

ORANGE COUNTY WATER UTILITIES SYSTEM
ORANGE COUNTY, FLORIDA
ANNUAL FINANCIAL REPORT
for the years ended September 30, 2015 and 2014

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Report of Independent Auditor

To the Honorable County Mayor and
Board of County Commissioners of
Orange County, Florida:

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Orange County Water Utilities System of Orange County, Florida (the "System") as of and for the years ended September 30, 2015 and 2014, and the related notes to the 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 accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from 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 of America 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 the Orange County Water Utilities System of Orange County, Florida as of September 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note N to the to the basic financial statements, the System implemented the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date – an Amendment of GASB Statement No. 68*, effective October 1, 2013. Our opinion is not modified with respect to this matter.

As discussed in Note A to the financial statements, the financial statements referred to above present only the System and do not purport to, and do not, present fairly the financial position of Orange County, Florida, as of September 30, 2015 and 2014, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The Schedule of Budgeted Revenues and Expenses Compared to Actual, Loan Coverage Computation and Customer Statistics are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Schedule of Budgeted Revenues and Expenses Compared to Actual and Loan Coverage Computation have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Budgeted Revenues and Expenses Compared to Actual and Loan Coverage Computation are fairly stated in all material respects in relation to the basic financial statements as a whole. The Customer Statistics has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

As discussed in Note A, the System is administered by the Orange County, Florida Board of County Commissioners, for which, in accordance with *Government Auditing Standards*, a report is issued which includes our consideration of the System's internal control over financial reporting and 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 the System's internal control over financial reporting and compliance.



Orlando, Florida
April 15, 2016

**ORANGE COUNTY WATER UTILITIES SYSTEM
STATEMENTS OF NET POSITION
September 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>		
Current assets:		
Cash and cash equivalents	\$ 57,811,080	\$ 43,923,974
Accrued interest receivable	163,257	256,086
Accounts receivable	15,891,210	17,602,126
Less allowance for doubtful accounts	(266,494)	(174,742)
Due from other governmental agencies	540,689	-
Inventories and prepaid costs	3,261,446	2,747,109
Restricted cash and cash equivalents	9,539,521	36,116,163
Total current assets	86,940,709	100,470,716
Noncurrent assets:		
Restricted cash and cash equivalents	-	8,175,425
Accounts receivable	1,085,007	1,487,029
Prepaid costs	10,425,617	23,147,908
Nondepreciable capital assets	285,021,361	289,662,626
Depreciable capital assets, net	971,691,069	859,080,178
Total noncurrent assets	1,268,223,054	1,181,553,166
Total assets	1,355,163,763	1,282,023,882
Deferred outflows of resources:		
Related to pensions	7,794,037	2,171,604
Total assets and deferred outflows of resources	\$ 1,362,957,800	\$ 1,284,195,486
<u>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 30,264,667	\$ 30,117,923
Due to other governmental agencies	225,472	328,625
Net pension liability	430,543	362,065
Payable from restricted assets:		
Accrued interest payable	62,187	144,327
Loans payable	1,956,451	1,678,633
Revenue bonds payable	-	3,800,000
Customer deposits	8,535,774	8,101,899
Total current liabilities	41,475,094	44,533,472
Noncurrent liabilities:		
Compensated absences payable	1,719,337	1,793,165
Loans payable	42,144,365	22,146,518
Net pension liability	22,788,393	16,069,983
Total noncurrent liabilities	66,652,095	40,009,666
Total liabilities	108,127,189	84,543,138
Deferred inflows of resources:		
Related to pensions	7,606,830	10,429,773
Total liabilities and deferred inflows of resources	115,734,019	94,972,911
<u>NET POSITION</u>		
Net investment in capital assets	1,194,735,422	1,102,133,446
Restricted for:		
Debt service	941,560	4,694,252
Operating reserve	-	31,351,110
Unrestricted	51,546,799	51,043,767
Total net position	1,247,223,781	1,189,222,575
Total liabilities, deferred inflows of resources and net position	\$ 1,362,957,800	\$ 1,284,195,486

See accompanying notes to financial statements.

ORANGE COUNTY WATER UTILITIES SYSTEM
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
for the years ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Wastewater service	\$ 114,901,425	\$ 110,105,543
Water service	45,736,737	44,936,715
Miscellaneous	4,701,243	6,178,129
	<u>165,339,405</u>	<u>161,220,387</u>
Operating and maintenance expenses:		
Personal services	45,191,375	43,134,329
Contractual services	27,296,056	28,317,296
Materials and supplies	6,340,977	5,656,554
Utilities	13,856,325	13,422,726
Repairs and maintenance	16,526,959	16,843,331
Other expenses	6,709,427	5,901,602
Pension liability adjustment expense	(1,658,488)	(1,204,247)
	<u>114,262,631</u>	<u>112,071,591</u>
Operating income before depreciation and amortization	51,076,774	49,148,796
Depreciation and amortization	<u>70,440,241</u>	<u>67,174,670</u>
Operating loss	<u>(19,363,467)</u>	<u>(18,025,874)</u>
Nonoperating revenues (expenses):		
Interest revenue	1,526,470	412,829
Interest expense and fiscal charges	(831,447)	(376,632)
Loss on disposal of assets	(365,730)	(177,763)
	<u>329,293</u>	<u>(141,566)</u>
Loss before contributions and transfers	(19,034,174)	(18,167,440)
Capital contributions	84,435,380	57,444,970
Transfer out	<u>(7,400,000)</u>	<u>(7,600,000)</u>
Change in net position	58,001,206	31,677,530
Total net position, October 1	<u>1,189,222,575</u>	<u>1,183,439,509</u>
Restatement	<u>-</u>	<u>(25,894,464)</u>
Total net position, October 1, as restated	<u>1,189,222,575</u>	<u>1,157,545,045</u>
Total net position, September 30	<u>\$ 1,247,223,781</u>	<u>\$ 1,189,222,575</u>

See accompanying notes to financial statements.

ORANGE COUNTY WATER UTILITIES SYSTEM
STATEMENTS OF CASH FLOWS
for the years ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from customers	\$ 166,576,175	\$ 162,712,762
Cash payments to suppliers for goods and services	(57,218,644)	(70,531,680)
Cash payments to employees for services	(44,923,525)	(42,948,623)
	64,434,006	49,232,459
Net cash provided by operating activities		
Cash flows from noncapital financing activities:		
Transfer out	(7,400,000)	(7,600,000)
	(7,400,000)	(7,600,000)
Net cash used by noncapital financing activities		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(123,332,116)	(72,419,924)
Principal paid on long-term debt	(5,107,457)	(4,576,805)
Interest and fees paid on long-term debt	(702,847)	(785,520)
Capital contributions	27,682,763	24,740,499
Proceeds from state revolving fund loan	21,280,722	10,663,642
Proceeds from capital grant	525,559	-
Proceeds from disposition of assets	135,110	171,252
	(79,518,266)	(42,206,856)
Net cash used by capital and related financing activities		
Cash flows from investing activities:		
Interest on investments	1,619,299	390,944
	1,619,299	390,944
Net cash provided by investing activities		
Net decrease in cash and cash equivalents	(20,864,961)	(183,453)
Cash and cash equivalents, October 1	88,215,562	88,399,015
Cash and cash equivalents, September 30	\$ 67,350,601	\$ 88,215,562
Classified as:		
Current assets	\$ 57,811,080	\$ 43,923,974
Current assets, restricted	9,539,521	36,116,163
Noncurrent assets, restricted	-	8,175,425
	\$ 67,350,601	\$ 88,215,562
Total	\$ 67,350,601	\$ 88,215,562

See accompanying notes to financial statements.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM
STATEMENTS OF CASH FLOWS, Continued
for the years ended September 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (19,363,467)	\$ (18,025,874)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	70,440,241	67,174,670
Pension expense adjustment	(1,658,488)	(1,204,247)
Decrease (increase) in assets:		
Accounts receivable	1,744,906	(1,062,615)
Allowance for doubtful accounts	91,752	30,118
Due from other governmental agencies	(540,689)	2,299,918
Due from other funds	-	115
Inventories and prepaid costs	12,207,954	757,064
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	1,181,075	(1,023,606)
Due to other governmental agencies	(103,153)	(367,480)
Customer deposits	433,875	654,396
Total adjustments	<u>83,797,473</u>	<u>67,258,333</u>
Net cash provided by operating activities	<u>\$ 64,434,006</u>	<u>\$ 49,232,459</u>
Noncash investing, capital and financing activities:		
Capital assets donated by developers	<u>\$ 56,752,617</u>	<u>\$ 32,704,470</u>

See accompanying notes to financial statements.

