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COMMISSIONERS AT ITS
MEETING ON

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ORANGE COUNTY WATER UTILITIES SYSTEM

ORANGE COUNTY, FLORIDA

ANNUAL FINANCIAL REPORT

for the years ended September 30, 2016 and 2015

ORANGE COUNTY WATER UTILITIES SYSTEM

ANNUAL FINANCIAL REPORT

for the years ended September 30, 2016 and 2015

CONTENTS

Cherry Bekaert LLP
CPAs & Advisors

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, 2016 and 2015, 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, 2016 and 2015, 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 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, 2016 and 2015, 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, the Bond and Loan Coverage Computation and the 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 the Bond 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 the Bond 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.

Cherry Bekaert LLP

Orlando, Florida
February 15, 2017

ORANGE COUNTY WATER UTILITIES SYSTEM
STATEMENTS OF NET POSITION
September 30, 2016 and 2015

	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets:		
Cash and cash equivalents	$ 94,314,932	$ 57,811,080
Accrued interest receivable	246,294	163,257
Accounts receivable	18,300,222	15,891,210
Less allowance for doubtful accounts	(121,483)	(266,494)
Due from other governmental agencies	761,789	540,689
Inventories and prepaid costs	2,902,191	3,261,446
Cash and cash equivalents, restricted	34,708,811	9,539,521
Total current assets	151,112,756	86,940,709
Noncurrent assets:		
Cash and cash equivalents, restricted	31,512,511	-
Accounts receivable	655,588	1,085,007
Prepaid costs	13,336,975	10,425,617
Nondepreciable capital assets	241,820,031	285,021,361
Depreciable capital assets, net	1,075,750,096	971,691,069
Total noncurrent assets	1,363,075,201	1,268,223,054
Total assets	1,514,187,957	1,355,163,763
Deferred outflows of resources:		
Related to pensions	12,466,757	7,794,037
Total assets and deferred outflows of resources	$ 1,526,654,714	$ 1,362,957,800
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 30,345,284	$ 30,264,667
Due to other governmental agencies	471,379	225,472
Net pension liability	390,296	430,543
Payable from restricted assets:		
Accrued interest payable	1,129,412	62,187
Loans payable	2,361,337	1,956,451
Customer deposits	9,120,612	8,535,774
Total current liabilities	43,818,320	41,475,094
Noncurrent liabilities:		
Compensated absences payable	1,378,011	1,719,337
Loans payable	54,745,806	42,144,365
Revenue bonds payable (net of unamortized costs)	94,176,939	-
Net pension liability	35,383,798	22,788,393
Total noncurrent liabilities	185,684,554	66,652,095
Total liabilities	229,502,874	108,127,189
Deferred inflows of resources:		
Related to pensions	632,180	7,606,830
Total liabilities and deferred inflows of resources	230,135,054	115,734,019
NET POSITION		
Net investment in capital assets	1,162,296,174	1,194,735,422
Restricted for:		
Debt service	9,218,364	941,560
Operating reserve	29,397,307	-
Unrestricted	95,607,815	51,546,799
Total net position	1,296,519,660	1,247,223,781
Total liabilities, deferred inflows of resources and net position	$ 1,526,654,714	$ 1,362,957,800

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, 2016 and 2015

	2016	2015
Operating revenues:		
Wastewater service	$ 115,621,395	$ 109,364,045
Water service	48,073,846	45,736,737
Reclaimed water service	7,036,370	5,537,380
Miscellaneous	4,682,680	4,701,243
Total operating revenues	175,414,291	165,339,405
Operating and maintenance expenses:		
Personal services	46,213,348	45,191,375
Contractual services	33,612,259	27,296,056
Materials and supplies	6,408,495	6,340,977
Utilities	12,949,531	13,856,325
Repairs and maintenance	17,907,946	16,526,959
Other expenses	6,868,492	6,709,427
Pension liability adjustment expense	907,788	(1,658,488)
Total operating and maintenance expenses	124,867,859	114,262,631
Operating income before depreciation and amortization	50,546,432	51,076,774
Depreciation and amortization	75,448,387	70,440,241
Operating loss	(24,901,955)	(19,363,467)
Nonoperating revenues (expenses):		
Interest revenue	1,074,338	1,526,470
Interest expense and fiscal charges	(1,116,091)	(831,447)
Debt issuance costs	(1,341,204)	-
Loss on disposal of assets	(421,193)	(365,730)
Total net nonoperating revenues (expenses)	(1,804,150)	329,293
Loss before contributions and transfers	(26,706,105)	(19,034,174)
Capital contributions	83,401,984	84,435,380
Transfer out	(7,400,000)	(7,400,000)
Change in net position	49,295,879	58,001,206
Total net position, October 1	1,247,223,781	1,189,222,575
Total net position, September 30	$ 1,296,519,660	$ 1,247,223,781

