



REEDY CREEK IMPROVEMENT DISTRICT

Lake Buena Vista, Florida

Annual Financial Report Year Ended September 30, 2007



Forty Years of Governmental Excellence

REEDY CREEK IMPROVEMENT DISTRICT
(LOCATED IN ORANGE AND OSECOLA COUNTIES)
1900 HOTEL PLAZA BOULEVARD
LAKE BUENA VISTA, FLORIDA

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Ernst & Young LLP
Orlando, Florida

REEDY CREEK IMPROVEMENT DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2007

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Report of Independent Certified Public Accountants

The Honorable Board of Supervisors
Reedy Creek Improvement District
Lake Buena Vista, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Reedy Creek Improvement District (the District) as of and for the year ended September 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the District's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the District as of September 30, 2007, and the changes in financial position and, where applicable, cash flows thereof and budgetary comparison information for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2008 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and condition rating of the District's infrastructure and comparison of needed-to-actual maintenance preservation on pages 3 through 10 and 44 through 47, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst & Young LLP

January 18, 2008

REEDY CREEK IMPROVEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Reedy Creek Improvement District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2007. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

Financial Highlights

- The assets of the District exceeded liabilities at the close of the most recent fiscal year by \$45,329,996 (*net assets*).
- The District's total net assets increased during the year by \$22,404,038.
- The District's total noncurrent liabilities decreased by \$32,032,614 during the year.
- As of September 30, 2007, the District's governmental funds reported combined ending fund balances of \$53,644,984, an increase of \$529,775 in comparison with the prior year. Approximately 26% of this total amount is *available for spending* at the government's discretion (*unreserved fund balance*).
- At September 30, 2007, unreserved fund balance for the general fund was \$13,978,877, or 30% of total general fund expenditures, including transfers.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., arbitrage rebate owed but not due until a future year and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include general government, public safety, physical environment and transportation. The business-type activities of the District include water, wastewater, reuse, gas, solid waste, chilled water, hot water and electric utility operations.

The government-wide financial statements can be found on pages 11 – 12 of this report.

REEDY CREEK IMPROVEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and *governmental activities*.

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and the capital projects fund, all of which are considered to be major funds.

The District adopts an annual legally appropriated budget for its general fund and debt service fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 13 – 16 of this report.

Proprietary funds. The District maintains one proprietary fund, the Utility Enterprise Fund. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The District uses its enterprise fund to account for its eight utility operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements can be found on pages 17 – 19 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 – 43 of this report.

REEDY CREEK IMPROVEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$45,329,996 at September 30, 2007.

District's Net Assets

	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Current and noncurrent assets	\$ 61,424,739	\$ 60,669,505	\$ 131,007,480	\$ 133,323,847	\$ 192,432,219	\$ 193,993,352
Capital assets	244,420,952	241,468,433	306,835,010	316,659,503	551,255,962	558,127,936
Total assets	305,845,691	302,137,938	437,842,490	449,983,350	743,688,181	752,121,288
Current liabilities *	24,764,488	24,060,660	49,541,500	49,049,859	74,305,988	73,110,519
Noncurrent liabilities	256,009,347	268,364,725	368,042,850	387,720,086	624,052,197	656,084,811
Total liabilities	280,773,835	292,425,385	417,584,350	436,769,945	698,358,185	729,195,330
Net assets:						
Invested in capital assets, net of related debt	168,871,738	157,166,129	(21,974,485)	(14,318,096)	146,897,253	142,848,033
Restricted	7,518,467	8,123,264	4,033,101	3,894,908	11,551,568	12,018,172
Unrestricted	(151,318,349)	(155,576,840)	38,199,524	23,636,593	(113,118,825)	(131,940,247)
Total net assets	\$ 25,071,856	\$ 9,712,553	\$ 20,258,140	\$ 13,213,405	\$ 45,329,996	\$ 22,925,958

* includes current liabilities payable from restricted assets

The District's net assets include: 1) investment in capital assets (e.g., land, land improvements, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide infrastructure and services to businesses operating within the District; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities, 2) assets restricted for non operating uses such as capital and debt service, and 3) unrestricted assets. The investment in capital assets, net of related debt continues to increase as the related debt is paid.