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended September 30, 2015 and 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose:

The Orange County Water Utilities System (the System) is owned and operated by the Orange County Board of County Commissioners, Orange County, Florida, an elected body (the Board). The System provides water and wastewater treatment service for areas within Orange County (County). The Orange County Comptroller, an elected official, provides the accounting and financial reporting functions for the System. The System is operated as a self-supporting governmental operation and is accounted for as an enterprise fund of the Board.

Basis of Presentation:

The System uses the enterprise fund concept of accounting. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that expenses of services provided to customers, as well as depreciation, amortization, and interest, be recovered primarily through user charges.

Basis of Accounting:

The financial statements have been prepared on an accrual basis. Revenues are recognized when earned and expenses are recognized when incurred. In addition, the financial statements are prepared in conformity with accounting principles generally accepted in the United States of America.

Budgetary Data:

Florida Statutes require the Board to adopt an annual budget for the System on an accrual basis. Revenues and expenses are budgeted on a basis consistent with generally accepted accounting principles except that depreciation, amortization, noncash capital contributions, gains/losses on the disposal of assets, and pension liability adjustment expense are not budgeted, capitalized net interest costs on funds borrowed to finance the construction of capital assets are budgeted as interest income and interest expense, capital outlays are budgeted as expense, and debt proceeds and principal payments are respectively budgeted as revenue and expense. Beginning net position and expense reserves are also included in the adopted budget. Encumbrance accounting, under which purchase orders are recorded as a reservation of available budget, is practiced during the year. At year end, outstanding encumbrances lapse and are not presented in the financial statements.

The annual budget is subject to amendment during the year. The County Administrator is authorized to approve transfers of appropriations between individual expense accounts. The Board, by motion, may approve transfers of appropriations between a reserve account and an expense account. The Board, by resolution recorded in the minutes, may add to the overall appropriations of the System due to a financing source unanticipated when the original budget was adopted or due to increased revenues above the level contemplated in the original budget.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Amendments to overall appropriations for any other reasons also require a public hearing prior to adoption. There were no amendments during the 2015 or the 2014 fiscal years which were extraordinary or unusual in cause or effect.

Cash and Cash Equivalents and Investments:

The System's cash and cash equivalents consist of cash on hand, demand and time deposits, and highly liquid investments (including restricted assets) with a maturity of 90 days or less when purchased. With the exception of cash balances held for debt service requirements, the System's cash balances are pooled with other funds of the County for investment purposes. The County investment pool allows all participating funds the ability to deposit and withdraw cash daily as needed, and therefore all balances representing participants' equity in the investments pool are classified as cash equivalents for purposes of these statements. Earnings from the pooled investments are allocated to the System based on cash participation in the pool. All investments are stated at fair value. Investment fair values are based on quoted market prices, except for bankers' acceptances and commercial paper, which are based on accreted value. Mutual funds, which are SEC 2a-7 investment pools, are stated at share price which is substantially the same as fair value.

Accounts Receivable and Revenue Recognition:

Water and wastewater service fee revenues are recognized when earned, with an allowance for accounts considered uncollectible. The System records the amount of earned, but unbilled, service revenues. The amount of unbilled revenues included in accounts receivable was \$7,074,682 and \$6,670,355 as of September 30, 2015 and 2014, respectively. The System also records receivables for special assessments on certain construction projects. The amount of special assessments receivable included in accounts receivable was \$1,594,854 and \$1,999,185 as of September 30, 2015 and 2014, respectively. Of these amounts, \$509,847 and \$512,156, respectively, are expected to be collected within one year and thus is included in current accounts receivable; the remainder is reported as noncurrent.

Inventories and Prepaid Costs:

Inventories and prepaid costs consist of the following: inventory of parts and materials, valued at lower of cost (determined using the moving average method) or market; deposits paid for future construction projects; and the portion of operating permit fees which is applicable to future periods. Prepaid permit fees are allocated to operating periods over the life of the permit, using the straight-line method.

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Restricted Assets:

The use of certain System assets is restricted by specific provisions of bond resolutions (see Note F) and agreements with various parties. Assets so designated are identified as restricted assets on the statements of net position. It is the System's policy to first apply restricted assets when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Restricted assets classified as noncurrent are those which are for acquisition or construction of capital assets, for liquidation of long-term debts, or for other than current operations.

Capital Assets:

Utility Plant is stated at cost when purchased or constructed, or at fair market value at the time of acquisition when constructed by others and donated to the System. The System capitalizes payments for plant additions and improvements. The thresholds for capitalization of assets range from \$500 to \$25,000, depending on the asset class. Expenses for plant maintenance and repairs are charged as operating expense. Projects under construction are retained in Construction in Progress and are transferred into Utility Plant when placed in service.

Provisions for depreciation are made using the straight-line method, based upon the following estimated useful lives of the assets:

Plant	40 years
Pump stations	30 years
Transmission and distribution lines	10-20 years
Machinery and equipment	3-15 years

The System capitalizes costs associated with various intangible assets. These include initial payments under agreements with nearby utilities for the right to dispose of wastewater flows and payments to other utilities for the right to use certain water and wastewater lines. These capitalized costs are being amortized using the straight-line method over the expected lives of the assets, which is 3 to 40 years for the wastewater disposal agreements and 5 to 15 years for the rights to use lines. Additionally, the System capitalizes the value of purchased and donated permanent land easements.

Deferred Outflows and Inflows of Resources:

The System presents amounts related to pensions as deferred outflows of resources and deferred inflows of resources.

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Accounts Payable and Accrued Liabilities:

Current liabilities reported as accounts payable and accrued liabilities were comprised of the following components at September 30:

	2015	2014
Due to vendors	\$ 24,465,890	\$ 24,660,824
Salaries and benefits payable	5,798,777	5,457,099
Total	\$ 30,264,667	\$ 30,117,923

Compensated Absences:

The System accrues a liability, with a corresponding charge to current operations, for employees' rights to receive compensation for future absences to be subsequently taken or paid at point of employment termination in accordance with GASB Statement No. 16. The liability for compensated absences was \$5,187,337 and \$5,129,415 at September 30, 2015 and 2014, respectively. Of these amounts, \$3,468,000 and \$3,336,250, respectively, is expected to be paid out within one year and thus is included in current liabilities; the remainder is reported as noncurrent. The current portion is based on the average annual amount of leave paid over the preceding three years.

Operating and Nonoperating Revenues:

The System reports as operating revenues all user fees generated through water and wastewater treatment services. Other revenues, such as non-capital grants and interest revenue, are classified as nonoperating.

Capitalization of Interest:

In accordance with GASB Statement No. 62, the System capitalizes net interest costs on funds borrowed to finance the construction of capital assets. As there was no bonded debt outstanding during Fiscal Year 2015, there was no interest capitalized. For the fiscal year ended September 30, 2014, the amount of net interest costs capitalized was \$343,586.

