues in the Statements of Revenues, Expenses and Changes in Net Position.

The net customer receivable balance of \$75.6 million and \$74.3 million at September 30, 2016 and 2015 includes an allowance for doubtful accounts of \$11.2 million and \$10.8 million, respectively. Included in net customer receivables was Billings on behalf of the State and other local governments of \$8.6 million for both 2016 and 2015 inclusive of an allowance for doubtful accounts of \$1.5 million and \$1.3 million, respectively. Agency billings are not reflected in the Statements of Revenues, Expenses and Changes in Net Position.

As of September 30, 2016 and 2015, Miscellaneous receivables, including participation billing, were \$3.7 million and \$12.0 million, each with a net allowance for doubtful accounts of \$0.6 million.

Bad debt expenses were \$1.8 million and \$2.0 million for the years ended September 30, 2016 and 2015, respectively.

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)	2016	2015
Customer receivables, net		
Customer receivables	\$ 57,755	\$ 57,959
Agency receivables	8,573	8,640
Wholesale receivables	9,223	7,669
Total customer receivables, net	75,551	74,268
Miscellaneous receivables, net	3,677	11,980
Total accounts receivable, net	\$ 79,228	\$ 86,248

Accrued utility revenue: This amount represents services provided to retail customers but not billed at the end of the fiscal year for electric, water, chilled water and lighting. Accrued utility revenues at September 30, 2016 and 2015 were \$36.9 million and \$39.0 million, respectively, including unbilled electric fuel revenues in the amount of \$10.8 million and \$12.4 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, 2016 and 2015 was \$15.4 million and \$30.0 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, 2016 and 2015 was \$35.4 million and \$32.5 million, including an allowance for obsolescence of \$9.5 million and \$14.1 million, respectively.

OUC conducted an internal study to evaluate inventory levels in comparison to industry norms and changing technologies in 2015. As a result, OUC began implementing strategies which identified obsolete inventory of \$10.2 million and increased the allowance for obsolescence reserve to \$14.1 million. During 2016, OUC removed \$7.7 million of obsolete inventory and continues to prepare the remaining items for sale at either their fair market value or scrap value by the end of fiscal year 2017.

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, 2016 and 2015 were \$32.7 million and \$39.8 million, respectively, for which collateral deposits related to fuel and interest rate hedge agreements were \$26.7 million and \$33.6 million, respectively.

Net other post-employment benefits (OPEB) asset: Changes to the net OPEB asset are recorded in accordance with calculations provided to OUC by its actuaries in conjunction with the respective annual actuarial valuation report. The net asset balances were \$0.3 million and \$0.6 million at September 30, 2016 and 2015, respectively.

Note B – Summary of Significant Accounting Policies (continued)

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

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

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

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

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

<u>(Dollars in thousands)</u>	<u>2016</u>	<u>2015</u>
Supplier payables	\$ 26,345	\$ 28,314
Fuel and purchased power payables	18,986	24,778
Accrued self-insurance expenses	2,770	2,560
Other accounts payable and accrued expenses	4,375	4,892
Total accounts payable and accrued expenses	\$ 52,476	\$ 60,544

Other accounts payable and accrued expenses under this heading include taxes billed on behalf of various governmental authorities and pollution remediation. Pollution remediation of \$1.7 million and \$2.4 million at September 30, 2016 and 2015, 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 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, 2016 and 2015, the estimated liability for Compensated absences and accrued wages was \$14.8 million and \$14.7 million, respectively.

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

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

The ARO associated with the Florida Power & Light St. Lucie Unit 2 (SL 2) facility was determined based on the December 2015 decommissioning report approved by the Florida Public Service Commission. OUC's minority share of the SL 2 facility is 6.09 percent, and decommissioning closure costs are estimated to be \$52.9 million, in 2015 dollars. This liability continues to be systematically accreted over a life consistent with the plant's license period and at September 30, 2016 and 2015 was \$53.8 million and \$48.2 million, respectively. The operational license expiration date for SL 2 is 2043. As of September 30, 2016 and 2015, nuclear generation facility decommissioning funds of \$42.0 million and \$41.1 million, respectively, were restricted to pay for OUC's minority share of the SL 2 ARO.

In October 2015, OUC's full ownership interest, including all future liabilities of the Crystal River Unit 3, was transferred to Duke Energy. The ARO recorded at September 30, 2015 was \$17.6 million.

In 2016, OUC applied GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Costs," to account for the Stanton Energy Center landfill closure and post closure costs. As of September 30, 2016, proportionate closure and post-closure costs of \$0.3 million were recognized. OUC expects to recognize the remaining estimated closure and post-closure costs of \$2.9 million over the remaining useful life of the landfill.

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

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

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

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

Note B – Summary of Significant Accounting Policies (continued)

Implementation of New GASB Accounting Standards

In 2016, OUC adopted GASB Statement No. 72, "Fair Value Measurement and Application," (Statement No. 72). Statement No. 72 provides guidance for determining fair value for financial reporting, the principles for measuring fair value and guidelines for the disclosure of fair value measurements. The application of Statement No. 72 did not impact the Statements of Net Position or Statements of Revenues, Expenses and Changes in Net Position. See Note F for required disclosures regarding fair value measurements.

OUC also adopted GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB No. 68 and Amendments to Certain Provisions of GASB No. 67 & 68," (Statement No. 73). Statement No. 73 establishes accounting and financial reporting requirements to defined benefit pension plans not subject to GASB Statement No. 68 "Accounting and Financial Reporting for Pensions." (Statement No. 68). There was no impact to OUC's financial statements as a result of this guidance. GASB Statement No. 82, "Pension Issues." (Statement No. 82) amends the presentation requirements of payroll-related measures in the Required Supplementary Information section of the financial statements. Additionally, it addresses the treatment of deviations from guidance by the Actuarial Standard of Practice for financial reporting purposes and the classification of payments made by employers to satisfy plan member contribution requirements. The implementation of this statement did not have a significant impact on OUC's financial reporting. See Note L and the Required Supplementary Information for additional information.

In June 2015, GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," (Statement No. 76) was issued. The objective of this statement is to identify the hierarchy for Generally Accepted Accounting Principles (GAAP) and recognize two new categories of authoritative GAAP. Additionally, Statement No. 76 allows for the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of this statement does not impact the financial statements as OUC already follows this hierarchy.

In August 2015, GASB Statement No. 77, "Tax Abatement Disclosures," was issued. This statement indicates how disclosures for tax abatements should be included within the financial statements. As OUC is not a tax-levying government and is not a participant of tax abatement agreements, there is no impact on the financial statements.

GASB Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans," clarifies requirements for the application of Statement No. 68 for multiple-employer-based pension plans. As OUC does not sponsor benefits through this type of plan, the guidance is not applicable and will not impact OUC's financial statements.

OUC implemented GASB Statement No. 79, "Certain External Investment Pools and Pool Participants", (Statement No. 79) as of September 30, 2016. Statement No. 79 was issued to address how certain investment pool transactions are reported in response to anticipated changes in a U.S. Securities and Exchange Commission rule that was previously included in GASB literature by reference. The implementation of this statement did not have a significant impact on OUC's financial reporting. See Note E for additional information.