Governmental activities reflect negative unrestricted net asset balances due to the financing, with long-term bonds of the District, of certain roadways that were subsequently donated to the State of Florida and long-term bonds issued in order to contribute to Osceola County's refinancing of their Transportation Improvement Bonds (Osceola Parkway). The roadways are not assets of the District, however the remaining debt associated with the roadways is a liability of the District amounting to approximately \$157 million. All of the bonds are Ad Valorem Tax bonds secured by an irrevocable lien on the ad valorem taxes collected by the District.

Business-type activities reflect a negative amount for invested in capital assets, net of related debt. This is due to the accumulated depreciation expense, which is netted against capital assets, exceeding the payments of principal on the bonds. Although the depreciable lives of the assets are matched up with the duration of the bonds, during the early years the primary portion of the debt service was interest expense, thus resulting in the debt carried on the books exceeding the depreciated value of the capital assets. As the principal portion of the debt service increases, as it has begun to do, this negative balance will reverse.

REEDY CREEK IMPROVEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

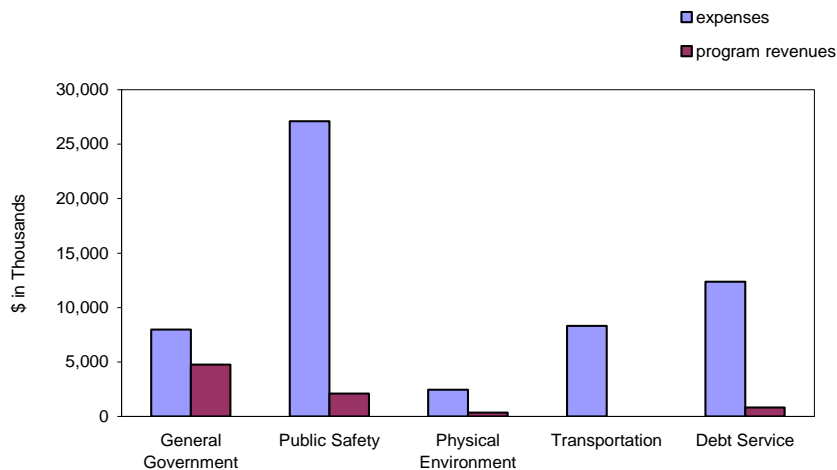
District's Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 2,536,641	\$ 1,590,377	\$ 192,341,419	\$ 181,688,122	\$ 194,878,060	\$ 183,278,499
Capital contributions	5,510,577	3,699,082	186,083	179,781	5,696,660	3,878,863
General revenues:						
Ad Valorem taxes-net	63,655,861	62,642,700	-	-	63,655,861	62,642,700
Interest income	4,081,545	3,227,028	3,785,186	3,929,818	7,866,731	7,156,846
Gain on sale of capital assets	1,050,011	-	1,910,838	-	-	-
Total revenues	76,834,635	71,159,187	198,223,526	185,797,721	275,058,161	256,956,908
Expenses:						
General Government	7,974,954	7,341,399	-	-	7,974,954	7,341,399
Public Safety	27,102,584	23,995,485	-	-	27,102,584	23,995,485
Physical Environment	2,452,012	3,306,886	-	-	2,452,012	3,306,886
Transportation	8,304,119	5,979,223	-	-	8,304,119	5,979,223
Utility operations	-	-	175,158,604	164,456,426	175,158,604	164,456,426
Interest on long-term debt	12,369,606	12,986,463	19,292,244	19,804,110	31,661,850	32,790,573
Total expenses	58,203,275	53,609,456	194,450,848	184,260,536	252,654,123	237,869,992
Increases (decreases) in net assets before transfers						
	18,631,360	17,549,731	3,772,678	1,537,185	22,404,038	19,086,916
Transfers	(3,272,057)	(2,769,508)	3,272,057	2,769,508	-	-
Change in net assets	15,359,303	14,780,223	7,044,735	4,306,693	22,404,038	19,086,916
Net assets - beginning	9,712,553	(5,067,670)	13,213,405	8,906,712	22,925,958	3,839,042
Net assets - ending	\$ 25,071,856	\$ 9,712,553	\$ 20,258,140	\$ 13,213,405	\$ 45,329,996	\$ 22,925,958

Governmental activities. Capital contributions increased due to an increased contribution from the Osceola Parkway. Ad valorem tax increased slightly due to increased assessed values for the year. Investment balances and interest rates in fiscal year 2007 were higher throughout the year generating increased interest income.