See accompanying notes to financial statements.

ORANGE COUNTY WATER UTILITIES SYSTEM
STATEMENTS OF CASH FLOWS
for the years ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from customers	$ 173,228,657	$ 166,576,175
Cash payments to suppliers for goods and services	(82,554,823)	(57,218,644)
Cash payments to employees for services	(47,436,652)	(44,923,525)
Net cash provided by operating activities	43,237,182	64,434,006
Cash flows from noncapital financing activities:		
Transfer out	(7,400,000)	(7,400,000)
Net cash used by noncapital financing activities	(7,400,000)	(7,400,000)
Cash flows from capital and related financing activities:		
Proceeds from sale of revenue bonds	94,530,461	-
Acquisition and construction of capital assets	(97,614,232)	(123,332,116)
Principal paid on long-term debt	(1,870,215)	(5,107,457)
Interest and fees paid on long-term debt	(793,494)	(702,847)
Capital contributions	46,783,497	27,682,763
Proceeds from state revolving fund loan	14,385,846	21,280,722
Proceeds from capital grant	706,107	525,559
Proceeds from disposition of assets	226,714	135,110
Net cash provided (used) by capital and related financing activities	56,354,684	(79,518,266)
Cash flows from investing activities:		
Interest on investments	993,787	1,619,299
Net cash provided by investing activities	993,787	1,619,299
Net increase (decrease) in cash and cash equivalents	93,185,653	(20,864,961)
Cash and cash equivalents, October 1	67,350,601	88,215,562
Cash and cash equivalents, September 30	$ 160,536,254	$ 67,350,601
Classified as:		
Current assets	$ 94,314,932	$ 57,811,080
Current assets, restricted	34,708,811	9,539,521
Noncurrent assets, restricted	31,512,511	-
Total	$ 160,536,254	$ 67,350,601

See accompanying notes to financial statements.

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
STATEMENTS OF CASH FLOWS, Continued
for the years ended September 30, 2016 and 2015

	2016	2015
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (24,901,955)	$ (19,363,467)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	75,448,387	70,440,241
Pension expense adjustment	907,788	(1,658,488)
Allowance for doubtful accounts	(145,011)	91,752
Decrease (increase) in assets:		
Accounts receivable	(2,399,554)	1,744,906
Due from other governmental agencies	(221,100)	(540,689)
Inventories and prepaid costs	(2,552,103)	12,207,954
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(3,730,015)	1,181,075
Due to other governmental agencies	245,907	(103,153)
Customer deposits	584,838	433,875
Total adjustments	68,139,137	83,797,473
Net cash provided by operating activities	$ 43,237,182	$ 64,434,006
Noncash investing, capital and financing activities:		
Capital assets donated by developers	$ 36,618,487	$ 56,752,617

See accompanying notes to financial statements.

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

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 2016 or the 2015 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 amortized cost. Florida PRIME, a SEC 2a-7 like investment pool, and money market mutual funds are stated at amortized cost, 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 $7,116,520 and $7,074,682 as of September 30, 2016 and 2015, respectively. The System also records receivables for special assessments on certain construction projects. The amount of special assessments receivable included in accounts receivable was $1,159,482 and $1,594,854 as of September 30, 2016 and 2015, respectively. Of these amounts, $503,893 and $509,847, 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

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 acquisition 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 (at cost) and donated (at acquisition value) 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

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:

	2016	2015
Due to vendors	$ 25,424,347	$ 24,465,890
Salaries and benefits payable	4,920,937	5,798,777
Total	$ 30,345,284	$ 30,264,667

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 Governmental Accounting Standards Board (GASB) Statement No. 16. The liability for compensated absences was $4,994,121 and $5,187,337 at September 30, 2016 and 2015, respectively. Of these amounts, $3,616,110 and $3,468,000, 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. For the fiscal year ended September 30, 2016, the amount of net interest costs capitalized was $655,469. As there was no bonded debt outstanding during Fiscal Year 2015, there was no interest capitalized.