The total interest cost for the System was \$768,021 and \$708,746 for the fiscal years ended September 30, 2015 and 2014, respectively.

Bond Amortization Costs:

Bond premium, discount, and costs associated with issuance of long-term debt are being amortized over the life of the debt using the interest method. Some of these costs are capitalized as noted above. Also, in accordance with GASB Statement No. 23, the difference between the reacquisition price and the net carrying amount of defeased debt in refunding

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**ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

transactions is being amortized over the shorter of the life of the old debt or the life of the new debt using the interest method. Amortization of bond premium and the deferred amount on refunding which are not capitalized are recorded as components of interest expense. Amortization of these bond costs for the fiscal years ended September 30, 2015 and 2014 was as follows:

	<u>2015</u>	<u>2014</u>
Amortization of bond premium	\$ -	\$ (3,019)
Portion capitalized	-	(3,019)
 Amortization of deferred amount on refundings	 -	 56,443
Portion capitalized	-	56,443

Capital Contributions:

Capital contributions revenue represents amounts received for connection fees charged to customers for initial hook-up to the System's water and wastewater lines, or fixed assets donated by developers. Pursuant to County Ordinance No. 92-10, connection fees are discounted for eligible affordable housing projects. Total cumulative affordable housing discounts given on connection fees were \$10,510,933 as of September 30, 2015 and 2014. Additionally, pursuant to County Ordinance No. 94-21, water and wastewater connection fees are discounted for each residential lot that receives service from a Reclaimed Water Distribution System. Total cumulative discounts related to this ordinance were \$8,659,860 and \$7,554,238 as of September 30, 2015 and 2014, respectively.

New Accounting Pronouncements:

Effective October 1, 2013, the Board adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Implementation of these statements resulted in a restatement of beginning net position, the reporting of the System's net pension liability and the reporting of related deferred outflows of resources and deferred inflows of resources.

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ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014

B. DEPOSIT AND INVESTMENT RISK

As of September 30, 2015 and 2014, the carrying value of the System's deposits and investments, with their respective Standard & Poor's and Moody's Investors Service credit ratings, were as follows:

<u>Investment Type</u>	<u>2015</u>	<u>2014</u>	<u>Credit Rating</u>
Demand and time deposits	\$ 1,930,947	\$ 3,117,444	NA
County investment pool:			
U.S. Treasury Bills	3,476,627	1,826,127	A-1+/P-1
U.S. Treasury Notes	50,740,548	68,939,191	AA+/Aaa
Federal instrumentalities:			
Discount notes	6,725,485	2,190,311	A-1+/P-1
Notes and bonds	-	4,749,773	AA+/Aaa
Money market mutual funds	4,476,994	7,392,716	AAAm/Aaa-mf
Total	<u>\$ 67,350,601</u>	<u>\$ 88,215,562</u>	

The System deposits all cash and investments, with the exception of cash balances for debt service, in the County's investment pool portfolio. Funds required to be provided for debt service are maintained by the System separately from the pooled investments. Investment balances by type, included in the County's investment pool, are presented above based on the System's proportionate share of the investment pool portfolio.

Credit Risk:

The Board's Investment Policy (Policy) limits credit risk by restricting authorized investments to the following: obligations issued or explicitly guaranteed by the U.S. Government (Treasuries), obligations of certain U.S. Government-sponsored Federal instrumentalities (Instrumentalities), direct obligations of states and municipalities, repurchase agreements comprised of Treasuries or Instrumentalities, Florida PRIME administered by the Florida State Board of Administration, commercial paper, bankers' acceptances, bank certificates of deposit or savings accounts, and money market mutual funds (Money Markets). The Policy requires that investments in Instrumentality debt be guaranteed by the full faith and credit of the U. S. Government-sponsored agency, and that investments in Money Markets have a Standard & Poor's rating of AAAm or AAAg. Eligible Money Markets are limited to those comprised of Treasuries.

Concentration of Credit Risk:

Except for Treasuries, the Policy establishes limitations on portfolio composition for all permitted investments, both by investment type and by issuer, in order to control concentration of credit risk. The Policy, which pertains to the overall investment pool portfolio of the Board and is not monitored at the individual fund level, provides that a maximum of

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ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014

B. DEPOSIT AND INVESTMENT RISK, Continued

45% of the portfolio may be invested in any of four specified Instrumentalities, with a limit of 15% of the portfolio invested in any one issuer; and that a maximum of 25% of the portfolio may be invested in Money Markets, with a limit of 10% of the portfolio invested in any one issuer. At September 30, 2015, the System's portion of the Board investment pool portfolio was invested in three authorized Instrumentalities, each of which represented less than five percent of the pool portfolio.

Custodial Credit Risk:

The Policy requires that bank demand and time deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida. At September 30, 2015 and 2014, all of the System's bank deposits were in qualified public depositories.

The Policy requires execution of a third-party custodial safekeeping agreement for all purchased securities, and requires that securities be held in the Board's name. As of September 30, 2015 and 2014, all of the System's investments are held in a bank's trust department in the Board's name.

Interest Rate Risk:

For all investment types, the Policy limits the investment of current operating funds to 13 months. To increase returns and provide diversity, the Policy also provides for the investment of noncurrent (beyond 13 months) operating funds in investments with maturities no longer than 60 months. Noncurrent operating funds are invested in the intermediate term portfolio with a maximum maturity of 36 months, and the noncurrent operating portfolio with a maximum maturity of 60 months. Construction funds and debt service reserve funds may be invested for up to 10 years, subject to debt covenant restrictions and liquidity needs.

The System's investments had weighted average maturities of 19.4 months and 20.4 months at September 30, 2015 and 2014, respectively. The portfolio did not contain any callable securities at September 30, 2015 and 2014. The Money Markets have a weighted average maturity of not more than 60 days.

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ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014

C. RESTRICTED ASSETS

The bond resolutions authorizing the issuance of the System's bonds and provisions of the loan agreements with the State of Florida Department of Environmental Protection require segregation of certain assets into restricted accounts. In addition, the System restricts funds available for repayment of customer deposits. For purposes of the System's bonds, these requirements and related asset restrictions ceased upon final payment during Fiscal Year 2015.

Restricted assets were as follows at September 30, 2015 and September 30, 2014:

	<u>Cash and Cash Equivalents</u>
<u>September 30, 2015:</u>	
Customer deposits	\$ 8,535,774
Loan debt service	243,607
Loan repayment reserve	<u>760,140</u>
Total restricted assets	9,539,521
Less: current portion	<u>9,539,521</u>
Noncurrent portion	<u><u>\$ -</u></u>
<u>September 30, 2014:</u>	
Operation and maintenance reserve	\$ 23,110,483
Net revenues	65,202
Bond principal	3,800,000
Bond interest	90,250
Renewal and replacement	7,921,314
Customer deposits	8,101,899
Rate stabilization	254,111
Loan debt service	188,189
Loan repayment reserve	<u>760,140</u>
Total restricted assets	44,291,588
Less: current portion	<u>36,116,163</u>
Noncurrent portion	<u><u>\$ 8,175,425</u></u>