In January 2016, GASB Statement No. 80, "Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14," (Statement No. 80) was issued. Statement No. 80 amends the blending requirements for the financial statement presentation of certain component units. This statement does not apply to OUC and does not impact the financial statements.

In March 2016, GASB Statement No. 81, "Irrevocable Split-Interest Agreements," was issued to provide guidance to governmental entities that receive resources pursuant to an irrevocable split-interest agreement. As OUC is not a party to such agreements, this guidance does not impact the financial statements.

Note B – Summary of Significant Accounting Policies (continued)

OUC early adopted GASB Statement No. 83, "Certain Asset Retirement Obligations," (Statement No. 83) as of September 30, 2016. Statement No. 83 was issued to account for certain asset retirement obligations, a legally enforceable liability associated with the retirement of a tangible capital asset. The application of this statement established accounting and financial reporting standards that required the reclassification of the fair value retirement obligation asset, previously reported under the heading Utility plant, net, to that of a Deferred outflow of resources. Additionally as the fair value retirement obligation asset is no longer considered an intangible capital asset, the Net position amounts were adjusted. For comparative purposes, the Statement of Net Position for 2015 was restated for this change. Noted below are the specific areas impacted:

(Dollars in thousands)	September 30, 2015	Restatement (1)	October 1, 2015
Assets			
Utility plant, net			
Utility plant in service	\$ 3,882,271	\$ (9,219)	\$ 3,873,052
Allowances for depreciation and amortization	\$ (1,720,958)	\$ 6,368	\$ (1,714,590)
Deferred outflows of resources			
Fair value retirement obligation asset	\$ -	\$ 2,851	\$ 2,851
Net position			
Net investment in capital assets	\$ 896,496	\$ (2,851)	\$ 893,645
Unrestricted	\$ 329,595	\$ 2,851	\$ 332,445

(1) Reclassified the SL 2 asset retirement obligation asset to a Deferred outflow of resources.

The Statements of Revenues, Expenses and Changes in Net Position were not impacted by the implementation of Statement No. 83.

Future GASB Accounting Standard Implementation

In June 2015, GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions," (Statement No. 75) was issued. Statement No. 75 replaces the requirements of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions," as amended and GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans."

This statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses for governments that offer other postemployment benefits (OPEB). For OPEBs, this statement identifies the methods and assumptions that should be used to project benefit payments, and discounts projected benefit payments to their actuarial present value. Note disclosures and required supplementary information requirements about OPEBs are also addressed.

The impact of implementing Statement No. 75 will result in a net OPEB liability of \$81.2 million replacing the currently reported net OPEB asset on the Statement of Net Position.

NOTES TO THE FINANCIAL STATEMENTS

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

(Dollars in thousands)	2014	Additions	Transfers	Retirements/ reclassifications	2015 (Restated) *
Utility plant					
Electric	\$ 2,850,213	\$ 17,658	\$ 70,466	\$ 12,054	\$ 2,950,391
Water	531,380	5,158	27,685	(12,536)	551,687
Chilled Water	116,875	-	(107)	(257)	116,511
Lighting	71,255	-	2,633	(267)	73,621
Shared/Customer Service	179,645	3,638	20,622	(23,063)	180,842
Total utility plant	3,749,368	26,454	121,299	(24,069)	3,873,052
Accumulated depreciation					
Electric	(1,258,399)	(73,773)	3,823	4,592	(1,323,757)
Water	(199,596)	(16,054)	2,492	6,585	(206,573)
Chilled Water	(38,559)	(4,389)	93	714	(42,141)
Lighting	(30,142)	(3,785)	53	264	(33,610)
Shared/Customer Service	(89,058)	(13,979)	(6,461)	989	(108,509)
Total accumulated depreciation	(1,615,754)	(111,980)	-	13,144	(1,714,590)
Total depreciable utility plant, net	2,133,614	(85,526)	121,299	(10,925)	2,158,462
Land and other non-depreciable assets	69,455	3,236	-	(40)	72,651
Construction work in progress	151,557	115,524	(121,299)	(1,049)	144,733
Utility plant, net	\$ 2,354,626	\$ 33,234	\$ -	\$ (12,014)	\$ 2,375,846

* Details related to the restatement are included in Note B. September 30, 2014 was not restated for the effects of GASB Statements No. 83.

NOTES TO THE FINANCIAL STATEMENTS

Note D – Power Generation Facility Operations

Jointly Owned Generation Facilities

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

Non-OUC operated: OUC maintains an undivided participant interest with Southern Company at the Stanton Energy Center Unit A combined cycle generation facility located at OUC's Stanton Energy Center (SEC), Florida Power & Light at their St. Lucie Unit 2 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 are as follows:

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

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

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

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

(Dollars in thousands)	2016			2015 (Restated)*		
	Utility plant	Accumulated depreciation	Net book value	Utility plant	Accumulated depreciation	Net book value
SEC 2	\$ 477,300	\$ 233,749	\$ 243,551	\$ 470,206	\$ 220,001	\$ 250,205
SEC 1	379,523	236,045	143,478	370,868	224,338	146,530
MAC 3	195,833	135,300	60,533	193,727	126,530	67,197
SL 2	194,342	89,393	104,949	189,980	87,445	102,535
SEC A	84,845	44,335	40,510	84,791	40,404	44,387
IRP	58,393	44,405	13,988	57,456	42,888	14,568
Total	\$ 1,390,236	\$ 783,227	\$ 607,009	\$ 1,367,028	\$ 741,606	\$ 625,422

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

Wholly Owned and Operated Generation Facilities

Stanton Unit B (SEC B), a combined cycle generation facility, provides 300 megawatts of generation and is owned and operated by OUC with no undivided participant ownership interests. The net book value of this facility at September 30, 2016 and 2015 was \$220.3 million and \$231.2 million, respectively.

Note E – Cash, Cash Equivalents and Investments

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

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

Securities are recorded at fair value with gains and losses recorded as a component of Interest income in the Statements of Revenues, Expenses and Changes in Net Position. At September 30, 2016 and 2015, the total amounts of deposits and investments were \$673.1 million and \$663.7 million, respectively, on the Statements of Net Position.