The total interest cost for the System was $1,111,055 and $768,021 for the fiscal years ended September 30, 2016 and 2015, respectively.

Continued

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Pension Expense:

The System expenses required pension contributions as a component of personal services expense. Additionally, in accordance with GASB Statement No. 68, the System expenses its proportionate share of the actuarially determined changes in the net pension liability as pension liability adjustment expense.

Bond Amortization Costs:

Bond premium is being amortized over the life of the debt using the interest method. Some of these costs are capitalized as noted above.

Amortization of the bond premium is recorded as a component of interest expense. Amortization of these bond costs for the fiscal years ended September 30, 2016 and 2015 was as follows:

	2016	2015
Amortization of bond premium	$ 353,522	$ -
Portion capitalized	353,522	-

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, 2016. 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 $10,093,333 and $8,659,860 as of September 30, 2016 and 2015, respectively.

New Accounting Pronouncements:

Effective October 1, 2015, the System adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants.* The effect of adopting these standards is to provide enhanced disclosures regarding investment valuation.

Continued

B. DEPOSIT AND INVESTMENT RISK

As of September 30, 2016 and 2015, 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:

Investment Type	2016	2015	Credit Rating
Demand and time deposits	$ 8,153,628	$ 1,930,947	NA
County investment pool:			
Florida PRIME	16,050,325	-	AAAm
U.S. Treasury Bills	1,103,654	3,476,627	A-1+/P-1
U.S. Treasury Notes	117,396,167	50,740,548	A-1+/P-1
Federal instrumentalities:			
Discount notes	6,660,232	6,725,485	A-1+/P-1
Notes and bonds	6,048,627	-	AA+/Aaa
Money market mutual funds	5,123,621	4,476,994	AAAm/Aaa-mf
Total	$ 160,536,254	$ 67,350,601	

The System's fair value measurement for U.S. Treasury Bills, U.S. Treasury Notes and Federal Instrumentalities uses observable inputs other than quoted prices in active markets (Level 2 inputs). Florida PRIME and money market mutual funds are valued at amortized cost.

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.

Continued

B. DEPOSIT AND INVESTMENT RISK, Continued

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 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, 2016, the System's portion of the Board investment pool portfolio was invested in three authorized Instrumentalities, each of which represented three percent or less of the total 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, 2016 and 2015, 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, 2016 and 2015, 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 18.0 months and 19.4 months at September 30, 2016 and 2015, respectively. The portfolio did not contain any callable securities at September 30, 2016 and 2015. The Money Markets have a weighted average maturity of not more than 60 days.

Continued

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.

Restricted assets were as follows at September 30, 2016 and 2015:

	Cash and Cash Equivalents
September 30, 2016:	
Operation and maintenance fund	$ 23,156,764
Series 2016 construction fund	17,355,627
Revenue fund	68,391
Bond interest account	1,009,144
Bond cost of issuance	15,115
Bond renewal and replacement fund	8,000,000
Bond reserve account	6,156,884
Loan debt service	578,645
Loan repayment reserve	760,140
Customer deposits	9,120,612
Total restricted assets	66,221,322
Less: current portion	34,708,811
Noncurrent portion	$ 31,512,511
September 30, 2015:	
Loan debt service	$ 243,607
Loan repayment reserve	760,140
Customer deposits	8,535,774
Total restricted assets	9,539,521
Less: current portion	9,539,521
Noncurrent portion	$ -