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014

D. CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2015 and 2014 was as follows:

	Balance 10/1/14	Additions	Reductions	Balance 9/30/15
Capital assets, not being depreciated:				
Land	\$ 99,257,821	\$ 914,140	\$ -	\$ 100,171,961
Construction in progress	190,404,805	112,062,445	(117,617,850)	184,849,400
Total capital assets, not being depreciated	<u>289,662,626</u>	<u>112,976,585</u>	<u>(117,617,850)</u>	<u>285,021,361</u>
Capital assets, being depreciated/amortized:				
Buildings	22,661,949	-	-	22,661,949
Improvements other than buildings	1,695,416,888	156,100,086	-	1,851,516,974
Machinery and equipment	90,247,922	7,823,674	(1,346,698)	96,724,898
Intangible	47,752,888	19,128,344	(318,439)	66,562,793
Total capital assets, being depreciated/amortized	<u>1,856,079,647</u>	<u>183,052,104</u>	<u>(1,665,137)</u>	<u>2,037,466,614</u>
Less accumulated depreciation/amortization for:				
Buildings	(9,221,869)	(684,834)	-	(9,906,703)
Improvements other than buildings	(911,854,713)	(62,275,337)	-	(974,130,050)
Machinery and equipment	(64,428,128)	(6,788,676)	1,345,726	(69,871,078)
Intangible	(11,494,759)	(691,394)	318,439	(11,867,714)
Total accumulated depreciation/amortization	<u>(996,999,469)</u>	<u>(70,440,241)</u>	<u>1,664,165</u>	<u>(1,065,775,545)</u>
Total capital assets, being depreciated/amortized, net	<u>859,080,178</u>	<u>112,611,863</u>	<u>(972)</u>	<u>971,691,069</u>
Total System capital assets, net	<u>\$ 1,148,742,804</u>	<u>\$ 225,588,448</u>	<u>\$ (117,618,822)</u>	<u>\$ 1,256,712,430</u>
	Balance 10/1/13	Additions	Reductions	Balance 9/30/14
Capital assets, not being depreciated:				
Land	\$ 98,744,131	\$ 513,690	\$ -	\$ 99,257,821
Construction in progress	156,191,543	70,379,224	(36,165,962)	190,404,805
Total capital assets, not being depreciated	<u>254,935,674</u>	<u>70,892,914</u>	<u>(36,165,962)</u>	<u>289,662,626</u>
Capital assets, being depreciated/amortized:				
Buildings	22,656,953	4,996	-	22,661,949
Improvements other than buildings	1,633,095,575	62,321,313	-	1,695,416,888
Machinery and equipment	81,593,763	10,835,609	(2,181,450)	90,247,922
Intangible	42,192,971	5,855,346	(295,429)	47,752,888
Total capital assets, being depreciated/amortized	<u>1,779,539,262</u>	<u>79,017,264</u>	<u>(2,476,879)</u>	<u>1,856,079,647</u>
Less accumulated depreciation/amortization for:				
Buildings	(8,538,012)	(683,857)	-	(9,221,869)
Improvements other than buildings	(851,910,278)	(59,944,435)	-	(911,854,713)
Machinery and equipment	(60,818,342)	(5,783,184)	2,173,398	(64,428,128)
Intangible	(11,026,994)	(763,194)	295,429	(11,494,759)
Total accumulated depreciation/amortization	<u>(932,293,626)</u>	<u>(67,174,670)</u>	<u>2,468,827</u>	<u>(996,999,469)</u>
Total capital assets, being depreciated/amortized, net	<u>847,245,636</u>	<u>11,842,594</u>	<u>(8,052)</u>	<u>859,080,178</u>
Total System capital assets, net	<u>\$ 1,102,181,310</u>	<u>\$ 82,735,508</u>	<u>\$ (36,174,014)</u>	<u>\$ 1,148,742,804</u>

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014

E. CHANGES IN LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities (current and noncurrent portions) of the System for the years ended September 30, 2015 and 2014 is as follows:

	Balance 10/1/14	Additions	Reductions	Balance 9/30/15
Compensated absences payable	\$ 5,129,415	\$ 3,786,656	\$ (3,728,734)	\$ 5,187,337
Revenue bonds payable	3,800,000	-	(3,800,000)	-
Loans payable	23,825,151	22,863,688	(2,588,023)	44,100,816
Net pension liability	16,432,048	6,786,888	-	23,218,936
System long-term liabilities, including current portion	<u>\$ 49,186,614</u>	<u>\$ 33,437,232</u>	<u>\$ (10,116,757)</u>	<u>\$ 72,507,089</u>
	Balance 10/1/2013 Restated	Additions	Reductions	Balance 9/30/14
Compensated absences payable	\$ 5,090,430	\$ 3,497,560	\$ (3,458,575)	\$ 5,129,415
Revenue bonds payable	7,420,000	-	(3,620,000)	3,800,000
Less unamortized costs:				
Bond premium	3,019	-	(3,019)	-
Total revenue bonds payable, net of unamortized costs	7,423,019	-	(3,623,019)	3,800,000
Loans payable	14,152,897	10,626,905	(954,651)	23,825,151
Net pension liability	26,505,332	531,706	(10,604,990)	16,432,048
System long-term liabilities, including current portion	<u>\$ 53,171,678</u>	<u>\$ 14,656,171</u>	<u>\$ (18,641,235)</u>	<u>\$ 49,186,614</u>

F. REVENUE BONDS PAYABLE

On February 19, 1998, the Board issued Water Utilities System Refunding Revenue Bonds, Series 1998 in the amount of \$50,675,000 for the purpose of advance refunding a portion of the Water Utilities System Revenue Bonds, Series 1992 maturing in the years October 1, 2002 through October 1, 2017, and financing certain costs of issuance of the Series 1998 Bonds.

Series 1998 Bonds maturing on or after October 1, 2009 are subject to redemption prior to their stated date of maturity, at the option of the Board, in whole or in part on any date, by lot within maturities, on and after October 1, 2008, at the redemption price of 100% plus accrued interest to the redemption date.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014**

F. REVENUE BONDS PAYABLE, Continued

On October 1, 2008, the System used \$19,144,550 of cash on hand to currently refund bonds maturing in 2010, 2011 and 2017, including amounts subject to mandatory redemption for a total amount of \$18,955,000 of outstanding Water Utilities System Refunding Revenue Bonds, Series 1998 and a call premium in the amount of \$189,550. The amount of debt refunded, net of associated unamortized costs, was \$17,532,990. Final payment on the bonds occurred on October 1, 2014.

The following is a summary of revenue bonds payable as of September 30, 2015 and 2014:

	September 30	
	2015	2014
<u>\$50,675,000 Water Utilities System Refunding Revenue Bonds, Series 1998:</u>		
Current interest serial bonds, due October 1, 2014, with interest at 4.75%	\$ -	\$ 3,800,000
Classified as:		
Amounts displayed as liabilities:		
Revenue bonds payable, current portion (payable from restricted assets)	-	3,800,000
Total	\$ -	\$ 3,800,000

The total principal and interest remaining to be paid on this series was \$3,890,250 as of September 30, 2014. Principal and interest paid during Fiscal Year 2015 was \$3,890,250 and total pledged revenue was \$47,544,303 for the fiscal year ended September 30, 2014.

The Series 1998 Bonds were payable solely from, and secured by a lien on, a pledge of all of the net operating revenues and investment earnings deposited in the Net Revenues Account. The Board reserved the right to additionally pledge connection fees, special assessments and stormwater revenues as security for the bonds. The Board was not obligated to pay the Series 1998 Bonds or the interest thereon except from the sources mentioned above. Neither the full faith and credit, the taxing power, nor any physical properties of the Board was pledged to the payment of the Series 1998 Bonds or the interest thereon.

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014

F. REVENUE BONDS PAYABLE, Continued

While the Series 1998 Bonds were outstanding, the Board covenanted to establish, fix, maintain and collect rates, fees and other charges for services fully sufficient at all times to provide for 100% of the expenses of operation and maintenance of the System, as well as remedy all deficits from prior fiscal years, and either:

- (a) produce net operating revenues (excluding connection fees, special assessments and stormwater revenues) in each fiscal year which equal at least 110% of the annual debt service requirement and at least 100% of any required deposits to certain accounts, or
- (b) produce net operating revenues in each fiscal year which will equal at least 120% of the annual debt service requirement and, excluding connection fees, will equal at least 105% of the annual debt service requirement, and at least 100% of any required deposits to certain accounts.