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

- **Interest rate risk:** To mitigate this risk, OUC limits maturities based on investment type and credit strength and executes transactions in accordance with the “prudent person” rule requiring the evaluation of current market conditions to ensure overall interest rate risks that might adversely affect the portfolio value are mitigated.
- **Custodial credit risk:** OUC views this type of risk as minimal due to its use of Qualified Public Depositories (QPD) of the State of Florida or money market mutual funds rated at the highest available credit rating for this type of security with a stable net asset value or a Morningstar rating of four out of five stars for funds with a floating net asset value and daily liquidity. OUC had \$108.6 million and \$122.1 million of investments held in money market funds and QPD accounts that were exposed to this risk as of September 30, 2016 and 2015, respectively.
- **Credit risk:** To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, OUC limits investments to those rated, at a minimum, “A-1 / P-1 / F1” or equivalent for commercial paper and “A3 / A-” for medium-term corporate notes by nationally recognized rating agencies.
- **Foreign currency risk:** OUC is not authorized to invest in foreign currency and, as such, is not exposed to this risk.
- **Concentration risk:** This is the risk of loss associated with the extent of OUC's investment in a single issuer. OUC places limits on the amounts invested in any one issuer for certain types of securities. The following are the investment concentrations greater than 5.0 percent for a single issuer:

Investment type (Dollars in Thousands)	2016		2015	
	Dollars	Percentage	Dollars	Percentage
U.S. treasury notes	\$ 119,770	18%	\$ 83,478	13%
U.S. agencies				
Federal Home Loan Banks	\$ 94,535	14%	\$ 87,860	13%
Federal National Mortgage Association (Fannie Mae)	\$ 65,757	10%	\$ 81,006	12%
Florida State Board of Administration	\$ 78,411	12%	\$ 55,024	8%

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

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

Investment type	Credit guidelines	Maximum portfolio weighting	Portfolio weighting at September 30,	
			2016	2015
Certificates of deposit	Investments held by or purchased from institutions certified with the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes.	5%	-	-
Corporate notes	Minimum rating of "A3" / "A-" by at least two nationally recognized rating agencies.	35%	19%	24%
Municipal notes	Minimum "A" rating by a nationally recognized rating agency.	25%	2%	5%
Bankers acceptances	Inventory based with an unsecured, uninsured and unguaranteed obligation rating of at least "P-1" and "A", and "A-1" and "A" by Moody's and S&P, respectively. Bank must be ranked in the top 100 banks.	10%	-	-
Money markets	Limited to funds that meet a stable net asset value and have the highest available credit rating for this type of security.	20%	-	-
Commercial paper	Minimum rating of "A-1", "P-1" and "F1" by at least two nationally recognized rating agencies.	20%	16%	13%
Depository accounts	Investments held by or purchased from institutions certified with the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes.	30%	3%	10%
Local government surplus funds investment pool	Qualified under the laws of the State of Florida.	25%	13%	8%
U.S. treasury notes	Direct obligations that are unconditionally guaranteed by the United States Government.	100%	18%	12%
U.S. agencies	Indebtedness issued by government-sponsored enterprises (GSE), which are non-full faith and credited by the United States Government.	100%	29%	28%
Mutual funds	Morningstar rating of at least four out of five 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	-	-

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

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

Investment type	Credit ratings (1)	2016	2015
Municipal notes	Aa2 / AA / AA - A+	2.57	1.86
U.S. treasury notes	Aaa / AA+ / AAA	1.46	2.00
U.S. agencies	Aaa / AAA - AA+ / AAA	1.52	1.66
Corporate notes	Aaa - A3 / AAA - A- / AAA - A-	1.19	0.88
Commercial paper	A-1+ - A-1 / P-1 / F1+ - F1	0.11	0.03

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

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

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

(Dollars in thousands)	2016	2015
Cash	\$ 2,089	\$ 2,193
Cash equivalents		
Local Government Investment Pool	90,453	55,024
Depository accounts	18,191	67,035
Commercial paper	5,000	26,995
Corporate notes	-	5,801
Total cash equivalents	113,644	154,855
Total cash and cash equivalents	115,733	157,048
Investments		
U.S. agencies	194,557	184,076
U.S. treasury notes	119,770	83,478
Corporate notes	128,586	149,937
Commercial paper	102,903	56,999
Municipal notes	11,542	32,183
Total investments	557,358	506,673
Total cash, cash equivalents and investments	\$ 673,091	\$ 663,721
Restricted and internally designated assets		
Restricted assets		
Nuclear generation facility decommissioning funds	\$ 42,044	\$ 54,589
Construction fund	-	44,739
Total restricted assets	42,044	99,328
Internally designated assets		
Stabilization funds	200,102	166,481
Capital reserve	118,968	98,968
Deposits and advances	102,079	95,142
Debt service sinking funds	85,371	86,333
Renewal and replacement fund	67,107	54,539
Self-insurance fund	9,500	9,500
Cost of Issuance reserve funds	99	-
Total internally designated assets	583,226	510,963
Total restricted and internally designated assets	625,270	610,291
Cash and investments	48,026	53,627
Less accrued interest receivable from restricted and internally designated assets	(205)	(197)
Total cash, cash equivalents and investments	\$ 673,091	\$ 663,721

Note F – Fair Value Measurements

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

Investments

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

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

Derivative Instruments

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

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

Donated Capital Assets

Donated capital assets are measured at acquisition value. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date. The donated capital assets acquisition value was \$5.6 million and \$4.7 million for the years ended September 30, 2016 and 2015, respectively.

Note F – Fair Value Measurements (continued)

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

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

(Dollars in thousands)	2015	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents and investments				
Investments by fair value level:				
Debt securities				
U.S. treasury notes	\$ 65,419	\$ 65,419	\$ -	\$ -
U.S. agencies	109,398	-	109,398	-
Municipal notes	22,140	-	22,140	-
Corporate notes and private placements	56,843	-	56,843	-
Total investments by fair value level	253,800	\$ 65,419	\$ 188,381	\$ -
Investments measured at the NAV:				
Debt securities				
U.S. treasury notes	18,059			
Commercial paper	56,999			
U.S. agencies	74,678			
Municipal notes	10,043			
Corporate notes and private placements	93,094			
Total investments measured at the NAV	252,873			
Cash equivalents measured at the NAV:				
Local government investment pool	55,024			
Depository accounts	67,035			
Debt securities				
Commercial paper	26,995			
Corporate notes and private placements	5,801			
Total cash equivalents measured at the NAV	154,855			
Total cash equivalents and investments	\$ 661,528			
Derivatives:				
Interest rate swaps	\$ (27,187)	\$ -	\$ (27,187)	\$ -
Fuel hedges	(14,465)	(14,465)	-	-
Total derivatives	\$ (41,652)	\$ (14,465)	\$ (27,187)	\$ -

Note G – Regulatory Deferrals

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

Regulatory Assets

Unrecognized pension costs: As a result of the implementation of GASB Statement No. 68 in 2015, the Board approved the establishment of a regulatory asset of \$117.7 million to ensure that the required pension costs were recovered through rates consistent with the financial planning process. The amount of the deferred pension costs at September 30, 2016 and 2015 was \$104.0 million and \$117.0 million, respectively. The regulatory asset will be recognized in a method that will, at a minimum, match pension expense to that of the annual required funding amount. The recognition is expected to be \$12.0 million to \$14.0 million annually and the planned recovery of these costs has been approved for a ten-year period.

Unamortized issue costs: In conjunction with the implementation of GASB Statement No. 65, OUC established a regulatory asset for unrecognized costs previously incurred in connection with the issuance of debt obligations, primarily underwriter fees and legal costs. The regulatory asset will be collected in rates over a period of ten years. Future debt issuance costs will be expensed as incurred. The unrecognized issue cost at September 30, 2016 and 2015 was \$5.9 million and \$6.8 million, respectively.

Unamortized interest costs: This amount represents the deferral of interest costs incurred in association with the refunded Series 1993 and 1993B Bonds as a result of differing short-term and long-term rates at the time of bond issuance. The amount of deferred charges at September 30, 2016 and 2015 was \$2.4 million and \$2.9 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 expense and the amount recovered in the rates charged to customers. To date, retirement obligation expense exceeds the amount charged to customers, net of investment income earned from the associated restricted retirement obligation assets. As such, the asset retirement obligation regulatory asset at September 30, 2016 and 2015 was \$4.9 million and \$7.9 million, respectively.

