

ORANGE COUNTY WATER UTILITIES SYSTEM
ORANGE COUNTY, FLORIDA
ANNUAL FINANCIAL REPORT
for the years ended September 30, 2017 and 2016

ORANGE COUNTY WATER UTILITIES SYSTEM

ANNUAL FINANCIAL REPORT

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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"), an enterprise fund of Orange County, Florida, as of and for the years ended September 30, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, 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.

A handwritten signature in black ink, appearing to read "Cheryl Behrman" followed by a stylized flourish.

Orlando, Florida
February 20, 2018

ORANGE COUNTY WATER UTILITIES SYSTEM
STATEMENTS OF NET POSITION
September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>		
Current assets:		
Cash and cash equivalents	\$ 116,470,409	\$ 94,314,932
Accrued interest receivable	454,787	246,294
Accounts receivable	20,604,313	18,300,222
Less allowance for doubtful accounts	(202,023)	(121,483)
Due from other governmental agencies	546,602	761,789
Inventories and prepaid costs	3,060,955	2,902,191
Cash and cash equivalents, restricted	37,547,433	34,708,811
Total current assets	<u>178,482,476</u>	<u>151,112,756</u>
Noncurrent assets:		
Cash and cash equivalents, restricted	14,226,466	31,512,511
Accounts receivable	401,860	655,588
Prepaid costs	8,569,233	13,336,975
Nondepreciable capital assets	307,956,843	241,820,031
Depreciable capital assets, net	1,080,323,922	1,075,750,096
Total noncurrent assets	<u>1,411,478,324</u>	<u>1,363,075,201</u>
Total assets	<u>1,589,960,800</u>	<u>1,514,187,957</u>
Deferred outflows of resources:		
Related to pensions	14,989,702	12,466,757
Total assets and deferred outflows of resources	<u>\$ 1,604,950,502</u>	<u>\$ 1,526,654,714</u>
<u>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 36,492,069	\$ 30,345,284
Due to other governmental agencies	443,211	471,379
Net pension liability	343,702	390,296
Payable from restricted assets:		
Accrued interest payable	1,569,479	1,129,412
Loans payable	2,079,479	2,361,337
Customer deposits	10,138,410	9,120,612
Total current liabilities	<u>51,066,350</u>	<u>43,818,320</u>
Noncurrent liabilities:		
Compensated absences payable	1,535,030	1,378,011
Loans payable	74,312,094	54,745,806
Revenue bonds payable (net of unamortized costs)	93,158,794	94,176,939
Net pension liability	38,502,153	35,383,798
Total noncurrent liabilities	<u>207,508,071</u>	<u>185,684,554</u>
Total liabilities	<u>258,574,421</u>	<u>229,502,874</u>
Deferred inflows of resources:		
Related to pensions	2,188,764	632,180
Total liabilities and deferred inflows of resources	<u>260,763,185</u>	<u>230,135,054</u>
<u>NET POSITION</u>		
Net investment in capital assets	1,200,452,392	1,162,296,174
Restricted for:		
Debt service	15,440,115	9,218,364
Operating reserve	24,625,895	29,397,307
Unrestricted	103,668,915	95,607,815
Total net position	<u>1,344,187,317</u>	<u>1,296,519,660</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,604,950,502</u>	<u>\$ 1,526,654,714</u>