The bond resolution established certain accounts and specifies the order in which revenues were to be deposited into these accounts, while the Series 1998 Bonds were outstanding. The purposes of the various accounts, in order of priority of weekly or monthly revenue transfers, were as follows:

Revenue Account - Deposit all operating revenues of the System, including special assessments and stormwater revenues when and if pledged to the payment of the bonds.

Connection Fee Account - Deposit all connection fees charged and collected by the System and interest earnings thereon, when and if pledged to the payment of the bonds.

Operation and Maintenance Account - Deposit weekly from the Revenue Account amounts sufficient to provide one week's expenses of operation and maintenance plus the maintenance of a reserve equal to 60 days' anticipated expenses of operation and maintenance. Moneys shall be used solely for the payment of the expenses of operation and maintenance plus any other extraordinary expenditures which must be made on an emergency basis to keep the System operating when funds are not available for such in the Renewal and Replacement Account or the Reserve Revenue Account.

Net Revenues Account - Deposit monthly from the Revenue Account all net operating revenues and investment earnings of the System excluding earnings on the Connection Fee Account and Bond Construction Account.

Interest Account - Deposit monthly from the Net Revenues Account an amount which is equal to one-sixth of the interest falling due on the next succeeding interest payment date.

Principal Account - Deposit monthly from the Net Revenues Account an amount which is equal to one-twelfth of the principal falling due on the next succeeding principal payment date.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014**

F. REVENUE BONDS PAYABLE, Continued

Redemption Account - Deposit monthly from the Net Revenues Account an amount sufficient to redeem term bonds prior to their maturity, including any premiums that would be payable.

Bond Reserve Account - Deposit monthly from the Net Revenues Account an amount sufficient to reimburse the provider of the Reserve Account surety bond for any amounts paid. The Reserve Account will be used to prevent default in the payment of principal and interest payments that the System is unable to make for any reason.

Stormwater Operation and Maintenance Account - Deposit monthly from the Net Revenues Account an amount to fund the operations of the Stormwater Management System, as may be established by the Board and adopted by resolution at some future point.

Rate Stabilization Account - Deposit monthly from the Net Revenues Account an amount to be accumulated and used for operating expenses which would otherwise be paid from increased rates. The amount to be deposited is based on the recommendation of the Director of Utilities, and is submitted as a line item in the County annual budget.

Renewal and Replacement Account - Deposit monthly from the Net Revenues Account an amount which is at least equal to one-twelfth of five percent of the operating revenues and investment earnings of the System excluding earnings on the Connection Fee Account and Bond Construction Account received by the System in the preceding fiscal year whenever necessary to increase the amount therein to a sum not less than five percent of the operating revenues received by the System in said preceding fiscal year. Moneys shall be used to supplement any insufficiency in the Reserve Revenue Account to meet an emergency caused by some extraordinary occurrence or to supplement any insufficiency in the Interest Account, the Redemption Account, or the Principal Account which still exists after the Bond Reserve Account has been drawn down. Otherwise, money shall be used only for the costs of unusual or extraordinary maintenance, renewals and replacements, acquiring and installing new or replacement equipment, or providing a local match required to participate in Federal or State grants or assistance programs related to the System.

Reserve Revenue Account - Any moneys remaining in the Net Revenues Account after all payments hereinabove required have been made are to be transferred to the Reserve Revenue Account. Moneys in this account are to be used for the following purposes and in the following order of priority:

- (a) To make necessary payments required by arbitrage rebate requirements;
- (b) To restore the Interest Account, the Principal Account, the Redemption Account, the Bond Reserve Account, the Rate Stabilization Account, and the Renewal and Replacement Account to the respective amounts required at that time to be therein;

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014**

F. REVENUE BONDS PAYABLE, Continued

- (c) To the payment of any required monthly state loan requirement pursuant to any State Pollution Control Loan Agreement;
- (d) To the payment of any and all governmental charges and assessments which may then be due and owing;
- (e) To the payment of costs for acquisitions, betterments, extensions, repairs or replacements or other capital improvements to the System deemed necessary;
- (f) To the purchase of bonds or other obligations payable from pledged revenues of the System, at the option of the Board;
- (g) To the redemption of bonds or other obligations payable from pledged revenues prior to maturity, at the option of the Board;
- (h) To the payment of debt service on subordinated debt;
- (i) To the payment of excess payments under an Interest Rate Swap Agreement;
- (j) To any lawful purpose of the System;
- (k) To any lawful purpose of the County as determined by resolution and adopted by a majority plus one member of the Board.

G. LOANS PAYABLE

In June 2002, the County began participating in the Clean Water State Revolving Fund Construction Loan Program with the State of Florida Department of Environmental Protection. Loan proceeds are being utilized by the System to finance various construction projects of the water and wastewater system. Pledged revenues are those pledged as security by the System in its bond resolution, after payment of operation and maintenance expenses and satisfaction of the yearly payment obligation for outstanding System revenue bonds. The Board has covenanted to maintain rates and charges for System services which will be sufficient in each fiscal year, after payment of senior and parity obligations, to provide pledged revenues of at least 1.15 times the sum of all Loan Program payments due in the fiscal year. Following is a description of each of the loans outstanding as of September 30, 2015.

Loan #69214S was for construction of a central wastewater collection system in the Holden Heights area. The initial loan approved in June 2002 was for a total available amount of \$8,457,900. This was reduced in Fiscal Year 2008 to the actual amount drawn of \$6,241,215

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014

G. LOANS PAYABLE, Continued

to reflect the final cost of Phase 2 of the construction project. The principal balance outstanding was \$3,452,554 and \$3,727,040 as of September 30, 2015 and 2014, respectively. For this loan, semiannual payments of \$193,774, including interest at 3.09%, are due on March 15 and September 15 of each year, through March 15, 2026.

In August 2006, loan #692150 was approved for a subsequent phase of the Holden Heights project, in the total available amount of \$8,339,312. This was reduced in Fiscal Year 2011 to the actual amount drawn of \$6,540,920 to reflect the final cost of Phase 3 of the construction project. The principal balance outstanding was \$4,762,230 and \$5,040,310 as of September 30, 2015 and 2014, respectively. For this loan, semiannual payments of \$204,412, including interest at 2.63%, are due on January 15 and July 15 of each year, through July 15, 2029.

In March 2011, loan #480360 was approved for the Lake Lawne Gravity Sewer Rehabilitation Project in the initial amount of \$1,756,255. This was reduced in Fiscal Year 2013 to the actual amount drawn of \$1,734,755 to reflect the final cost of the construction project. The principal balance outstanding was \$1,469,977 and \$1,540,966 as of September 30, 2015 and 2014, respectively. For this loan, semiannual payments of \$54,765, including interest of 2.53%, are due on February 15 and August 15 of each year through February 15, 2032.

In January 2012, loan #480310 was approved for the South and Eastern Area Reclaimed Water Main Project in the initial amount of \$5,064,998. This was reduced in Fiscal Year 2013 to \$3,405,560 to reflect the approved cost of the construction project. The first draw on this loan was received in February 2014. The principal balance outstanding was \$1,544,004 and \$1,354,293 as of September 30, 2015 and 2014, respectively. For this loan, semiannual payments of \$107,500, including interest of 2.38%, are due on March 15 and September 15 of each year, through September 15, 2033.

In January 2012, loan #480320 was approved for the East Southwood Gravity Sewer and Water System Project in the initial amount of \$4,360,690. This was reduced in Fiscal Year 2015 to the actual amount drawn of \$2,946,957 to reflect the final cost of the construction project. The first draw on this loan was received in June 2013. The principal balance outstanding was \$2,571,918 and \$125,889 as of September 30, 2015 and 2014, respectively. For this loan, semiannual payments of \$88,252, including interest of 2.38%, are due on March 15 and September 15 through September 15, 2033.