Continued

D. CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2016 and 2015 was as follows:

	Balance 10/1/15	Additions	Reductions	Balance 9/30/16
Capital assets, not being depreciated:				
Land	$ 100,171,961	$ 2,010,701	$ -	$ 102,182,662
Construction in progress	184,849,400	94,230,539	(139,442,570)	139,637,369
Total capital assets, not being depreciated	285,021,361	96,241,240	(139,442,570)	241,820,031
Capital assets, being depreciated/amortized:				
Buildings	22,661,949	7,363,635	-	30,025,584
Improvements other than buildings	1,851,516,974	157,562,593	-	2,009,079,567
Machinery and equipment	96,724,898	5,127,309	(3,171,747)	98,680,460
Intangible	66,562,793	9,460,305	(275,830)	75,747,268
Total capital assets, being depreciated/amortized	2,037,466,614	179,513,842	(3,447,577)	2,213,532,879
Less accumulated depreciation/amortization for:				
Buildings	(9,906,703)	(1,460,960)	-	(11,367,663)
Improvements other than buildings	(974,130,050)	(66,835,906)	-	(1,040,965,956)
Machinery and equipment	(69,871,078)	(6,473,468)	3,165,319	(73,179,227)
Intangible	(11,867,714)	(678,053)	275,830	(12,269,937)
Total accumulated depreciation/amortization	(1,065,775,545)	(75,448,387)	3,441,149	(1,137,782,783)
Total capital assets, being depreciated/amortized, net	971,691,069	104,065,455	(6,428)	1,075,750,096
Total System capital assets, net	$ 1,256,712,430	$ 200,306,695	$ (139,448,998)	$ 1,317,570,127

	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	289,662,626	112,976,585	(117,617,850)	285,021,361
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	1,856,079,647	183,052,104	(1,665,137)	2,037,466,614
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	(996,999,469)	(70,440,241)	1,664,165	(1,065,775,545)
Total capital assets, being depreciated/amortized, net	859,080,178	112,611,863	(972)	971,691,069
Total System capital assets, net	$ 1,148,742,804	$ 225,588,448	$ (117,618,822)	$ 1,256,712,430

Continued

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, 2016 and 2015 is as follows:

	Balance 10/1/15	Additions	Reductions	Balance 9/30/16
Compensated absences payable	$ 5,187,337	$ 3,467,813	$ (3,661,029)	$ 4,994,121
Revenue bonds payable	-	89,035,000	-	89,035,000
unamortized bond premium:	-	5,495,461	(353,522)	5,141,939
Total revenue bonds payable, net of unamortized costs	-	94,530,461	(353,522)	94,176,939
Loans payable	44,100,816	16,660,947	(3,654,620)	57,107,143
Net pension liability	23,218,936	12,555,158	-	35,774,094
System long-term liabilities, including current portion	$ 72,507,089	$ 127,214,379	$ (7,669,171)	$ 192,052,297

	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	$ 49,186,614	$ 33,437,232	$ (10,116,757)	$ 72,507,089

F. REVENUE BONDS PAYABLE

On May 26, 2016, the Board issued Water and Wastewater Utility Revenue Bonds, Series 2016 in the amount of $89,035,000 to finance certain costs relating to the acquisition, construction, and equipping of various capital improvements to the System, fund a deposit to the Reserve Account equal to the reserve account requirement, and to pay expenses of issuance of the Series 2016 Bonds.

Series 2016 Bonds maturing on or after October 1, 2025, shall be subject to redemption at the option of the County prior to maturity in whole or in part on any date on or after October 1, 2024 at a redemption price equal to the principal amount thereof, without premium, plus interest accruing on the principal amount to be redeemed to the redemption date.

Continued

F. REVENUE BONDS PAYABLE, Continued

The total principal and interest remaining to be paid on this series was $121,169,060 as of September 30, 2016. The first interest payment is due October 1, 2016 and the first principal payment is due October 1, 2018. Total pledged revenue was $51,735,033 for the fiscal year ended September 30, 2016.

The following is a summary of revenue bonds payable as of September 30, 2016 and 2015:

	September 30	
	2016	2015
$89,035,000 Water and Wastewater Utility Revenue Bonds, Series 2016:		
Serial bonds, due October 1, from 2018 to 2036 with interest due semi-annually on April 1 and October 1, at 2.00% to 5.00%	$ 89,035,000	$ -
Unamortized bond premium	5,141,939	-
Series 2016 Bonds payable net of unamortized costs	$ 94,176,939	$ -

The Series 2016 Bonds are payable solely from, and secured by a lien on, a pledge of all the Net Revenues of the System, until applied to funds and accounts under the Resolution. The Board reserved the right to additionally pledge connection fees as security for the bonds. However, connection fees are not pledged to the Series 2016 Bonds. Neither the full faith and credit, the taxing power, nor any physical properties of the Board was pledged to the payment of the Series 2016 Bonds or the interest thereon.