Unamortized impaired assets: In February 2013, Duke Energy announced their decision to close the Crystal River Unit 3 nuclear generation facility (CR 3). This amount represents the deferral of OUC's portion of CR 3 property, plant, equipment and supplies, excluding funds restricted in the decommissioning trust. Based on the net realizable value, as determined by the final settlement, the balance of impaired assets at September 30, 2015 was \$13.0 million. On October 30, 2015, full ownership interest of CR 3, along with all future liabilities associated with the unit, were transferred from the joint owners to Duke Energy via a special warranty deed.

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

(Dollars in thousands)	2016	2015
Unrecognized pension costs	\$ 103,975	\$ 116,972
Unamortized issue costs	5,948	6,797
Unamortized interest costs	2,448	2,856
Asset retirement obligation costs	4,897	7,861
Unamortized impaired assets	-	13,030
Total regulatory assets	\$ 117,268	\$ 147,516

Note G – 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, 2016 and 2015 was \$122.4 million and \$105.1 million, respectively.

Rate stabilization: The Board established the rate stabilization fund for costs or revenues that are to be recovered by or used to reduce rates in periods other than when incurred or realized. In August 2010, the Board approved the deferral of \$5.5 million of retail electric revenue requirements as a result of budgetary changes to both the commencement and depreciable life of Stanton Unit B. These funds are being recognized systematically during the years of 2012 to 2016 in the amount of \$1.1 million annually. In 2016, OUC also recognized \$2.4 million to mitigate one-time costs associated with the Stanton Energy Center Unit 1 turbine outage, as approved by the Board during the budgetary process.

As a result of higher than expected sales during 2016 and 2015, the Board approved the deferral of \$13.0 million and \$13.8 million, respectively. The rate stabilization amount at September 30, 2016 and 2015 was \$70.3 million and \$60.8 million, respectively.

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 2016 or 2015.

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. This amount is anticipated to be recognized consistent with the recognition of nuclear generation development costs and continues to remain outstanding at September 30, 2016.

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

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

As a result of these actions, gains in the amount of \$3.6 million were recognized for both years ended September 30, 2016 and 2015. The deferred gain on sale of assets at September 30, 2016 and 2015 was \$60.4 million and \$63.9 million, respectively, and continues to be recognized systematically over a period consistent with the life of the Stanton Unit A generation facility.

Note G – Regulatory Deferrals (continued)

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

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

In accordance with the Board's Capital Asset Disposal policy, the deferred gains related to these transactions were included as a regulatory liability on the Statements of Net Position. The deferred gain on settlement amount at September 30, 2016 and 2015 was \$3.2 million and \$3.3 million, respectively. These regulatory liabilities will be recognized systematically over a period consistent with the lives of the assets with which they are associated.

In conjunction with the recording of these regulatory credits, the Board internally designated funds in the amount of \$200.1 million and \$166.5 million at September 30, 2016 and 2015, respectively.

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

(Dollars in thousands)	2016	2015
Fuel stabilization	\$ 122,448	\$ 105,130
Rate stabilization	70,324	60,824
Deferred wholesale trading profits	16,000	16,000
Other stabilization funds	2,175	2,175
Deferred revenue regulatory credits	210,947	184,129
Deferred gain on sale of assets	60,392	63,944
Deferred gain on settlement	3,214	3,290
Deferred gain regulatory credit	63,606	67,234
Total regulatory credits	\$ 274,553	\$ 251,363

NOTES TO THE FINANCIAL STATEMENTS

Note H – Long-Term Debt

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

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

- (1) Variable rates ranged from 0.01% to 2.423% for the year ended September 30, 2016.
(2) The Series 2008 Variable Rate Demand Obligation Bonds of \$200.0 million are supported by a Standby Bond Purchase Agreement (SBPA), which will expire on April 7, 2017.
(3) The Series 2011A Bonds, of \$98.4 million were issued in the Windows mode as extendable debt excluding underlying liquidity facilities. As such, these bonds were classified as current.
(4) The Series 2015B Variable Rate Demand Obligation Bonds of \$115.1 million are supported by a Standby Bond Purchase Agreement (SBPA), which will expire on October 1, 2020.

NOTES TO THE FINANCIAL STATEMENTS

Note H – Long-Term Debt (continued)

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

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

- (1) Variable rates ranged from 0.01% to 3.042% for the year ended September 30, 2015.
(2) The Series 2008 Variable Rate Demand Obligation Bonds of \$200.0 million are supported by a Standby Bond Purchase Agreement (SBPA), which will expire on April 7, 2017.
(3) The Series 2011A Bonds, of \$98.4 million were issued in the Windows mode as extendable debt excluding underlying liquidity facilities. As such, these bonds were classified as current.

Note H – Long-Term Debt (continued)

Debt service requirements: Aggregate annual debt service requirements at September 30 are presented below. The schedule includes net receipts and payments on outstanding effective hedging derivative instruments and interest subsidies anticipated on refundable tax credits. The Series 2008, Series 2011A, and Series 2015B Bonds were reported according to the scheduled maturity dates as management anticipates these bonds will remain outstanding.

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

(Dollars in thousands)	Principal	Interest	Federal interest subsidy	Hedging derivative instrument	Total
2017	\$ 58,385	\$ 53,914	\$ (3,694)	\$ 5,093	\$ 113,698
2018	68,915	51,724	(3,694)	4,878	121,823
2019	60,340	49,046	(3,694)	4,555	110,247
2020	73,930	47,550	(3,694)	3,802	121,588
2021	82,050	45,026	(3,694)	2,680	126,062
2022-2026	365,885	168,264	(18,469)	13,400	529,080
2027-2031	268,510	115,125	(18,469)	1,340	366,506
2032-2036	271,335	75,062	(17,178)	-	329,219
2037-2041	187,675	22,609	(6,567)	-	203,717
Long-term debt (1)	1,437,025	628,320	(79,153)	35,748	2,021,940
Current portion	60,765	56,465	(3,694)	5,726	119,262
Total debt	\$ 1,497,790	\$ 684,785	\$ (82,847)	\$ 41,474	\$ 2,141,202

(1) Long-term debt principal and interest included the Series 2011A Bonds which were classified on the Statements of Net Position as current due to the absence of an underlying liquidity facility.

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

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

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

Note H – Long-Term Debt (continued)

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

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

Debt Issued (Dollars in thousands)	Month Issued	Par Amount Issued	Premium on Issuance	Par Amount Refunded	PV Savings	Accounting Loss	Savings % of Refunded Bonds	Debt Refunded
2015B	October 2015	\$115,090	\$ -	\$ 100,000	\$32,032	\$ 12,939	32.0%	2009A
2016A	August 2016	\$142,690	\$ 21,354	\$ 157,025	\$20,196	\$ 10,062	12.9%	2006 & 2009B

The balance outstanding at September 30, 2016 and 2015 for defeased bonds was \$294.5 million and \$193.1 million, respectively.