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Wastewater service	\$ 122,480,230	\$ 115,621,395
Water service	52,326,367	48,073,846
Reclaimed water service	8,673,961	7,036,370
Miscellaneous	<u>5,922,542</u>	<u>4,682,680</u>
Total operating revenues	<u>189,403,100</u>	<u>175,414,291</u>
Operating and maintenance expenses:		
Personal services	49,363,637	46,213,348
Contractual services	33,040,185	33,612,259
Materials and supplies	6,232,723	6,408,495
Utilities	14,350,795	12,949,531
Repairs and maintenance	16,089,820	17,907,946
Other expenses	6,737,152	6,868,492
Pension liability adjustment expense	<u>2,105,400</u>	<u>907,788</u>
Total operating and maintenance expenses	<u>127,919,712</u>	<u>124,867,859</u>
Operating income before depreciation and amortization	61,483,388	50,546,432
Depreciation and amortization	<u>85,089,702</u>	<u>75,448,387</u>
Operating loss	<u>(23,606,314)</u>	<u>(24,901,955)</u>
Nonoperating revenues (expenses):		
Interest revenue	1,184,175	1,074,338
Interest expense and fiscal charges	(1,704,469)	(1,116,091)
Debt issuance costs	-	(1,341,204)
Loss on disposal of assets	<u>(29,567)</u>	<u>(421,193)</u>
Total net nonoperating revenues (expenses)	<u>(549,861)</u>	<u>(1,804,150)</u>
Loss before contributions and transfers	(24,156,175)	(26,706,105)
Capital contributions	80,023,832	83,401,984
Transfer out	<u>(8,200,000)</u>	<u>(7,400,000)</u>
Change in net position	47,667,657	49,295,879
Total net position, October 1	<u>1,296,519,660</u>	<u>1,247,223,781</u>
Total net position, September 30	<u>\$ 1,344,187,317</u>	<u>\$ 1,296,519,660</u>

See accompanying notes to financial statements.

ORANGE COUNTY WATER UTILITIES SYSTEM
STATEMENTS OF CASH FLOWS
for the years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from customers	\$ 187,772,167	\$ 173,228,657
Cash payments to suppliers for goods and services	(62,406,246)	(82,554,823)
Cash payments to employees for services	(49,020,076)	(47,436,652)
Net cash provided by operating activities	<u>76,345,845</u>	<u>43,237,182</u>
Cash flows from noncapital financing activities:		
Transfer out	(8,200,000)	(7,400,000)
Net cash used by noncapital financing activities	<u>(8,200,000)</u>	<u>(7,400,000)</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of revenue bonds	-	94,530,461
Acquisition and construction of capital assets	(114,185,333)	(97,614,232)
Principal paid on long-term debt	(2,234,749)	(1,870,215)
Interest and fees paid on long-term debt	(3,478,213)	(793,494)
Capital contributions	36,980,978	46,783,497
Proceeds from state revolving fund loan	20,662,721	14,385,846
Proceeds from capital grant	500,200	706,107
Proceeds from disposition of assets	341,229	226,714
Net cash provided (used) by capital and related financing activities	<u>(61,413,167)</u>	<u>56,354,684</u>
Cash flows from investing activities:		
Interest on investments	975,376	993,787
Net cash provided by investing activities	<u>975,376</u>	<u>993,787</u>
Net increase in cash and cash equivalents	7,708,054	93,185,653
Cash and cash equivalents, October 1	<u>160,536,254</u>	<u>67,350,601</u>
Cash and cash equivalents, September 30	<u>\$ 168,244,308</u>	<u>\$ 160,536,254</u>
Classified as:		
Current assets	\$ 116,470,409	\$ 94,314,932
Current assets, restricted	37,547,433	34,708,811
Noncurrent assets, restricted	<u>14,226,466</u>	<u>31,512,511</u>
Total	<u>\$ 168,244,308</u>	<u>\$ 160,536,254</u>

See accompanying notes to financial statements.

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
STATEMENTS OF CASH FLOWS, Continued
for the years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (23,606,314)	\$ (24,901,955)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	85,089,702	75,448,387
Pension expense adjustment	2,105,400	907,788
Allowance for doubtful accounts	80,540	(145,011)
Decrease (increase) in assets:		
Accounts receivable	(2,504,286)	(2,399,554)
Due from other governmental agencies	215,187	(221,100)
Inventories and prepaid costs	4,608,978	(2,552,103)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	9,367,008	(3,730,015)
Due to other governmental agencies	(28,168)	245,907
Customer deposits	1,017,798	584,838
Total adjustments	<u>99,952,159</u>	<u>68,139,137</u>
Net cash provided by operating activities	<u>\$ 76,345,845</u>	<u>\$ 43,237,182</u>
Noncash investing, capital and financing activities:		
Capital assets donated by developers	<u>\$ 43,042,854</u>	<u>\$ 36,618,487</u>

See accompanying notes to financial statements.