Business-type activities. Charges for services and utility operations expenses increased primarily due to increased fuel costs for the year.

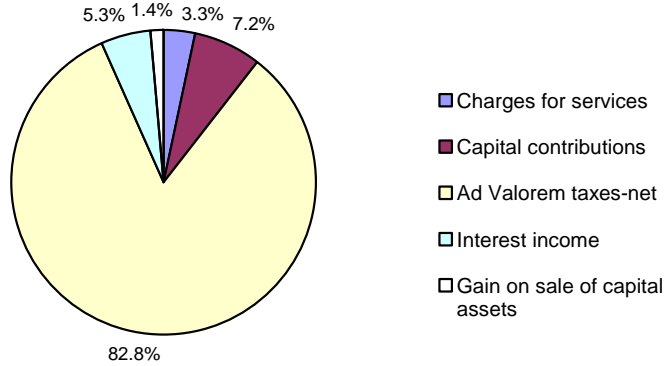
Expenses and Program Revenues – Governmental Activities



REEDY CREEK IMPROVEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

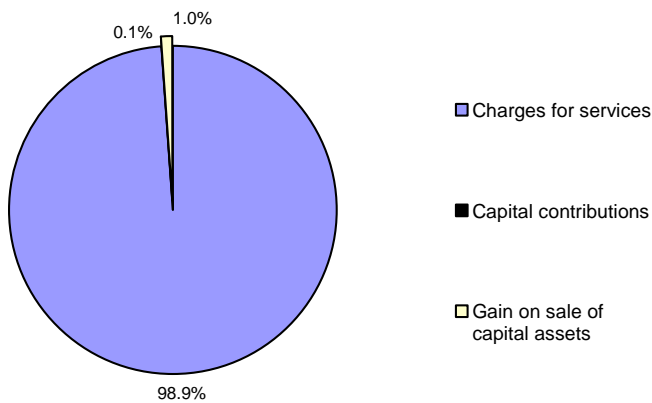
Total Revenue by Source – Governmental Activities



Expenses and Program Revenues – Business-type Activities



Revenue by Source – Business-type Activities



REEDY CREEK IMPROVEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of September 30, 2007, the District's governmental funds reported combined fund balances of \$53,644,984. Approximately 26% of the total amount constitutes *unreserved fund balance* which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to pay for capital projects out of drainage impact fees or bond proceeds (\$38,170,459) and to pay debt service (\$1,495,648).

The general fund is the chief operating fund of the District. At September 30, 2007, unreserved fund balance of the general fund was \$13,978,877, while total fund balance reached \$20,001,696. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 30% of the total general fund expenditures (including transfers), while total fund balance represents 42% of that same amount. The fund balance of the District's general fund increased by \$2,599,837 primarily due to the delay of budgeted projects to fiscal year 2008.

The debt service fund has a total fund balance of \$1,495,648, all of which is reserved for the payment of debt service.

Proprietary fund. The District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Utility Fund at the end of the year amounted to \$38,199,524. Total net assets increased by \$7,044,735 from the previous year.

General Fund Budgetary Highlights

There were no amendments to the budget during the year.

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental and business type activities as of September 30, 2007 amounted to \$551,255,962 (net of accumulated depreciation). This investment in capital assets includes land, buildings and utility systems, improvements, machinery and equipment, roads, highways, drainage systems and bridges.

Additional information on the District's capital assets can be found in Note 4 of the financial statements.

REEDY CREEK IMPROVEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

District's Capital Assets

(net of depreciation)

	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 2,759,771	\$ 3,034,228	\$ 6,889,948	\$ 7,210,602	\$ 9,649,719	\$ 10,244,830
Buildings and system	10,963,710	11,401,821	31,555,830	33,116,889	42,519,540	44,518,710
Improvements other than buildings	-	-	98,969,088	104,521,530	98,969,088	104,521,530
Machinery and equipment	8,549,928	8,307,862	161,698,534	164,719,784	170,248,462	173,027,646
Infrastructure	218,997,122	217,841,397	-	-	218,997,122	217,841,397
Construction in progress	3,150,421	883,125	7,721,610	7,090,698	10,872,031	7,973,823
Total	\$ 244,420,952	\$ 241,468,433	\$ 306,835,010	\$ 316,659,503	\$ 551,255,962	\$ 558,127,936

Long-term debt. At September 30, 2007, the District had total long-term bonded debt outstanding of \$651,257,161. Of this amount, \$264,514,011 comprised debt backed by the full faith and credit of the District and \$386,743,150 is secured by the revenues generated by the District's Utilities. During the year, the District's total long-term debt decreased by \$32,092,507 (5%).