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

In accordance with each interest rate swap agreement, collateral deposit thresholds have been established. These thresholds require OUC to remit deposits to mitigate the counterparty's exposure to credit risk. If OUC were to experience a credit downgrade, established thresholds would be reduced, requiring additional collateral deposits. As a result of continued market volatility and the fair value liability of certain interest rate swaps in excess of their contractual thresholds, collateral deposits in the amount of \$19.7 million and \$16.5 million were held by OUC counterparties at September 30, 2016 and 2015, respectively.

The following schedule summarizes OUC's fair value position, based on quoted market rates, for its outstanding swap agreements at September 30, 2016 and 2015. Costs associated with these agreements are deferred and amortized over the life of the underlying bond agreement. The notional amounts below are the basis for which interest is calculated; however, the notional amounts are not exchanged. Derivative instrument disclosure requirements are presented in Note N.

Bond Series	Notional amount (000)'s	OUC pays	Rate paid	Rate received	Initiation date	Termination date	2016 Fair value liability (000)'s	2015 Fair value liability (000)'s	Counterparty
2007	\$ 22,615	Fixed	3.640%	CPI + 105 bps	1/23/2007	10/1/2015	\$ -	\$ 389	Goldman Sachs
2007	\$ 13,400	Fixed	3.660%	CPI + 105 bps	1/23/2007	10/1/2016	224	500	Goldman Sachs
2011A	\$ 100,000	Fixed	3.780%	67% of LIBOR	6/1/2011	10/1/2027	29,178	26,298	Morgan Stanley
2015B	\$ 115,090	Fixed	2.075%	67% of LIBOR	10/23/2015	10/1/2039	3,745	-	Goldman Sachs
Total							\$ 33,147	\$ 27,187	

Goldman Sachs counterparty credit rating - A1 / A / A+
Morgan Stanley counterparty credit rating - A3 / BBB+ / A

Note I – Insurance Programs and Claims

Insurance Programs

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

Under the self-insurance program, OUC was liable for all claims up to certain maximum amounts per occurrence. At September 30, 2016, 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, 2016, coverage was available for workers’ compensation claims in excess of \$0.5 million.

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

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

Self-insurance program liability at September 30, 2016 and 2015 was as follows:

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

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

Claims

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

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

Note I – Insurance Programs and Claims (continued)

Nuclear liability insurance: Liability for accidents at the St. Lucie Unit 2 (SL 2) nuclear power plant, for which OUC has a minority interest, was governed by the Price-Anderson Act which limits the public liability of nuclear reactor owners to the amount of insurance available from private sources and an industry retrospective payment plan. Florida Power & Light (FPL), for SL 2, maintains private liability insurance for all participants owning an undivided interest in the nuclear generation facility of \$375.0 million per site and participates in a secondary financial protection system. In addition, FPL participates in nuclear mutual companies that provide limited insurance coverage for property damage, decontamination and premature decommissioning risks. Irrespective of the insurance coverage, should a catastrophic loss occur, the amount of insurance available may not be adequate to cover property damage and other expenses incurred. The owners of a nuclear power plant could be assessed a maximum payout of \$127.0 million per unit, per incident at any nuclear utility reactor in the United States, payable at a rate not to exceed \$19.0 million per incident, per year. Uninsured losses, to the extent not recovered through rates, would be borne by each of the owners at their proportionate ownership share and may have an adverse effect on their financial position. Any losses in excess of that amount are self-insured, such that OUC would be responsible for its pro-rata share of any losses in excess of insurance coverage. See Note D for OUC’s ownership interest in SL 2.

On behalf of all the co-owners of SL 2, FPL carries in excess of \$1.0 billion of property damage insurance; however, substantially all insurance proceeds must first be used to satisfy decontamination and clean-up costs before they can be used for repair or restoration of plants.

Note J – Commitments and Contingent Liabilities

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

(Dollars in thousands)	Purchased power capacity commitments
2017	\$ 113,280
2018	72,275
2019	56,708
2020	54,572
2021	51,827
2022-2026	134,473
2027 - thereafter	135,650
Total	\$ 618,785

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

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

Note J – Commitments and Contingent Liabilities (continued)**Environmental Protection Agency (EPA)**

Interstate Transport Rule: In August 2010, the EPA proposed the Clean Air Transport Rule (CATR) which not only corrected the Clean Air Interstate Rule (CAIR) defects identified by the court, but also increased the stringency of the emissions of nitrogen oxides (NOx) and sulfur dioxide (SO₂). In July 2011, the CATR was renamed the Cross State Air Pollution Rule (CSAPR). This modified rule aggressively set deadlines for the significant reduction of emissions of NOx and SO₂. Concerns regarding the implementation deadline were expressed by the Utility Air Regulatory Group backed by representatives within 25 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 Washington, D.C. District vacated the CSAPR in its entirety, stating that the EPA had transgressed its statutory boundaries and returned the emission requirements to the previously discussed CAIR Rule Phase I and Phase II. The EPA requested and was provided in the United States Supreme Court the previously discussed Appellate review vacating the CSAPR in 2014. Additional legal challenges to this rule were heard in the Washington, D.C. Circuit Court, and in July 2015 the CSAPR rule was remanded back to the EPA for revision, but with the emission reductions imposed by CSAPR remaining in place and enforceable during the remand period. As a result, beginning with ozone season 2015, NOx emissions from OUC's electric generating units were required to meet CSAPR emission limits. In September 2016, the EPA finalized updates to CSAPR to address interstate transport of ozone pollution with respect to the 2008 ozone National Ambient Air Quality Standard (NAAQS). The EPA modeling associated with this update indicated that Florida did not significantly contribute to non-attainment or maintenance of the 2008 NAAQS in downwind states. As a result, OUC's electric generating units will be removed from the CSAPR ozone season program beginning in 2017.

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

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

EPA Coal Combustion Residual (CCR) Regulations: On April 17, 2015, the EPA issued new rules regulating the disposal and beneficial use of CCRs. These new rules are designed to be enforced through citizen lawsuits instead of the normal delegated permitting process from the EPA to the Florida Department of Environmental Protection. Currently, federal legislation is being considered which would authorize and direct the EPA to create a permit program that could be delegated to and implemented by the states and which would remove the citizen suit enforcement mechanism of the rule. Petitions for judicial review of the rule have been filed by environmental and industry groups. At this time, OUC's future costs to comply with these regulations are not anticipated to be material and are primarily related to new groundwater monitoring and reporting requirements contained within the CCR rule.

Note J – Commitments and Contingent Liabilities (continued)**Federal Regulation Enforcement**

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

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

Florida State Regulation

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

Note K – Major Agreements

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

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

Prior to 2008, the revenue-based and income-based payments were remitted based on actual revenue billed and income before contributions, respectively. Beginning in 2008 and continuing through 2016, these payments were fixed based on projected revenues and income before contributions. Total revenue and income-based payments for the years ended September 30, 2016 and 2015 were \$84.4 million and \$81.4 million, respectively.

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

Billed revenue for the years ended September 30, 2016 and 2015, subject to the inter-local agreement is included under the heading of Resale electric revenues and was \$76.8 million and \$73.0 million, respectively. 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, 2016 and 2015 were \$6.5 million and \$6.0 million, respectively.