In January 2012, loan #480330 was approved for the West Southwood Gravity Sewer and Water System Project in the initial amount of \$2,655,957. This was reduced in Fiscal Year 2013 to the actual amount drawn of \$2,068,169 to reflect the final cost of the construction contract. The principal balance outstanding was \$1,774,652 and \$1,858,458 as of September 30, 2015 and 2014, respectively. For this loan, semiannual payments of \$63,771, including interest of 2.38%, are due on March 15 and September 15 through September 15, 2032.

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ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014

G. LOANS PAYABLE, Continued

In January 2012, loan #480380 was approved for the Huggins Street Pump Station Project in the initial amount of \$3,981,328. This was increased in Fiscal Year 2014 to \$6,545,876 for additional approved rehabilitation on Southwest Marriott Pumpstation and John Young Parkway Pumpstation. The first draw on this loan was received in May 2013. The principal balance outstanding was \$5,887,775 and \$1,153,735 as of September 30, 2015 and 2014, respectively. For this loan, semiannual payments of \$210,343, including interest of 2.38%, are due on March 15 and September 15 of each year, for a 20-year period that began September 15, 2015.

In December 2012, loan #DW4803A0 was approved for South and Eastern Area Water Main Project in the initial amount of \$10,807,569. The first draw on this loan was received in March 2014. The principal balance outstanding was \$8,242,032 and \$5,963,670 as of September 30, 2015 and 2014, respectively. For this loan, semiannual payments of \$328,839, including interest of 1.99%, are due on March 15 and September 15 of each year, for a 20-year period beginning September 2016.

In December 2012, loan #DW4803B0 was approved for Hidden Springs Water Facility Improvements Project in the initial amount of \$4,196,246. The first draw on this loan was received in May 2014. The principal balance outstanding was \$3,622,458 and \$3,060,790 as of September 30, 2015 and 2014, respectively. For this loan, semiannual payments of \$127,678, including interest of 1.99%, are due on January 15 and July 15 of each year, for a 20-year period that began January 2015.

In September 2013, loan #WW4803D0 was approved for I-Drive Forcemain and Reclaimed Water Main Improvements Project in the initial amount of \$7,571,449. The first draw on this loan was received in February 2015. The principal balance outstanding was \$6,391,245 as of September 30, 2015. For this loan, semiannual payments of \$228,846, including interest of 1.92%, are due on April 15 and October 15 of each year, for a 20-year period beginning April 2016.

In May 2014, loan #DW4803E0 was approved for Eastern Water Reclamation Facility Phase V Improvements Project in the initial amount of \$30,139,180. This was increased in Fiscal Year 2015 to \$61,985,280 to reflect the additional approved construction costs of the project. The first draw on this loan was received in June 2015. The principal balance outstanding was \$4,381,971 as of September 30, 2015. For this loan, semiannual payments of \$1,902,614, including interest of 2.26%, on the original amount and 1.91% on the additional amount, are due on February 15 and August 15 of each year, for a 20-year period beginning February 2019.

The total principal and interest remaining to be paid on these loans was \$50,996,702 and \$27,729,646 as of September 30, 2015 and 2014, respectively. Principal and interest paid was \$1,907,487 and \$1,458,629 and total pledged revenue was \$52,524,600 and \$43,654,053, respectively, for the fiscal years ended September 30, 2015 and 2014.

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**ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014**

G. LOANS PAYABLE, Continued

Future principal and interest payments (in thousands) required on the State Revolving Loans are as follows as of September 30, 2015:

Fiscal Year <u>Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,934	\$ 725	\$ 2,659
2017	2,427	789	3,216
2018	2,479	737	3,216
2019	6,267	755	7,022
2020	13,935	2,570	16,505
2021-2025	12,486	1,164	13,650
2026-2030	4,348	152	4,500
2031-2033	225	4	229
Totals	<u>\$ 44,101</u>	<u>\$ 6,896</u>	<u>\$ 50,997</u>

H. RETIREMENT SYSTEMS

Florida Retirement System:

General Information - All of the System's employees participate in the Florida Retirement System (FRS). As provided by Chapters 121 and 112, Florida Statutes, the FRS provides two cost sharing, multiple employer defined benefit plans administered by the Florida Department of Management Services, Division of Retirement, including the FRS Pension Plan ("Pension Plan") and the Retiree Health Insurance Subsidy ("HIS Plan"). Under Section 121.4501, Florida Statutes, the FRS also provides a defined contribution plan ("Investment Plan") alternative to the FRS Pension Plan, which is administered by the State Board of Administration ("SBA"). As a general rule, membership in the FRS is compulsory for all employees working in a regularly established position for a state agency, county government, district school board, state university, community college, or a participating city or special district within the State of Florida. The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 121, Florida Statutes, and Chapter 60S, Florida Administrative Code. Amendments to the law can be made only by an act of the Florida State Legislature.

The State of Florida annually issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The latest available report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the Web site: www.dms.myflorida.com/workforce_operations/retirement/publications.

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**ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014**

H. RETIREMENT SYSTEMS, Continued

Pension Plan

Plan Description – The Pension Plan is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (“DROP”) for eligible employees.

Benefits Provided - Benefits under the Pension Plan are computed on the basis of age, average final compensation, and service credit. For Pension Plan members enrolled before July 1, 2011, Regular class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Vested members with less than 30 years of service may retire before age 62 and receive reduced retirement benefits. Special Risk Administrative Support class members who retire at or after age 55 with at least six years of credited service or 25 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Special Risk class members (sworn law enforcement officers, firefighters, and correctional officers) who retire at or after age 55 with at least six years of credited service, or with 25 years of service regardless of age, are entitled to a retirement benefit payable monthly for life, equal to 3.0% of their final average compensation based on the five highest years of salary for each year of credited service. Senior Management Service class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 2.0% of their final average compensation based on the five highest years of salary for each year of credited service. Elected Officers’ class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 3.0% (3.33% for judges and justices) of their final average compensation based on the five highest years of salary for each year of credited service.

For Plan members enrolled on or after July 1, 2011, the vesting requirement is extended to eight years of credited service for all these members and increasing normal retirement to age 65 or 33 years of service regardless of age for Regular, Senior Management Service, and Elected Officers’ class members, and to age 60 or 30 years of service regardless of age for Special Risk and Special Risk Administrative Support class members. Also, the final average compensation for all these members will be based on the eight highest years of salary.

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ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014

H. RETIREMENT SYSTEMS, Continued

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the Pension Plan before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is three percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of three percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by three percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

In addition to the above benefits, the DROP program allows eligible members to defer receipt of monthly retirement benefit payments while continuing employment with a FRS employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the FRS Trust Fund and accrue interest. There are no required contributions by DROP participants.

Contributions – Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute three percent of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class for the periods from October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2015, respectively, were as follows: Regular--7.37% and 7.26%; Special Risk Administrative Support--42.07% and 32.95%; Special Risk--19.82% and 22.04%; Senior Management Service--21.14% and 21.43%; Elected Officers'--43.24% and 42.27%; and DROP participants--12.28% and 12.88%. These employer contribution rates include 1.26% and 1.66% HIS Plan subsidy for the periods October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2015, respectively.

The System's contributions to the Pension Plan totaled \$2,207,068 and \$2,023,581 for the fiscal years ended September 30, 2015 and 2014, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – The System reported a liability of \$11,488,452 and \$5,646,779 for its proportionate share of the Board's Pension Plan's net pension liability as of September 30, 2015 and 2014, respectively. The net pension liability for each fiscal year was measured as of June 30, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation in each year as of July 1. The System's proportionate share of the net pension liability was based on the System's fiscal year contributions relative to the same fiscal year contributions of all participating members of the Board. At September 30, 2015, the System's proportionate share was 6.58%, which was a decrease of 0.25% from its proportionate share of 6.83% measured as of September 30, 2014.