The District has received ratings of "A" from Standard and Poor's, "A-" from Fitch and "A3" from Moody's for the Ad Valorem Tax general obligation bonds and ratings of "A-" from Standard and Poor's, "A-" from Fitch and "A3" from Moody's for the Utility Revenue bonds, however all of the District's outstanding debt is insured therefore maintaining a AAA rating. Additional information on the District's long-term debt can be found in Note 7 of the financial statements.

District's Outstanding Long-term Debt

General Obligation and Revenue Bonds

	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 264,514,011	\$ 278,543,582	\$ -	\$ -	\$ 264,514,011	\$ 278,543,582
Revenue bonds	-	-	386,743,150	404,806,086	386,743,150	404,806,086
Total	\$ 264,514,011	\$ 278,543,582	\$ 386,743,150	\$ 404,806,086	\$ 651,257,161	\$ 683,349,668

Infrastructure Assets. As demonstrated in the Required Supplementary Information on pages 44 – 47 of this report there have been no significant changes in the assessed condition of the roads, bridges and water control structures that use the modified approach for infrastructure reporting. The current conditions of all of the assets except a few water control structures are within the established levels maintained by the District. The timing of the repairs of the Priority 1 structures has been difficult primarily due to weather conditions and water levels. The repairs are currently expected to be completed in fiscal years 2008 and 2009. These repairs, which have been budgeted but not able to be completed in fiscal years 2006 and 2007, are the primary difference between the amounts budgeted and the actual maintenance and preservation costs.

REEDY CREEK IMPROVEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate of the Central Florida area is currently averaging 4.0 percent. This compares favorably to the state's average unemployment rate of 4.2 percent and the national average rate of 4.7 percent.
- The hotel occupancy rates have remained stable over the year; however room rates of the government's central business district and the Central Florida area have been having steady increases over the prior year.
- Inflationary trends in the region compare favorably to national indices.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provide in this report or requests for additional financial information should be addressed to the Reedy Creek Improvement District, Comptroller, 1900 Hotel Plaza Blvd., P.O. Box 10,170, Lake Buena Vista, Florida 32830.

REEDY CREEK IMPROVEMENT DISTRICT

STATEMENT OF NET ASSETS

September 30, 2007

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,457,958	\$ 14,384,482	\$ 16,842,440
Investments	2,634,421	-	2,634,421
Accounts receivable	116,653	19,655,442	19,772,095
Due from other governments	4,341,414	-	4,341,414
Internal balances	80,522	(80,522)	-
Restricted Assets:			
Cash and cash equivalents	19,126,661	57,542,739	76,669,400
Investments	3,093,611	22,179,216	25,272,827
Inventories	-	5,410,525	5,410,525
Prepays	773,426	252,070	1,025,496
Deposits	30,000	-	30,000
Total current assets	<u>32,654,666</u>	<u>119,343,952</u>	<u>151,998,618</u>
Noncurrent assets:			
Investments	12,117,494	-	12,117,494
Restricted investments	14,229,618	8,698,057	22,927,675
Other assets	2,422,961	2,965,471	5,388,432
Nondepreciable capital assets	224,907,314	14,611,558	239,518,872
Depreciable capital assets, net	19,513,638	292,223,452	311,737,090
Total noncurrent assets	<u>273,191,025</u>	<u>318,498,538</u>	<u>591,689,563</u>
Total Assets	<u>305,845,691</u>	<u>437,842,490</u>	<u>743,688,181</u>
LIABILITIES			
Current liabilities:			
Accounts payable	2,655,492	17,654,961	20,310,453
Accrued liabilities	751,379	1,384,834	2,136,213
Fuel contracts	-	338,678	338,678
Due to principal landowner	-	744,300	744,300
Total current liabilities	<u>3,406,871</u>	<u>20,122,773</u>	<u>23,529,644</u>
Current liabilities payable from restricted assets:			
Bonds payable	14,455,000	19,445,000	33,900,000
Accrued interest payable	4,031,897	9,670,474	13,702,371
Contracts and retainage payable	2,870,720	303,253	3,173,973
Total current liabilities payable from restricted assets	<u>21,357,617</u>	<u>29,418,727</u>	<u>50,776,344</u>
Noncurrent liabilities:			
Compensated absences payable	1,013,643	-	1,013,643
Arbitrage rebate payable	136,693	-	136,693
Self insurance liability	4,800,000	-	4,800,000
Bonds payable	250,059,011	367,298,150	617,357,161
Due to principal landowner	-	744,700	744,700
Total noncurrent liabilities	<u>256,009,347</u>	<u>368,042,850</u>	<u>624,052,197</u>
Total Liabilities	<u>280,773,835</u>	<u>417,584,350</u>	<u>698,358,185</u>
NET ASSETS			
Invested in capital assets, net of related debt	168,871,738	(21,974,485)	146,897,253
Restricted for:			
Capital projects	6,022,819	-	6,022,819
Debt service	1,495,648	-	1,495,648
Renewal and replacement	-	3,533,101	3,533,101
Emergency repairs	-	500,000	500,000
Unrestricted	<u>(151,318,349)</u>	<u>38,199,524</u>	<u>(113,118,825)</u>
Total Net Assets	<u>\$ 25,071,856</u>	<u>\$ 20,258,140</u>	<u>\$ 45,329,996</u>