Note K – Major Agreements (continued)

Orange County: OUC pays a revenue-based payment to Orange County (County) calculated at 1.0 percent of gross retail electric and chilled water billings to customers within the County but outside the city limits of the City of Orlando and other municipalities. This payment is recorded under the heading of Payments to other governments and taxes on the Statements of Revenues, Expenses and Changes in Net Position. Revenue-based payments accrued were \$1.5 million for each of the years ended September 30, 2016 and 2015.

City of Vero Beach: In April 2008, OUC and the City of Vero Beach (Vero Beach) executed a power supply agreement whereby OUC supplements Vero Beach's electric capacity and energy requirements. In association with this agreement, effective January 1, 2010, OUC began providing to Vero Beach fuel management services and wholesale power marketing services as well as advisory services for planning, forecasting, regulatory reporting, and power plant operations. The term of the agreement is 20-years with a ten-year extension option. The power supply agreement was renegotiated in November 2016 to lower the rate of energy sold to Vero Beach. Billed revenues, included under the heading of Resale electric revenues, were \$31.8 million and \$32.6 million for the years ended September 30, 2016 and 2015, respectively.

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 \$17.8 million and \$19.0 million for the years ended September 30, 2016 and 2015, 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. As of September 2016, the City of Lake Worth exercised its option to extend the term of the agreement through December 31, 2018. Billed revenues, included under the heading of Resale electric revenues, were \$11.6 million for each of the years ended September 30, 2016 and 2015.

City of Winter Park: In August 2013, OUC and the City of Winter Park (Winter Park) executed a power supply agreement whereby OUC supplements Winter Park's electric capacity and energy requirements. The service date of the agreement was January 1, 2014 with an initial term of six years. Billed revenues, included under the heading of Resale electric revenues, were \$4.3 million and \$4.4 million for the years ended September 30, 2016 and 2015, respectively.

Note L – Pension Plans

Defined Benefit Plan

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

The plan issues annual stand-alone financial statements, with the most recent report issued for the year ended September 30, 2015. This report may be obtained by writing to OUC Pension Plans, Reliable Plaza at 100 West Anderson Street, Orlando, Florida 32801 or from the OUC.com website. The next available report will be issued during 2017 for the year ended September 30, 2016.

Note L – Pension Plans (continued)

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

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

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

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

There was no annual COLA in January 2016, and the COLA for January 2015 was 1.5 percent.

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

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

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

	2016	2015
Active employees	1,032	1,040
Inactive employees currently receiving benefits	843	845
Inactive employees entitled to deferred benefits	124	111
Total	1,999	1,996

Note L – Pension Plans (continued)

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

The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. OUC is required to contribute the difference between the actuarially determined rate and the contribution rate of its employees. The required rate of contribution, based on annual covered payroll, for the years ended September 30, 2016 and 2015 was 23.6 percent and 27.5 percent, respectively.

Actuarial methods and assumptions to measure net pension liability (NPL): OUC recognized annual Pension expense and NPL in accordance with GASB Statements No. 68, “Accounting and Financial Reporting for Pensions,” and No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date,” based on information obtained from the annual actuarial report. The NPL as of September 30, 2016 and 2015 was measured as of September 30, 2015 and 2014, respectively. Since the measurement date for the total pension liability (TPL) and valuation date for the plan fiduciary net position are the same, no update procedures were used to roll forward the TPL from the valuation date to the measurement date.

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

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

The assumptions used to measure the TPL as of the September 30, 2014 measurement date included an inflation assumption of 2.5 percent per year, salary increases of 5.0 percent per year, and an annual cash balance interest crediting rate of 5.0 percent per year for active members and 4.0 percent per year for inactive members. Mortality rates were based on the RP-2000 Combined Healthy Participant Mortality Tables.

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

The projected long-term real rate of return on pension plan investments, valued as of September 30, 2015 and 2014, was determined using a building block method, which considers historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions. These best-estimate ranges, net of assumed long-term inflation of 2.5 percent and investment expenses, are combined to produce the long-term expected rate of return.

Note L – Pension Plans (continued)

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

Asset class	2015		2014	
	Target allocation	Long-term expected real rate of return	Target allocation	Long-term expected real rate of return
Domestic equity	43.0%	7.5%	43.0%	7.5%
International equity	15.0%	8.5%	15.0%	8.5%
Domestic bonds	17.0%	2.5%	18.0%	2.5%
International bonds	5.0%	3.5%	5.0%	3.5%
Real estate	10.0%	4.5%	10.0%	4.5%
Alternative assets	10.0%	6.2%	9.0%	6.1%
Total	100.0%		100.0%	

In conjunction with the implementation of Statement No. 68 in 2015, the balance of the pension asset, as well as the establishment of the unfunded pension liability, were classified as a regulatory as approved by the Board. Refer to Note G for further details.

Discount rate: The discount rate used to measure the TPL was 7.25 percent and 7.75 percent, valued as of September 30, 2015 and 2014, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that future employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

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

(Dollars in thousands)	2015		2014	
	Rate	NPL	Rate	NPL
1.0 percent decrease	6.25%	\$ 179,911	6.75%	\$ 133,618
Discount rate	7.25%	\$ 132,811	7.75%	\$ 92,568
1.0 percent increase	8.25%	\$ 92,601	8.75%	\$ 57,195

Note L – Pension Plans (continued)

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

(Dollars in thousands)	2016	2015
Total pension liability		
Service cost	\$ 5,570	\$ 5,935
Interest on the total pension liability	32,104	29,891
Benefit changes	-	15,187
Difference between expected and actual experience	(2,501)	(2,546)
Assumption changes	29,125	(14,449)
Benefit payments, including refunds of plan member contributions	(25,773)	(23,095)
Net change in total pension liability	38,525	10,923
Total pension liability - beginning of year	421,559	410,636
Total pension liability - end of year	\$ 460,084	\$ 421,559
Plan fiduciary net position		
Contributions - employer	\$ 18,573	\$ 21,198
Contributions - plan members	821	882
Total investment income, net of investment expense	4,783	28,906
Benefit payments, including refunds of plan member contributions	(25,772)	(23,095)
Administrative expense	(123)	(85)
Net change in plan fiduciary net position	(1,718)	27,806
Plan fiduciary net position - beginning of year	328,991	301,185
Plan fiduciary net position - end of year	\$ 327,273	\$ 328,991
Net pension liability - beginning of year	\$ 92,568	\$ 109,451
Net pension liability - end of year	\$ 132,811	\$ 92,568

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

Pension expense, Deferred outflows of resources and Deferred inflows of resources: OUC recorded \$16.3 million and \$22.9 million in pension expense for the years ended September 30, 2016 and 2015, respectively.

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

(Dollars in thousands)	2016	2015
Deferred outflows of resources		
Employer's contributions to the plan subsequent to the measurement of total pension liability	\$ 17,803	\$ 18,573
Changes in assumptions	24,188	-
Net difference between projected and actual earnings on pension plan investments	16,370	-
Total deferred outflows of resources	\$ 58,361	\$ 18,573
Deferred inflows of resources		
Net difference between projected and actual earnings on pension plan investments	\$ 3,756	\$ 4,485
Assumption changes	9,526	11,987
Differences between expected and actual experience in the measurement of total pension liability	3,364	2,113
Total deferred inflows of resources	\$ 16,646	\$ 18,585

Note L – Pension Plans (continued)

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

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

(Dollars in thousands)	Deferred inflows of resources
2017	\$ 4,588
2018	4,588
2019	4,589
2020	6,086
2021	4,061
Total	\$ 23,912

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, 2016 and 2015, the number of active employees enrolled in this pension plan were 911 and 800, respectively.