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended September 30, 2017 and 2016

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.

Use of Estimates:

The preparation of financial statements requires management to make use of estimates that affect reported amounts. Actual results could differ from estimates.

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.

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ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

Amendments to overall appropriations for any other reasons also require a public hearing prior to adoption. There were no amendments during the 2017 or the 2016 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 qualifying investment pool as provided by Governmental Accounting Standards Board (GASB) Statement No. 79, 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 \$7,954,959 and \$7,116,520 as of September 30, 2017 and 2016 respectively. The System also records receivables for special assessments on certain construction projects. The amount of special assessments receivable included in accounts receivable was \$693,725 and \$1,159,482 as of September 30, 2017 and 2016, respectively. Of these amounts, \$291,865 and \$503,893, 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

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ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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.

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Deferred Outflows and Inflows of Resources:

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

Accounts Payable and Accrued Liabilities:

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

	<u>2017</u>	<u>2016</u>
Due to vendors	\$ 31,388,728	\$ 25,424,347
Salaries and benefits payable	<u>5,103,341</u>	<u>4,920,937</u>
Total	<u>\$ 36,492,069</u>	<u>\$ 30,345,284</u>

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 \$5,230,820 and \$4,994,121 at September 30, 2017 and 2016, respectively. Of these amounts, \$3,695,790 and \$3,616,110, 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, 2017 and 2016, the amount of net interest costs capitalized was \$1,887,749 and \$655,469, respectively.

The total interest cost for the System was \$2,748,978 and \$1,771,560 for the fiscal years ended September 30, 2017 and 2016, respectively.

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**ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016**

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, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Amortization of bond premium	\$ 1,018,145	\$ 353,522
Portion capitalized	1,018,145	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, 2017 and 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 \$11,501,007 and \$10,093,333 as of September 30, 2017 and 2016, respectively.

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ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

B. DEPOSIT AND INVESTMENT RISK

As of September 30, 2017 and 2016, 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>2017</u>	<u>2016</u>	<u>Credit Rating</u>
Demand and time deposits	\$ 6,629,222	\$ 8,153,628	NA
County investment pool:			
Florida PRIME	35,367,066	16,050,325	AAAm
U.S. Treasury Bills	-	1,103,654	A-1+/P-1
U.S. Treasury Notes	117,162,964	117,396,167	A-1+/P-1
Federal instrumentalities:			
Discount notes	-	6,660,232	A-1+/P-1
Notes and bonds	9,083,823	6,048,627	AA+/Aaa
Money market mutual funds	1,233	5,123,621	AAAm/Aaa-mf
Total	<u>\$ 168,244,308</u>	<u>\$ 160,536,254</u>	

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.

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ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

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, 2017, the System's portion of the Board investment pool portfolio was invested in three authorized Instrumentalities, each of which represented 3.1% 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, 2017 and 2016 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, 2017 and 2016, 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 13.8 months and 18.0 months at September 30, 2017 and 2016, respectively. The portfolio did not contain any callable securities at September 30, 2017 and 2016. 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, 2017 and 2016

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, 2017 and 2016:

	<u>Cash and Cash Equivalents</u>
<u>September 30, 2017:</u>	
Operation and maintenance fund	\$ 24,559,674
Revenue fund	66,221
Bond interest account	1,455,517
Bond renewal and replacement fund	8,000,000
Bond reserve account	6,226,466
Loan debt service	567,471
Loan repayment reserve	760,140
Customer deposits	<u>10,138,410</u>
Total restricted assets	51,773,899
Less: current portion	<u>37,547,433</u>
Noncurrent portion	<u><u>\$ 14,226,466</u></u>
<u>September 30, 2016:</u>	
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 interest	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	<u>9,120,612</u>
Total restricted assets	66,221,322
Less: current portion	<u>34,708,811</u>
Noncurrent portion	<u><u>\$ 31,512,511</u></u>