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014

H. RETIREMENT SYSTEMS, Continued

For the fiscal years ended September 30, 2015 and 2014, the System recognized pension expense of \$695,956 and \$409,009. In addition, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>9/30/15</u>	<u>9/30/14</u>	<u>9/30/15</u>	<u>9/30/14</u>
Differences between expected and actual experience	\$ 1,212,840	\$ -	\$ 272,471	\$ 349,440
Change of assumptions	762,527	977,928	-	-
Net difference between projected and actual earnings on Pension Plan investments	4,046,551	-	6,789,801	9,419,766
Changes in proportion and differences between System Pension Plan contributions and proportionate share of contributions	-	-	544,558	660,567
System Pension Plan contributions subsequent to the measurement date	<u>531,758</u>	<u>557,453</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,553,676</u>	<u>\$ 1,535,381</u>	<u>\$ 7,606,830</u>	<u>\$ 10,429,773</u>

The deferred outflows of resources related to the Pension Plan resulting from System contributions to the Plan subsequent to the measurement date, totaling \$531,758, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan will be recognized in pension expense as follows:

<u>Fiscal Year Ending September 30:</u>	<u>Amount</u>
2016	\$ (1,034,227)
2017	(1,034,227)
2018	(1,034,227)
2019	1,229,040
2020	221,677
Thereafter	67,052

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014

H. RETIREMENT SYSTEMS, Continued

Actuarial Assumptions – The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Investment rate of return	7.65%, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

The long-term expected rate of return on Pension Plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1.0%	3.2%	3.1%	1.7%
Fixed income	18.0%	4.8%	4.7%	4.7%
Global equity	53.0%	8.5%	7.2%	17.7%
Real estate (property)	10.0%	6.8%	6.2%	12.0%
Private equity	6.0%	11.9%	8.2%	30.0%
Strategic investments	12.0%	6.7%	6.1%	11.4%
Total	<u>100.0%</u>			
Assumed Inflation - Mean		2.6%		1.9%

(1) As outlined in the Pension Plan's investment policy

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014**

H. RETIREMENT SYSTEMS, Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.65%. 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 discount rate for calculation of the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the System's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following represents the System's proportionate share of the net pension liability calculated using the discount rate of 7.65%, as well as what the System's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65%) or one percentage point higher (8.65%) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
System's proportionate share of the net pension liability at September 30, 2015	\$ 29,769,178	\$ 11,488,452	\$ (3,724,114)
System's proportionate share of the net pension liability at September 30, 2014	\$ 24,152,026	\$ 5,646,779	\$ (9,746,055)

Pension Plan Fiduciary Net Position - Detailed information regarding the Pension Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan - At September 30, 2015 and 2014, the System reported de minimis amounts payable for outstanding contributions to the Pension Plan.

HIS Plan

Plan Description - The HIS Plan is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014

H. RETIREMENT SYSTEMS, Continued

Benefits Provided – For the fiscal year ended September 30, 2015, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions – The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2015, the HIS contribution for the period October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2015 was 1.26% and 1.66%, respectively. The System contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The System's contributions to the HIS Plan totaled \$476,869 and \$432,137 for the fiscal years ended September 30, 2015 and 2014, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – The System reported a liability of \$11,730,484 and \$10,785,269 for its proportionate share of the Board's HIS Plan's net pension liability as of September 30, 2015 and 2014, respectively. The net pension liability for each fiscal year was measured as of June 30, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation in each year as of July 1. The System's proportionate share of the net pension liability was based on the System's fiscal year contributions relative to the same fiscal year contributions of all participating members of the Board. At September 30, 2015, the System's proportionate share was 10.36%, which was a decrease of 0.11% from its proportionate share of 10.47% measured as of September 30, 2014.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014**

H. RETIREMENT SYSTEMS, Continued

For the fiscal years ended September 30, 2015 and 2014, the System recognized pension expense of \$905,370 and \$769,502, respectively. In addition, the System reported deferred outflows of resources related to pensions from the following sources:

<u>Description</u>	Deferred Outflows of Resources	
	9/30/15	9/30/14
Change of assumptions	\$ 922,883	\$ 383,783
Net difference between projected and actual earnings on HIS Plan investments	6,350	5,177
Changes in proportion and differences between System HIS Plan contributions and proportionate share of contributions	174,643	127,497
System HIS Plan contributions subsequent to the measurement date	136,485	119,766
Total	\$ 1,240,361	\$ 636,223

The deferred outflows of resources related to the HIS Plan resulting from System contributions to the HIS Plan subsequent to the measurement date, totaling \$136,485, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2016. Other amounts reported as deferred outflows of resources related to the HIS Plan will be recognized in pension expense as follows:

<u>Fiscal Year Ending September 30:</u>	<u>Amount</u>
2016	\$ 192,168
2017	192,168
2018	192,168
2019	190,878
2020	190,258
Thereafter	146,236

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014**

H. RETIREMENT SYSTEMS, Continued

Actuarial Assumptions – The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60%
Salary increases	3.25%, average, including inflation
Municipal bond rate	3.80%

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

Discount Rate - The discount rate used to measure the total pension liability was 3.80%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the System's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following represents the System's proportionate share of the net pension liability calculated using the discount rate of 3.80%, as well as what the System's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.80%) or one percentage point higher (4.80%) than the current rate:

	1% Decrease (2.80%)	Current Discount Rate (3.80%)	1% Increase (4.80%)
System's proportionate share of the net pension liability at September 30, 2015	\$ 13,366,341	\$ 11,730,484	\$ 10,366,426
System's proportionate share of the net pension liability at September 30, 2014	\$ 12,267,370	\$ 10,785,269	\$ 9,548,139

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014

H. RETIREMENT SYSTEMS, Continued

HIS Plan Fiduciary Net Position - Detailed information regarding the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the HIS Plan - At September 30, 2015 and 2014, the System reported de minimus amounts payable for outstanding contributions to the HIS Plan.

Investment Plan

The SBA administers the defined contribution plan officially titled the FRS Investment Plan. The Investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. System employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected County Officers, etc.), as the Pension Plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members. Allocations to the investment member's accounts during the 2014-15 fiscal year, as established by Section 121.72, Florida Statutes, are based on a percentage of gross compensation, by class, as follows: Regular class--6.30%, Special Risk Administrative Support class--7.95%, Special Risk class--14.00%, Senior Management Service class--7.67% and County Elected Officers class--11.34%.

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the Pension Plan is transferred to the Investment Plan, the member must have the years of service required for Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five-year period, the employee will

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014**

H. RETIREMENT SYSTEMS, Continued

regain control over their account. If the employee does not return within the five-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended September 30, 2015, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the System.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The System's Investment Plan pension expense totaled \$397,917 and \$386,719 for the fiscal years ended September 30, 2015 and 2014, respectively.

I. OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN

In addition to the pension benefits described in Note H, the System offers an OPEB Plan that subsidizes the cost of health care for its retirees and eligible dependents. The OPEB Plan is reported in accordance with GASB Statement No's. 43 and 45. Employees of the System with at least 10 years of combined service under the System and/or any other Board department or any of five county officers (County Comptroller, Property Appraiser, Sheriff, Supervisor of Elections, Tax Collector) who retire and immediately begin receiving benefits from the Florida Retirement System (FRS) are eligible to receive a monthly benefit of three dollars per year of service up to a maximum of \$90 per month. If combined service is at least 20 years and receipt of FRS benefits is deferred to a later date, the monthly benefit may be vested for commencement at such deferral date. Additionally, employees of the System who retire and immediately begin receiving benefits from the FRS have the option of continuing in the Board's health insurance plan at the same group rate as for active employees.