While the Series 2016 Bonds are outstanding, the Board covenanted to establish, fix, maintain and collect rates, fees and other charges for the product, services and facilities of the System to provide in each fiscal year:

(a) net revenues (excluding connection fees) which will equal at least 120% of the annual debt service on any outstanding bond, and

(b) net revenues which will equal at least 110% of the annual debt service, and at the same time produce net revenues in each fiscal year which will equal at least 100% of any required deposits to certain accounts.

Continued

F. REVENUE BONDS PAYABLE, Continued

The bond resolution established certain funds and accounts and specifies the order in which revenues are to be deposited in these accounts, while the Series 2016 Bonds are outstanding. The purpose of various funds and accounts are as follows:

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

Connection Fees Fund - Deposit all connection fees charged and collected by the System and interest earnings thereon, when and if pledged to the payment of the bonds. Connection fees are not currently pledged for the payment of the bonds.

Operation and Maintenance Fund - Deposit monthly from the Revenue Fund amounts sufficient to provide one month’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 operating expenses.

Interest Account - Deposit monthly from the Revenue Fund an amount which, together with the balance in said Account, shall equal the interest on all bonds outstanding accrued and unpaid and to accrue to the end of the then current calendar month.

Principal Account - Deposit monthly from the Revenue Fund an amount which, commencing one year prior to the first principal payment date, together with the balance in said Account equals the principal amounts on all Bonds Outstanding due and unpaid and to accrue to the end of the then current calendar month.

Term Bonds Redemption Account - Deposit monthly from the Revenue Fund an amount which, commencing one year prior to the first principal payment date, together with the balance in said Account equals the principal amounts on all Term Bonds Outstanding due and unpaid and to accrue to the end of the then current calendar month.

Reserve Account - Deposit monthly from the Revenue Fund an amount which would enable the County to restore the funds on deposit in the Reserve Account to an amount equal to the Reserve Account requirement. All deficiencies in the Reserve Account must be made up no later than 12 months from the date such deficiency first occurred. 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.

Renewal and Replacement Fund - Deposit monthly from the Revenue Fund an amount which is at least equal to one-twelfth of the Renewal and Replacement Fund Requirement until the amount accumulated is equal to the Renewal and Replacement Fund Requirement.

Continued

F. REVENUE BONDS PAYABLE, Continued

Moneys shall be used to provide for the cost of major extensions, improvements or additions to, or the replacement or renewal of capital assets of, the System, or extraordinary repairs to the System provided that such moneys are not required to supplement any insufficiency in the Interest Account, the Term Bonds Redemption Account, or the Principal Account which still exists after the Reserve Account has been drawn down.

<u>Utility Reserve Fund</u> - Any moneys remaining in the Revenue Fund after all payments hereinabove required have been made are to be transferred to the Utility Reserve Revenue Fund. Moneys in this account are to be used for the following purposes and in the following order of priority:

(a) To restore the Interest Account, the Principal Account, the Term Bonds Redemption Account, the Reserve Account, and the Rebate Fund to the respective amounts required at that time to be therein;

(b) To any lawful purpose of the System;

(c) To the purchase of bonds or redemption of bonds;

(d) To the payment of debt service on subordinated debt;

(e) To the payment of other obligations incurred with respect to the System;

(f) To the Rate Stabilization Fund and improvements, renewals and replacements to the System.

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, 2016.

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

G. LOANS PAYABLE, Continued

to reflect the final cost of Phase 2 of the construction project. The principal balance outstanding was $3,169,520 and $3,452,554 as of September 30, 2016 and 2015, 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 $4,476,788 and $4,762,230 as of September 30, 2016 and 2015, 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 $1,397,181 and $1,469,977 as of September 30, 2016 and 2015, 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 2012 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 $1,364,692 and $1,544,004 as of September 30, 2016 and 2015, 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 $2,455,939 and $2,571,918 as of September 30, 2016 and 2015, 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 $1,688,840 and $1,774,652 as of September 30, 2016 and 2015, 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.