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

D. CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2017 and 2016 was as follows:

	Balance 10/1/2016	Additions	Reductions	Balance 9/30/2017
Capital assets, not being depreciated:				
Land	\$ 102,182,662	\$ 243,222	\$ -	\$ 102,425,884
Construction in progress	139,637,369	105,242,367	(39,348,777)	205,530,959
Total capital assets, not being depreciated	<u>241,820,031</u>	<u>105,485,589</u>	<u>(39,348,777)</u>	<u>307,956,843</u>
Capital assets, being depreciated/amortized:				
Buildings	30,025,584	-	-	30,025,584
Improvements other than buildings	2,009,079,567	64,804,904	-	2,073,884,471
Machinery and equipment	98,680,460	4,182,958	(1,794,286)	101,069,132
Intangible	75,747,268	20,795,587	(263,375)	96,279,480
Total capital assets, being depreciated/amortized	<u>2,213,532,879</u>	<u>89,783,449</u>	<u>(2,057,661)</u>	<u>2,301,258,667</u>
Less accumulated depreciation/amortization for:				
Buildings	(11,367,663)	(1,209,997)	-	(12,577,660)
Improvements other than buildings	(1,040,965,956)	(77,543,256)	-	(1,118,509,212)
Machinery and equipment	(73,179,227)	(5,877,066)	1,674,365	(77,381,928)
Intangible	(12,269,937)	(459,383)	263,375	(12,465,945)
Total accumulated depreciation/amortization	<u>(1,137,782,783)</u>	<u>(85,089,702)</u>	<u>1,937,740</u>	<u>(1,220,934,745)</u>
Total capital assets, being depreciated/amortized, net	<u>1,075,750,096</u>	<u>4,693,747</u>	<u>(119,921)</u>	<u>1,080,323,922</u>
Total System capital assets, net	<u>\$ 1,317,570,127</u>	<u>\$ 110,179,336</u>	<u>\$ (39,468,698)</u>	<u>\$ 1,388,280,765</u>
	Balance 10/1/2015	Additions	Reductions	Balance 9/30/2016
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	<u>285,021,361</u>	<u>96,241,240</u>	<u>(139,442,570)</u>	<u>241,820,031</u>
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	<u>2,037,466,614</u>	<u>179,513,842</u>	<u>(3,447,577)</u>	<u>2,213,532,879</u>
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	<u>(1,065,775,545)</u>	<u>(75,448,387)</u>	<u>3,441,149</u>	<u>(1,137,782,783)</u>
Total capital assets, being depreciated/amortized, net	<u>971,691,069</u>	<u>104,065,455</u>	<u>(6,428)</u>	<u>1,075,750,096</u>
Total System capital assets, net	<u>\$ 1,256,712,430</u>	<u>\$ 200,306,695</u>	<u>\$ (139,448,998)</u>	<u>\$ 1,317,570,127</u>

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

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, 2017 and 2016 is as follows:

	Balance 10/1/16	Additions	Reductions	Balance 9/30/17
Compensated absences payable	\$ 4,994,121	\$ 3,934,309	\$ (3,697,610)	\$ 5,230,820
Revenue bonds payable	89,035,000	-	-	89,035,000
Less unamortized cost:				
Bond premium	5,141,939	-	(1,018,145)	4,123,794
Total revenue bonds payable, net of unamortized costs	94,176,939	-	(1,018,145)	93,158,794
Loans payable	57,107,143	21,332,297	(2,047,867)	76,391,573
Net pension liability	35,774,094	3,071,761	-	38,845,855
System long-term liabilities, including current portion	<u>\$ 192,052,297</u>	<u>\$ 28,338,367</u>	<u>\$ (6,763,622)</u>	<u>\$ 213,627,042</u>
	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	<u>\$ 72,507,089</u>	<u>\$ 127,214,379</u>	<u>\$ (7,669,171)</u>	<u>\$ 192,052,297</u>

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.