Under the plan, each eligible employee, at the start of their employment, is required to contribute 4.0 percent of their salary. This required contribution is matched equally by OUC. Eligible employees may also voluntarily contribute an additional unmatched 2.0 percent of their salary to the Trust. Employees are fully vested after one year of employment. Total contributions for the years ended September 30, 2016 and 2015 were \$6.5 million (\$2.5 million employer and \$4.0 million employee) and \$5.7 million (\$2.2 million employer and \$3.5 million employee), respectively.

Note M – 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 (OPEB), 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.

Note M – Other Post-Employment Benefits (continued)

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

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

Actuarial reports are prepared annually with the most recent reports completed for the periods ended September 30, 2016 and 2015. To better match the budgetary and ratemaking requirements, the actuarial reports received each year disclose the valuation of plan assets and actuarial liabilities as of the beginning of the current fiscal year for required contribution levels in the subsequent fiscal year. As such, the actuarial valuation reports dated October 1, 2014 and 2013 were used for years ended September 30, 2016 and 2015, respectively. As of the October 1, 2014 valuation date, 1,032 plan participants (265 active employees and 767 retired employees) were eligible for fully subsidized medical and dental coverage and 804 plan participants (783 active employees and 21 retired employees) were eligible for implicit subsidy benefits. As of the October 1, 2013 valuation date, 1,050 plan participants (289 active employees and 761 retired employees) were eligible for fully subsidized medical and dental coverage and 779 plan participants (763 active employees and 16 retired employees) were eligible for implicit subsidy benefits.

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 pension plan disclosed in Note L, the OPEB plan issues annual stand-alone financial statements. The most recent report was issued for the year ended September 30, 2015.

Funding policy: In accordance with GASB Statement No. 45, funding for post-employment benefits is established from actuarial valuations and is approved annually by the Board.

The annual actuarially determined contribution for the years ended September 30, 2016 and 2015 was \$12.6 million and \$14.1 million, respectively. In 2015, OUC began paying the full actuarially determined contribution directly to the OPEB Trust (Trust). In return, OUC was reimbursed by the Trust in 2016 and 2015, for the actuarially expected costs of retiree coverage, in the amounts of \$8.1 million and \$9.1 million, respectively. The difference between the Trust reimbursement and actual costs paid through operations for 2016 and 2015, of \$0.3 million and \$1.2 million, respectively, was netted against the contribution to the Trust to calculate the net OPEB asset.

The rate of contribution, based on annual covered payroll for the years ended September 30, 2016 and 2015 was 17.6 percent and 19.3 percent, respectively.

The 2003 Medicare Prescription Drug, Improvement, and Modernization Act, effective January 1, 2006, provides a subsidy for prescription drug purchases under Medicare Part D. For Medicare retirees not participating in Medicare Part D due to equivalent drug coverage through an employer-sponsored healthcare plan, the sponsoring employer is eligible to receive a subsidy for the cost of prescription drugs obtained through the plan. For the years ended September 30, 2016 and 2015, these payments totaled \$0.2 million and \$0.5 million, respectively. In accordance with GASB Technical Bulletin 2006-01, "Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D," future projected payments from the Federal Government have not been used to lessen total projected obligations under OUC's health plan.

Note M – 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. The actuarial methods and assumptions used, including techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, were consistent with the long-term perspective of the calculations. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events into the future; as such, these actuarial amounts are subject to continual valuation.

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

	2014	2013
Investment rate of return	7.75%	7.75%
General price inflation rate	3.00%	3.00%
Annual healthcare cost trend rate	7.00%	7.50%
Salary increase	5.00%	5.00%

Annual OPEB cost and net OPEB asset: OUC's annual OPEB cost (expense) is calculated based on the actuarially determined contribution (ADC), in accordance with the parameters of GASB Statement No. 45. In 2016 and 2015, OUC's annual OPEB expense was \$12.7 million and \$14.2 million, respectively.

The ADC 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 through 2025, consistent with the estimated employment tenure of those employees receiving fully subsidized benefits. The net OPEB asset at September 30, 2016 and 2015 was \$0.3 million and \$0.6 million, respectively.

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

(Dollars in thousands)	2016	2015
Actuarially determined contribution (ADC)	\$ 12,628	\$ 14,117
Interest earnings on net OPEB asset	(49)	(149)
Adjustment to ADC	89	245
Annual OPEB expense	\$ 12,668	\$ 14,213
Amount paid to OPEB Trust	\$ 12,628	\$ 14,117
Annual OPEB expense	(12,668)	(14,213)
Excess amount reimbursed from OPEB Trust	(281)	(1,196)
Decrease in net OPEB asset	(321)	(1,292)
Net OPEB asset - beginning of year	628	1,920
Net OPEB asset - end of year	\$ 307	\$ 628

Note M – 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 expense	Current year contributions	Excess amount reimbursed from OPEB trust	Net OPEB Asset	Percentage of annual OPEB cost contributed
2016	\$ 12,668	\$ 12,628	\$ (281)	\$ 307 (1)	97.5%
2015	\$ 14,213	\$ 14,117	\$ (1,196)	\$ 628 (1)	90.9%
2014	\$ 13,636	\$ 13,558	\$ -	\$ 1,920	99.4%

(1) In 2016 and 2015, OUC was reimbursed by the Trust for the actuarially expected costs of retiree coverage. The difference between the Trust reimbursement and the actual OPEB costs paid through operations was netted against the contribution to the Trust.

Funded status and funding progress: At September 30, 2016, the plan was 51.5 percent funded. The actuarial accrued liability for benefits was \$159.6 million, and the actuarial value of the plan assets was \$82.2 million for an unfunded actuarial accrued liability (UAAL) of \$77.4 million. Covered payroll (including 230 employees receiving fully subsidized benefits and 804 employees receiving implicit subsidy benefits) was \$71.9 million, and the ratio of the UAAL to the covered payroll was 107.7 percent.

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

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

Note N – Hedging Activities

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

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

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

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

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

Note N – Hedging Activities (continued)

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

Interest rate derivatives: As of September 30, 2016 and 2015, OUC's interest rate swaps have been determined to be effective and, as such, changes in the fair value of these derivatives were included on the Statements of Net Position.

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

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

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

(1) Additional interest rate swap information is included in Note H - Long-Term Debt.