Continued

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 $5,604,721 and $5,887,775 as of September 30, 2016 and 2015, 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, through March 15, 2033.

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 $8,296,688 and $8,242,032 as of September 30, 2016 and 2015, 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 that began 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 $3,438,277 and $3,622,458 as of September 30, 2016 and 2015, 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, through July 15, 2034.

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 $6,228,790 and $6,391,245 as of September 30, 2016 and 2015, respectively. For this loan, semiannual payments of $228,846, including interest of 0.96%, are due on April 15 and October 15 of each year for a 20-year period that began April 2016.

In May 2014, loan #WW4803E0 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 and in Fiscal Year 2016 to $73,003,611 to reflect additional approved construction costs of the project. The first draw on this loan was received in June 2015. The principal balance outstanding was $18,985,707 and $4,381,971 as of September 30, 2016 and 2015, respectively. For this loan, semiannual payments of $2,232,470, including interest of 2.26%, on the original amount, 1.91% on the first additional amount and 1.82% on the second 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 $64,865,000 and $50,996,702 as of September 30, 2016 and 2015, respectively. Principal and interest paid was $2,658,673 and $1,907,487 and total pledged revenue was $49,572,783 and $52,524,600, respectively, for the fiscal years ended September 30, 2016 and 2015.

Continued

G. LOANS PAYABLE, Continued

Future principal and interest payments (in thousands) required on the State Revolving Loans are as follows as of September 30, 2016:

Fiscal Year Ending September 30	Principal	Interest	Total
2017	$ 2,361	$ 855	$ 3,216
2018	2,539	800	3,339
2019	6,927	1,115	8,042
2020	6,873	974	7,847
2021	6,822	828	7,650
2022-2026	19,153	2,344	21,497
2027-2031	10,875	812	11,687
2032-2033	1,557	30	1,587
Totals	$ 57,107	$ 7,758	$ 64,865

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.

Continued

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.

Continued

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, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016, respectively, were as follows: Regular--7.52% and 7.37%; Special Risk Administrative Support--28.06% and 42.07%; Special Risk--22.57% and 19.82%; Senior Management Service--21.77% and 21.14%; Elected Officers'--42.47% and 43.24%; and DROP participants--12.99% and 12.28%. These employer contribution rates include 1.66% HIS Plan subsidy for the period October 1, 2015 through September 30, 2016.

The System's contributions to the Pension Plan totaled $2,297,070 and $2,207,068 for the fiscal years ended September 30, 2016 and 2015, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – The System reported a liability of $22,236,076 and $11,488,452 for its proportionate share of the Board's Pension Plan's net pension liability as of September 30, 2016 and 2015, 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, 2016, the System's proportionate share was 6.19%, which was a decrease of 0.39% from its proportionate share of 6.58% measured as of September 30, 2015.

Continued

H. RETIREMENT SYSTEMS, Continued

For the fiscal years ended September 30, 2016 and 2015, the System recognized pension expense of $3,219,681 and $695,956. In addition, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources 9/30/16	Deferred Outflows of Resources 9/30/15	Deferred Inflows of Resources 9/30/16	Deferred Inflows of Resources 9/30/15
Differences between expected and actual experience	$ 1,702,565	$ 1,212,840	$ 207,033	$ 272,471
Change of assumptions	1,345,216	762,527	-	-
Net difference between projected and actual earnings on Pension Plan investments	5,747,754	4,046,551	-	6,789,801
Changes in proportion and differences between System Pension Plan contributions and proportionate share of contributions	521,768	-	394,312	544,558
System Pension Plan contributions subsequent to the measurement date	649,744	531,758	-	-
Total	$ 9,967,047	$ 6,553,676	$ 601,345	$ 7,606,830

The deferred outflows of resources related to the Pension Plan resulting from System contributions to the Plan subsequent to the measurement date, totaling $649,744, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2017. 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:

Fiscal Year Ending September 30:	Amount
2017	$ 1,161,678
2018	1,161,678
2019	3,402,509
2020	2,400,984
2021	439,783
Thereafter	149,326

Continued

H. RETIREMENT SYSTEMS, Continued

Actuarial Assumptions – The total pension liability in the July 1, 2016 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	7.60%, 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, 2016 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:

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.0%	3.0%	3.0%	1.7%
Fixed income	18.0%	4.7%	4.6%	4.6%
Global equity	53.0%	8.1%	6.8%	17.2%
Real estate (property)	10.0%	6.4%	5.8%	12.0%
Private equity	6.0%	11.5%	7.8%	30.0%
Strategic investments	12.0%	6.1%	5.6%	11.0%
Total	100.0%			
Assumed Inflation - Mean		2.6%		1.9%

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

Continued

H. RETIREMENT SYSTEMS, Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.60% and 7.65% for the July 1, 2016 and 2015 actuarial valuation, respectively. 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 7.60% and 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 or one percentage point higher than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
System's proportionate share of the net pension liability at September 30, 2016	$ 40,938,121	$ 22,236,076	$ 6,669,093

	1% Decrease (6.65%)	Discount Rate (7.65%)	1% Increase (8.65%)
System's proportionate share of the net pension liability (asset) at September 30, 2015	$ 29,769,178	$ 11,488,452	$ (3,724,114)

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, 2016 and 2015, the System reported de minimis amounts payable for outstanding contributions to the Pension Plan.

Continued

H. RETIREMENT SYSTEMS, Continued

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.

Benefits Provided – For the fiscal year ended September 30, 2016, 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, 2016, the HIS contribution rate was 1.66%. 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 $618,230 and $476,869 for the fiscal years ended September 30, 2016 and 2015, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – The System reported a liability of $13,538,018 and $11,730,484 for its proportionate share of the Board's HIS Plan's net pension liability as of September 30, 2016 and 2015, 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, 2016, the System's proportionate share was 10.39%, which was an increase of 0.03% from its proportionate share of 10.36% measured as of September 30, 2015.

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H. RETIREMENT SYSTEMS, Continued

For the fiscal years ended September 30, 2016 and 2015, the System recognized pension expense of $1,144,038 and $905,370, respectively. In addition, the System reported deferred outflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources 9/30/16	Deferred Outflows of Resources 9/30/15	Deferred Inflows of Resources 9/30/16	Deferred Inflows of Resources 9/30/15
Differences between expected and actual experience	$ -	$ -	$ 30,835	$ -
Change of assumptions	2,124,459	922,883	-	-
Net difference between projected and actual earnings on HIS Plan investments	6,845	6,350	-	-
Changes in proportion and differences between System HIS Plan contributions and proportionate share of contributions	208,692	174,643	-	-
System HIS Plan contributions subsequent to the measurement date	159,714	136,485	-	-
Total	$ 2,499,710	$ 1,240,361	$ 30,835	$ -

The deferred outflows of resources related to the HIS Plan resulting from System contributions to the HIS Plan subsequent to the measurement date, totaling $159,714, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2017. Other amounts reported as deferred outflows of resources related to the HIS Plan will be recognized in pension expense as follows:

Fiscal Year Ending September 30:	Amount
2017	$ 418,161
2018	418,161
2019	416,858
2020	416,232
2021	349,447
Thereafter	290,302

Continued

H. RETIREMENT SYSTEMS, Continued

Actuarial Assumptions – The total pension liability in the July 1, 2016 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	2.85%

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

The actuarial assumptions used in the July 1, 2016 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 2.85% and 3.80% for the July 1, 2016 and 2015 actuarial valuation, respectively. 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 2.85% and 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 or one percentage point higher than the current rate:

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H. RETIREMENT SYSTEMS, Continued

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
System's proportionate share of the net pension liability at September 30, 2016	$ 15,531,182	$ 13,538,018	$ 11,883,800

	1% Decrease (2.80%)	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

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, 2016 and 2015, 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, individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance

Continued

H. RETIREMENT SYSTEMS, Continued

Program, are funded through an employer contribution and by forfeited benefits of plan members. The employer contribution for the periods from October 1, 2015 through June 30, 2016 and July 1, 2016 through September 30, 2016 were 0.04% and 0.06% of payroll, respectively. Allocations to the investment member's accounts during the 2015-16 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 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, 2016, 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 $397,471 and $397,917 for the fiscal years ended September 30, 2016 and 2015, 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

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I. OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN, Continued

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 2016, the System's AOC payment was $410,588, representing 1.11% of the System's covered payroll amount of $36,864,009. 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. 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.