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

F. REVENUE BONDS PAYABLE, Continued

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.

The total principal and interest remaining to be paid on this series was \$118,707,122 and \$121,169,060 as of September 30, 2017 and 2016, respectively. The first interest payments were made in Fiscal Year 2017 in the total amount of \$2,461,938. The first principal payment is due October 1, 2018. Total pledged revenue was \$60,933,405 and \$50,581,774 for the fiscal years ended September 30, 2017 and 2016, respectively.

The following is a summary of revenue bonds payable as of September 30, 2017 and 2016:

	<u>September 30</u>	
	<u>2017</u>	<u>2016</u>
<u>\$89,035,000 Water and Wastewater Utility</u> <u>Revenue Bonds, Series 2016:</u>		
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	\$ 89,035,000
Unamortized bond premium	<u>4,123,794</u>	<u>5,141,939</u>
Series 2016 Bonds payable net of unamortized costs	<u>\$ 93,158,794</u>	<u>\$ 94,176,939</u>

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

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016**

F. REVENUE BONDS PAYABLE, Continued

- (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.

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.

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ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

F. REVENUE BONDS PAYABLE, Continued

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.

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.

Utility Reserve Fund - 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.

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ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

F. REVENUE BONDS PAYABLE, Continued

Future principal and interest payments (in thousands) required on the Series 2016 Bonds are as follows as of September 30, 2017:

<u>Fiscal Year</u> <u>Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 1,453	\$ 1,453
2018	3,265	2,906	6,171
2019	3,430	2,743	6,173
2020	3,600	2,571	6,171
2021	3,780	2,391	6,171
2022-2026	21,795	9,062	30,857
2027-2031	24,905	5,953	30,858
2032-2036	28,260	2,593	30,853
Totals	<u>\$ 89,035</u>	<u>\$ 29,672</u>	<u>\$ 118,707</u>

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, 2017.

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 to reflect the final cost of Phase 2 of the construction project. The principal balance outstanding was \$2,877,673 and \$3,169,520 as of September 30, 2017 and 2016, 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 \$4,183,790 and \$4,476,788 as of September 30, 2017 and 2016, 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.

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ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

G. LOANS PAYABLE, Continued

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 \$1,322,531 and \$1,397,181 as of September 30, 2017 and 2016, 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 2017 to the actual amount drawn of \$2,074,266 to reflect the final cost of the construction project. The principal balance outstanding was \$1,443,769 and \$1,364,692 as of September 30, 2017 and 2016, respectively. For this loan, semiannual payments of \$107,500, including interest of 2.38% were due on March 15 and September 15 of each year, from March 2014 through March 2017. Semiannual payments for the period September 15, 2017 through September 15, 2033 were reduced to \$54,517 to reflect the reduction in loan amount.

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 \$2,337,184 and \$2,455,939 as of September 30, 2017 and 2016, 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 \$1,600,973 and \$1,688,840 as of September 30, 2017 and 2016, 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.

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. This was reduced in Fiscal Year 2017 to the actual amount drawn of \$6,297,137 to reflect the final cost of the construction project. The principal balance outstanding was \$5,613,657 and \$5,604,721 as of September 30, 2017 and 2016, respectively. For this loan, semiannual payments of \$210,343, including interest of 2.38%, on the original amount, and 2.34% on the additional amount, were due on March 15 and September 15 of each year,

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

G. LOANS PAYABLE, Continued

from September 15, 2015 through March 15, 2017. Semiannual payments for the period September 15, 2017 through March 15, 2035, were reduced to \$196,801 to reflect the reduction in the loan amount.

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 \$8,331,951 and \$8,296,688 as of September 30, 2017 and 2016, 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, through September 15, 2032.