Note N – Hedging Activities (continued)

Fuel derivatives: Fuel derivatives are settled in the period in which the option expires and are recognized as fuel expenses on the Statements of Revenues, Expenses and Changes in Net Position. Settlement gains and losses for the year ended September 30, 2016 and 2015 for fuel-related derivatives resulted in net losses of \$17.1 million and \$8.2 million, respectively. The outstanding fuel derivatives were determined to be effective, and as such, the changes in fair value have been recorded on the Statements of Net Position as either a Deferred outflow of resources or Deferred inflow of resources until such time as the contracts mature. The following is a summary of the fuel-related derivative transactions for the years ended September 30:

(Dollars in thousands)	2015 Fair value	Change in fair value	2016 Fair value	2016 Notional amount	Volume
Natural gas	\$ -	\$ 2,040	\$ 2,040	633	MMBTU
Crude oil	-	-	-	-	MBBLS
Total current fuel hedge assets	<u>-</u>	<u>2,040</u>	<u>2,040</u>		
Natural gas	-	461	461	235	MMBTU
Crude oil	-	-	-	-	MBBLS
Heating Oil	-	80	80	21	BBL
Total non-current fuel hedge assets	<u>-</u>	<u>541</u>	<u>541</u>		
Accumulated increase in fair value hedging derivatives	<u>\$ -</u>	<u>\$ 2,581</u>	<u>\$ 2,581</u>		
Natural gas	\$ (8,149)	\$ 5,659	\$ (2,490)	602	MMBTU
Crude oil	(699)	78	(621)	27	MBBLS
Total current fuel hedge liabilities	<u>(8,848)</u>	<u>5,737</u>	<u>(3,111)</u>		
Natural gas	(5,082)	2,206	(2,876)	1,142	MMBTU
Crude oil	(535)	525	(10)	6	MBBLS
Total non-current fuel hedge liabilities	<u>(5,617)</u>	<u>2,731</u>	<u>(2,886)</u>		
Accumulated decrease in fair value hedging derivatives	<u>\$ (14,465)</u>	<u>\$ 8,468</u>	<u>\$ (5,997)</u>		

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

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

Note O – Subsequent Event

Hurricane Matthew

In October 2016, OUC’s service territories in Orange and Osceola counties were impacted by Hurricane Matthew, a category 3 storm that traveled up Florida’s Atlantic coast. As a result, nearly 40,000 customers experienced a temporary loss of power and several structures were damaged from the high winds. In addition, OUC’s Indian River generation facility, located in Brevard County, sustained structural damage during the event. Emergency preparation and transmission and distribution restoration costs are estimated to be approximately \$6.0 million.

OUC has attended briefings with the Federal Emergency Management Agency (FEMA) and is preparing to begin the cost reimbursement process through FEMA Grant DR-4283, which allows recovery of 87.5 percent of eligible costs (75.0 percent - Federal and 12.5 percent - State of Florida).

Pension Plan

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

(Dollars in thousands)	Total pension liability	Plan fiduciary net position	Net pension liability	Plan fiduciary net position as a percentage of total pension liability	Covered payroll	Net pension liability as a percentage of covered payroll
2016	\$ 460,084	\$ 327,273	\$ 132,811	71.1%	\$ 77,667	171.0%
2015	\$ 421,559	\$ 328,991	\$ 92,568	78.0%	\$ 74,653	124.0%

Benefit changes: There were no benefit revisions approved since September 30, 2015, the last actuarial valuation. In 2014, the plan was amended to begin paying past and future cost of living adjustments (COLA) from the plan, as of January 1, 2015.

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

The investment return rate was 7.25 percent and 7.75 percent as of September 30, 2015 and 2014, respectively. Because the plan fiduciary net position was projected to be available to make all projected benefit payments, the single discount rate was also 7.25 percent and 7.75 percent as of September 30, 2015 and 2014, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

Pension Plan (continued)

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

(Dollars in thousands)	Actuarially determined contribution	Actual contribution	Contribution deficiency / excess (1)	Covered payroll (2)	Contributions as a percentage of covered payroll
2016 (3)	\$ 18,322	\$ 17,803	\$ 519	\$ 77,667	22.9%
2015	\$ 20,500	\$ 18,573	\$ 1,927	\$ 74,653	24.9%
2014	\$ 21,184	\$ 21,198	\$ (14)	\$ 72,252	29.3%
2013	\$ 18,893	\$ 17,729	\$ 1,164	\$ 70,147	25.3%
2012	\$ 17,120	\$ 16,151	\$ 969	\$ 73,230	22.1%
2011	\$ 17,162	\$ 15,726	\$ 1,436	\$ 69,967	22.5%
2010	\$ 15,012	\$ 15,020	\$ (8)	\$ 28,964	51.9%
2009	\$ 9,970	\$ 10,249	\$ (279)	\$ 30,479	33.6%
2008	\$ 5,665	\$ 5,907	\$ (242)	\$ 30,981	19.1%
2007	\$ 5,872	\$ 6,020	\$ (148)	\$ 31,686	19.0%

(1) Funding requirements were adjusted to include approved ad hoc COLA benefits provided for the periods of 2001 to 2013 and paid outside the plan on a pay-as-you-go basis through December 31, 2014. As a result, the funding percentage was affected for these benefits. Effective January 1, 2015, the Plan was amended to begin paying these benefits, as well as future COLA benefits, through the Plan. The actual employer contribution did not include ad hoc COLA payments paid to beneficiaries outside the Trust. Contributions paid inside and outside the Trust exceeded the required contribution. This excess was treated as an overpayment for the fiscal years ended September 30, 2015 and 2014 and was used to offset the required contributions for the fiscal years ended September 30, 2016 and 2015.

(2) Based on GASB Statement No. 82, "Pension Issues," implemented in 2015, covered payroll is defined as the payroll on which contributions to a pension plan are based. In 2011, covered payroll increased due to the establishment of the cash balance pension offering in addition to the traditional defined benefit offering.

(3) The actuarially determined contribution for the year ended September 30, 2016 was calculated as of October 1, 2014, using the following assumptions:

Actuarial cost method: Entry Age Normal

Amortization method and Remaining amortization period: Level dollar, closed and 20 years

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

Inflation: 2.5 percent

Salary increases: 5.0 percent

Investment rate of return: 7.75 percent

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

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

REQUIRED SUPPLEMENTARY INFORMATION

Other Post-Employment Benefits Plan

The following schedule presents multi-year trend information that approximates the funded status of the Other Post-Employment Benefits Plan as of October 1, 2014. This schedule has been prepared using the entry age normal cost actuarial method, which was also used to prepare OUC's actuarial valuation.

Actuarial valuation date (1)	Schedule of funding progress (Dollars in thousands)						UAAAL as a % of covered payroll ((b - a) / c)
	Actuarial value of assets (a)	Actuarial accrued liability (AAL) - entry age (b)	Unfunded AAL (UAAL) (b - a)	Funded ratio (a / b)	Covered payroll (c)		
10/1/2014	\$ 82,238	\$ 159,619	\$ 77,381	51.5%	\$ 71,856	107.7%	
10/1/2013	\$ 68,728	\$ 166,882 (2)	\$ 98,154	41.2%	\$ 72,990	134.5%	
10/1/2012	\$ 55,322	\$ 188,470	\$ 133,148	29.4%	\$ 70,692	188.3%	

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

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



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

To Management and the Commissioners of Orlando Utilities Commission

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Orlando Utilities Commission (OUC), which comprise the statement of net position as of September 30, 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2016.

Internal Control Over Financial Reporting

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

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

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



Compliance and Other Matters

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

Purpose of this Report

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

Ernst & Young LLP

December 8, 2016



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