The Board has established the Orange County Retiree Health Care Benefit Trust (Trust) for the Board and the five county officers noted above and engages an actuarial firm to determine each participant's actuarially determined annual OPEB cost (AOC) and unfunded obligation. Through its ownership of the System, the Board's total AOC payment to the Trust includes an allocated contribution from the System. For Fiscal Year 2015, the System's AOC payment was \$462,801, representing 1.28% of the System's covered payroll amount of \$36,266,017. For Fiscal Year 2014, the System's AOC payment was \$446,409, representing 1.26% of the System's covered payroll amount of \$35,542,658. A full presentation of the Trust and OPEB Plan assets, liabilities, funding status, and actuarial methods and assumptions is included in the Orange County, Florida Comprehensive Annual Financial Report.

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014

J. INSURANCE COVERAGE

The Board maintains a self-insurance program that provides for coverage of substantially all risks. Various excess catastrophe insurance policies with commercial carriers are also in force for claims exceeding the amount chargeable against the loss fund. The System participated in the self-insurance program during Fiscal Years 2015 and 2014 at an annual cost of \$3,210,721 and \$2,675,634, respectively. There have been no claim settlements in excess of insurance coverage during the three fiscal years ended September 30, 2015.

Additionally, the Board maintains a self-insured plan for employee medical benefits in which the System participates. The self-insurance plan covers all regular employees and certain retirees and former employees of the Board and their eligible dependents. The plan covers claims up to \$700,000 per individual per year. The Board has purchased an insurance policy to cover claims in excess of this amount, up to an additional \$2 million per individual per year. In accordance with the Affordable Care Act, the lifetime maximum for a covered individual is unlimited.

K. COMMITMENTS AND CONTINGENCIES

Outstanding commitments under operating and construction contracts for various projects totaled approximately \$95.7 million and \$107.2 million at September 30, 2015 and 2014, respectively.

The System is a party in various lawsuits and other claims incidental to the ordinary course of its operation, some of which are covered by the Board's self-insurance program. While the results of litigation cannot be predicted with certainty, management believes the final outcome of such litigation will not have a material adverse effect on the System's financial position.

L. TRANSFERS OUT

As permitted under covenants of the Water Utilities System Refunding Revenue Bonds, Series 1998, the Board has adopted resolutions authorizing the System to make an annual transfer of surplus funds to the Board's General Fund, to be used for any lawful County purpose. Under these authorizations, the System transferred \$7,400,000 and \$7,600,000 in Fiscal Years 2015 and 2014, respectively, to the Board's General Fund.

M. SUBSEQUENT EVENTS

On October 19, 2015, the State of Florida executed the Second Amendment to Loan Agreement WW4803E0, increasing the total authorized loan amount to \$73,003,611 for additional approved construction costs of the project. Including the Second Amendment, semiannual payments of \$2,232,470, including interest at 1.82%, on this additional amount are due on February 15 and August 15 of each year, for a 20-year period beginning February 2019.

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2015 and 2014

N. RESTATEMENT

As described in Note H, the System participates in the Florida Retirement System. In accordance with the implementation of GASB Statements No. 68 and No. 71, the System is required to report its proportionate share of the net pension liabilities and related pension amounts of the defined benefit pension plans in which it participates. The net position of the System was adjusted downward by \$25,894,464 and \$24,690,217 as of October 1, 2013 and September 30, 2014, respectively. Accordingly, the September 30, 2014 financial statements and notes have been restated to include \$16,432,048 in net pension liability, \$2,171,604 in deferred outflows, \$10,429,773 in deferred inflows and a \$1,204,247 reduction of expense.

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SUPPLEMENTARY INFORMATION

ORANGE COUNTY WATER UTILITIES SYSTEM
SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED TO ACTUAL
(NON-GAAP BUDGETARY BASIS*)
for the year ended September 30, 2015

	Budget	Actual
Operating revenues:		
Wastewater service	\$ 111,574,800	\$ 114,901,425
Water service	46,660,213	45,736,737
Miscellaneous	3,589,876	4,701,243
Total operating revenues	161,824,889	165,339,405
Operating and maintenance expenses:		
Personal services	48,386,315	45,191,375
Contractual services	35,226,654	27,296,056
Materials and supplies	6,522,781	6,340,977
Utilities	14,086,744	13,856,325
Repairs and maintenance	17,836,681	16,526,959
Other expenses	6,824,654	6,709,427
Total operating and maintenance expenses	128,883,829	115,921,119
Operating income, budgetary basis*	32,941,060	49,418,286
Nonoperating revenues (expenses):		
Interest revenue	391,737	1,526,470
Interest expense and fiscal charges	(1,563,625)	(831,447)
Total net nonoperating revenues (expenses)	(1,171,888)	695,023
Income before contributions and transfer, budgetary basis*	31,769,172	50,113,309
Capital contributions	19,806,766	27,682,763
Transfer out	(7,400,000)	(7,400,000)
Change in net position, budgetary basis*	\$ 44,175,938	\$ 70,396,072

*Budgetary basis, for purposes of this schedule, includes all budgeted items except for capital outlay, debt principal transactions, beginning net position, non-cash developer donations and expense reserves.

**ORANGE COUNTY WATER UTILITIES SYSTEM
LOAN COVERAGE COMPUTATION
September 30, 2015**

The Board covenants in the State revolving loan agreements to own, control, operate and maintain the Water Utilities System in an efficient and economical manner, and to the extent possible, on a revenue-producing basis. The Board further covenants to fix, establish, maintain and collect rates, fees and other charges for the services of the Water Utilities System fully sufficient at all times:

- (a) to produce net operating revenues (excluding connection fees, special assessments and stormwater revenues) in each fiscal year which will equal at least 115% of the annual debt service requirement on all outstanding loan agreements, or
- (b) upon issuance of debt obligations on a parity with or senior to the lien of the State revolving loan agreements, to produce net operating revenues (excluding connection fees, special assessment and stormwater revenues) in each fiscal year which will equal at least 115% of the annual debt service requirements on all outstanding loan agreements after the payment of parity or senior debt obligations outstanding.

The following represents the coverage computation for the year ending September 30, 2015:

Gross operating revenues	\$ 165,339,405
Interest income, excluding interest on connection fees	1,447,826
Less operating and maintenance expenses	<u>(114,262,631)</u>
Net operating revenues available for debt service	<u>\$ 52,524,600</u>
Annual debt service requirement	<u>\$ 1,907,487</u>
Actual debt coverage (net operating revenues available for debt service divided by annual debt service)	27.54
Required debt coverage	1.15

**ORANGE COUNTY WATER UTILITIES SYSTEM
CUSTOMER STATISTICS, September 30, 2015 and 2014
(Unaudited)**

	2015	2014
Number of water accounts:		
Residential (3)	135,117	129,299
Commercial (3)	5,987	5,729
Number of wastewater accounts:		
Residential (3)	104,360	100,928
Commercial (3)	2,621	2,535
OUC billing (2)	40,668	41,332
Water consumption: (1)		
Residential	11,459,889	11,559,449
Commercial	7,928,828	7,615,315
Wastewater consumption: (1)		
Residential	6,505,342	6,418,406
Commercial	6,746,358	6,423,773
OUC billing (2)	7,177,838	6,951,915

- (1) Water and wastewater consumption stated in thousands of gallons.
(2) OUC billing represents accounts billed for the System pursuant to an agreement with the Orlando Utilities Commission (OUC).
(3) Information for Fiscal Year 2014 has been updated from that previously reported.