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 \$3,250,413 and \$3,438,277 as of September 30, 2017 and 2016, 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, 2032.

In September 2013, loan #WW4803D0 was approved for I-Drive Force Main and Reclaimed Water Main Improvements Project in the initial amount of \$7,571,449. This was reduced in Fiscal Year 2017 to the actual amount drawn of \$7,122,045 to reflect the final cost of the construction project. The principal balance outstanding was \$6,476,694 and \$6,228,790 as of September 30, 2017 and 2016, respectively. For this loan, semiannual payments of \$228,846, including interest of 1.92% were due on April 15 and October 15 of each year, from April 15, 2016 through April 15, 2017. Semiannual payments for the period October 15, 2017 through October 15, 2035, were reduced to \$213,138 to reflect the reduction in loan amount.

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 \$38,952,938 and \$18,985,707 as of September 30, 2017 and 2016, 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 \$92,393,061 and \$64,865,000 as of September 30, 2017 and 2016, respectively. Principal and interest paid was \$3,083,307 and \$2,658,673 and total pledged revenue was \$58,027,511 and \$49,572,783 respectively, for the fiscal years ended September 30, 2017 and 2016.

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ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

G. LOANS PAYABLE, Continued

Future principal and interest payments (in thousands) required on the State Revolving Loans are as follows as of September 30, 2017:

<u>Fiscal Year</u> <u>Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,079	\$ 837	\$ 2,916
2019	3,949	1,646	5,595
2020	4,029	1,566	5,595
2021	4,123	1,472	5,595
2022	4,218	1,377	5,595
2023-2027	22,014	5,379	27,393
2028-2032	21,576	2,900	24,476
2033-2037	14,319	824	15,143
2038	84	1	85
Totals	<u>\$ 76,391</u>	<u>\$ 16,002</u>	<u>\$ 92,393</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, 2017 and 2016**

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

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

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, 2016 through June 30, 2017 and from July 1, 2017 through September 30, 2017, respectively, were as follows: Regular--7.52% and 7.92%; Special Risk Administrative Support--28.06% and 34.63%; Special Risk--22.57% and 23.27%; Senior Management Service--21.77% and 22.71%; Elected Officers--42.47% and 45.50%; and DROP participants--12.99% and 13.26%. These employer contribution rates include 1.66% HIS Plan subsidy for the period October 1, 2016 through September 30, 2017.

The System's contributions to the Pension Plan totaled \$2,321,868 and \$2,297,070 for the fiscal years ended September 30, 2017 and 2016, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – The System reported a liability of \$26,070,701 and \$22,236,076 for its proportionate share of the Board's Pension Plan's net pension liability as of September 30, 2017 and 2016, 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

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

H. RETIREMENT SYSTEMS, Continued

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, 2017, the System's proportionate share was 5.98%, which was a decrease of 0.21% from its proportionate share of 6.19% measured as of September 30, 2016.

For the fiscal years ended September 30, 2017 and 2016, the System recognized pension expense of \$4,368,362 and \$3,219,681. In addition, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	Deferred Outflows of Resources		Deferred Inflows of Resources	
	9/30/17	9/30/16	9/30/17	9/30/16
Differences between expected and actual experience	\$ 2,392,663	\$ 1,702,565	\$ 144,418	\$ 207,033
Change of assumptions	8,761,596	1,345,216	-	-
Net difference between projected and actual earnings on Pension Plan investments	-	5,747,754	646,097	-
Changes in proportion and differences between System Pension Plan contributions and proportionate share of contributions	811,168	521,768	266,968	394,312
System Pension Plan contributions subsequent to the measurement date	655,114	649,744	-	-
Total	<u>\$ 12,620,541</u>	<u>\$ 9,967,047</u>	<u>\$ 1,057,483</u>	<u>\$ 601,345</u>