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 2016 and 2015 at an annual cost of $3,402,939 and $3,210,721, respectively. There have been no claim settlements in excess of insurance coverage during the three fiscal years ended September 30, 2016.

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 $800,000 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 $151.6 million and $95.7 million at September 30, 2016 and 2015, respectively.

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K. COMMITMENTS AND CONTINGENCIES, Continued

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 and Wastewater Utility Revenue Bonds, Series 2016, and 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 in Fiscal Years 2016 and 2015 to the Board's General Fund.

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, 2016

	Budget	Actual
Operating revenues:		
Wastewater service	$ 110,703,912	$ 115,621,395
Water service	46,209,028	48,073,846
Reclaimed water service	5,084,176	7,036,370
Miscellaneous	4,010,986	4,682,680
Total operating revenues	166,008,102	175,414,291
Operating and maintenance expenses:		
Personal services	48,979,380	46,213,348
Contractual services	37,753,929	33,612,259
Materials and supplies	6,554,510	6,408,495
Utilities	13,996,370	12,949,531
Repairs and maintenance	19,249,215	17,907,946
Other expenses	6,887,724	6,868,492
Total operating and maintenance expenses	133,421,128	123,960,071
Operating income, budgetary basis*	32,586,974	51,454,220
Nonoperating revenues (expenses):		
Interest revenue	506,065	1,074,338
Interest expense and fiscal charges	(4,542,114)	(1,771,560)
Total net nonoperating revenues (expenses)	(4,036,049)	(697,222)
Income before contributions and transfer, budgetary basis*	28,550,925	50,756,998
Capital contributions	24,370,268	46,783,497
Transfer out	(7,400,000)	(7,400,000)
Change in net position, budgetary basis*	$ 45,521,193	$ 90,140,495

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

ORANGE COUNTY WATER UTILITIES SYSTEM
BOND AND LOAN COVERAGE COMPUTATION
September 30, 2016

The Board covenants in the bond resolution and 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 revenues (excluding connection fees) in each fiscal year which will equal at least 120% of the annual debt service requirement on all outstanding bonds, and

(b) to produce net revenues in each fiscal year which will equal at least 110% of the annual debt service requirement, and at the same time produce net revenues in each fiscal year which will equal at least 100% of the amounts required by the terms of the Resolution to be deposited in the Reserve Account.

The following represents the coverage computation for the year ending September 30, 2016:

Gross operating revenues	$	175,414,291
Interest income, excluding interest on connection fees		1,004,354
Less operating and maintenance expenses		(124,867,859)
Net operating revenues available for debt service		51,550,786
Less required deposits to specified accounts		(969,012)
Net operating revenues available for debt service	$	50,581,774
Annual debt service requirement for bonds	$	1,008,991
Actual debt coverage (net operating revenues available for debt service divided by annual debt service)		51.13
Required debt coverage		1.10
Net operating revenues less annual debt service requirement for bonds:	$	49,572,783
Annual debt service requirement for loans	$	2,658,673
Annual debt coverage for State Revolving Loans		18.65
Required debt coverage for loans		1.15

ORANGE COUNTY WATER UTILITIES SYSTEM
CUSTOMER STATISTICS, September 30, 2016 and 2015
(Unaudited)

	2016	2015
Number of water accounts:		
Residential	139,485	135,117
Commercial	6,212	5,987
Number of wastewater accounts:		
Residential	108,205	104,360
Commercial	2,699	2,621
OUC billing (2)	42,486	40,668
Water consumption: (1)		
Residential	11,818,379	11,459,889
Commercial	8,095,699	7,928,828
Wastewater consumption: (1)		
Residential	6,736,446	6,505,342
Commercial	6,926,374	6,746,358
OUC billing (2)	7,439,022	7,177,838

(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).