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

H. RETIREMENT SYSTEMS, Continued

The deferred outflows of resources related to the Pension Plan resulting from System contributions to the Plan subsequent to the measurement date, totaling \$655,114, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2018. 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 <u>September 30:</u>	<u>Amount</u>
2018	\$ 1,406,269
2019	3,649,005
2020	2,643,878
2021	679,710
2022	1,848,803
Thereafter	680,279

Actuarial Assumptions – The total pension liability in the July 1, 2017 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	7.10%, 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, 2017 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:

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

H. RETIREMENT SYSTEMS, Continued

<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%	3.0%	3.0%	1.8%
Fixed income	18.0%	4.5%	4.4%	4.2%
Global equity	53.0%	7.8%	6.6%	17.0%
Real estate (property)	10.0%	6.6%	5.9%	12.8%
Private equity	6.0%	11.5%	7.8%	30.0%
Strategic investments	12.0%	6.1%	5.6%	9.7%
Total	<u>100.0%</u>			
Assumed Inflation - Mean		2.6%		1.9%

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

Discount Rate - The discount rate used to measure the total pension liability was 7.10% and 7.60% for the July 1, 2017 and 2016 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 7.10% and 7.60%, 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:

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

H. RETIREMENT SYSTEMS, Continued

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
System's proportionate share of the net pension liability at September 30, 2017	\$ 47,186,394	\$ 26,070,701	\$ 8,539,838
	1% Decrease (6.60%)	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

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, 2017 and 2016, 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.

Benefits Provided – For the fiscal year ended September 30, 2017, 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.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016**

H. RETIREMENT SYSTEMS, Continued

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, 2017, 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 \$645,964 and \$618,230 for the fiscal years ended September 30, 2017 and 2016, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – The System reported a liability of \$12,775,154 and \$13,538,018 for its proportionate share of the Board's HIS Plan's net pension liability as of September 30, 2017 and 2016, 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 prepared as of July 1, 2016. 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, 2017, the System's proportionate share was 10.45%, which was an increase of 0.06% from its proportionate share of 10.39% measured as of September 30, 2016.

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ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

H. RETIREMENT SYSTEMS, Continued

For the fiscal years ended September 30, 2017 and 2016, the System recognized pension expense of \$1,036,523 and \$1,144,038, respectively. In addition, the System reported deferred outflows 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>9/30/17</u>	<u>9/30/16</u>	<u>9/30/17</u>	<u>9/30/16</u>
Differences between expected and actual experience	\$ -	\$ -	\$ 26,600	\$ 30,835
Change of assumptions	1,795,747	2,124,459	1,104,681	-
Net difference between projected and actual earnings on HIS Plan investments	7,085	6,845	-	-
Changes in proportion and differences between System HIS Plan contributions and proportionate share of contributions	392,041	208,692	-	-
System HIS Plan contributions subsequent to the measurement date	<u>174,288</u>	<u>159,714</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,369,161</u>	<u>\$ 2,499,710</u>	<u>\$ 1,131,281</u>	<u>\$ 30,835</u>

The deferred outflows of resources related to the HIS Plan resulting from System contributions to the HIS Plan subsequent to the measurement date, totaling \$174,288, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2018. 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>
2018	\$ 287,829
2019	286,488
2020	285,845
2021	217,524
2022	110,304
Thereafter	(124,398)

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016**

H. RETIREMENT SYSTEMS, Continued

Actuarial Assumptions – The total pension liability in the July 1, 2017 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	3.58%

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

The actuarial assumptions used to determine the July 1 valuations, 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 3.58% and 2.85% for the July 1, 2017 and 2016 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 3.58% and 2.85%, 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:

Continued

ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016

H. RETIREMENT SYSTEMS, Continued

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
System's proportionate share of the net pension liability at September 30, 2017	\$ 14,578,142	\$ 12,775,154	\$ 11,273,364
	1% Decrease (1.85%)	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

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, 2017 and 2016, 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

**ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016**

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, 2016 through September 30, 2017 was 0.06% of payroll. Allocations to the investment member's accounts during the 2016-17 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, 2017, 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 \$453,509 and \$397,471 for the fiscal years ended September 30, 2017 and 2016, 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. 74 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

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016**

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 2017, the System's AOC payment was \$465,144, representing 1.19% of the System's covered payroll amount of \$39,051,967. 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. 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 2017 and 2016 at an annual cost of \$2,928,310 and \$3,402,939, respectively. There have been no claim settlements in excess of insurance coverage during the three fiscal years ended September 30, 2017.

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 \$1 million 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 \$115.5 million and \$151.6 million at September 30, 2017 and 2016, respectively.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2017 and 2016**

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. 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 \$8,200,000 and \$7,400,000 in Fiscal Years 2017 and 2016, respectively, 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, 2017

	<u>Budget</u>	<u>Actual</u>
Operating revenues:		
Wastewater service	\$ 120,345,919	\$ 122,480,230
Water service	49,122,537	52,326,367
Reclaimed water service	7,112,405	8,673,961
Miscellaneous	<u>4,011,395</u>	<u>5,922,542</u>
Total operating revenues	<u>180,592,256</u>	<u>189,403,100</u>
Operating and maintenance expenses:		
Personal services	51,277,134	49,363,637
Contractual services	41,745,159	33,040,185
Materials and supplies	7,265,035	6,232,723
Utilities	14,544,473	14,350,795
Repairs and maintenance	19,223,841	16,089,820
Other expenses	<u>7,590,631</u>	<u>6,737,152</u>
Total operating and maintenance expenses	<u>141,646,273</u>	<u>125,814,312</u>
Operating income, budgetary basis*	<u>38,945,983</u>	<u>63,588,788</u>
Nonoperating revenues (expenses):		
Interest revenue	1,109,666	1,184,175
Interest expense and fiscal charges	<u>(6,338,970)</u>	<u>(3,592,218)</u>
Total net nonoperating revenues (expenses)	<u>(5,229,304)</u>	<u>(2,408,043)</u>
Income before contributions and transfer, budgetary basis*	33,716,679	61,180,745
Capital contributions	22,381,916	36,980,978
Transfer out	<u>(8,200,000)</u>	<u>(8,200,000)</u>
Change in net position, budgetary basis*	<u>\$ 47,898,595</u>	<u>\$ 89,961,723</u>

*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, 2017**

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, 2017:

Gross operating revenues	\$ 189,403,100
Interest income, excluding interest on connection fees	852,927
Less operating and maintenance expenses	<u>(127,919,712)</u>
Net operating revenues available for debt service	<u>62,336,315</u>
Less required deposits to specified accounts	<u>(1,402,910)</u>
Net operating revenues available for debt service	<u>\$ 60,933,405</u>
Annual debt service requirement for bonds	<u>\$ 2,905,894</u>
Actual debt coverage (net operating revenues available for debt service divided by annual debt service)	20.97
Required debt coverage	1.10
Net operating revenues less annual debt service requirement for bonds:	<u>\$ 58,027,511</u>
Annual debt service requirement for loans	<u>\$ 3,083,307</u>
Annual debt coverage for State Revolving Loans	18.82
Required debt coverage for loans	1.15

ORANGE COUNTY WATER UTILITIES SYSTEM
CUSTOMER STATISTICS, September 30, 2017 and 2016
(Unaudited)

	<u>2017</u>	<u>2016</u>
Number of water accounts:		
Residential	138,593	135,191
Commercial	4,068	3,968
 Number of wastewater accounts:		
Residential	107,984	104,240
Commercial	2,566	2,505
OUC billing (2)	42,621	42,468
 Water consumption: (1)		
Residential	12,364,710	11,818,379
Commercial	8,506,683	8,095,699
 Wastewater consumption: (1)		
Residential	7,002,162	6,736,446
Commercial	7,109,524	6,926,374
OUC billing (2)	7,439,483	7,439,022

(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 2016 has been updated from that previously reported.