The accompanying notes are an integral part of these financial statements.

REEDY CREEK IMPROVEMENT DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2007

	Business-type Activities		Total Governmental Activities
	Total	Utility	
Expenses:			
Labor	\$ 52,677,210	\$ 25,409,119	\$ 27,268,091
Operating expenses	140,227,246	124,377,146	15,850,100
Depreciation	26,578,507	23,863,029	2,715,478
Nonoperating expenses	1,509,310	1,509,310	-
Interest on debt	31,661,850	19,292,244	12,369,606
Total expenses	<u>252,654,123</u>	<u>194,450,848</u>	<u>58,203,275</u>
Program revenues:			
Charges for services	194,878,060	192,341,419	2,536,641
Capital contributions	5,696,660	186,083	5,510,577
Total program revenues	<u>200,574,720</u>	<u>192,527,502</u>	<u>8,047,218</u>
Net program expense	<u>52,079,403</u>	<u>1,923,346</u>	<u>50,156,057</u>
General revenues:			
Ad valorem taxes	63,655,861	-	63,655,861
Interest income	7,866,731	3,785,186	4,081,545
Gain on sale of capital assets	2,960,849	1,910,838	1,050,011
Transfers in (out)	-	3,272,057	(3,272,057)
Total general revenues and transfers	<u>74,483,441</u>	<u>8,968,081</u>	<u>65,515,360</u>
Change in net assets	22,404,038	7,044,735	15,359,303
Total net assets - beginning	<u>22,925,958</u>	<u>13,213,405</u>	<u>9,712,553</u>
Total net assets - ending	<u>\$ 45,329,996</u>	<u>\$ 20,258,140</u>	<u>\$ 25,071,856</u>

The accompanying notes are an integral part of these financial statements.

Governmental Activities

<u>General Government</u>	<u>Public Safety</u>	<u>Physical Environment</u>	<u>Transportation</u>	<u>Debt Service</u>
\$ 3,202,581	\$ 23,215,124	\$ 850,386	\$ -	\$ -
3,850,037	2,155,778	1,540,166	8,304,119	-
922,336	1,731,682	61,460	-	-
-	-	-	-	-
-	-	-	-	12,369,606
<u>7,974,954</u>	<u>27,102,584</u>	<u>2,452,012</u>	<u>8,304,119</u>	<u>12,369,606</u>
435,128	2,101,513	-	-	-
4,333,413	-	357,589	-	819,575
<u>4,768,541</u>	<u>2,101,513</u>	<u>357,589</u>	<u>-</u>	<u>819,575</u>
<u>\$ 3,206,413</u>	<u>\$ 25,001,071</u>	<u>\$ 2,094,423</u>	<u>\$ 8,304,119</u>	<u>\$ 11,550,031</u>

The accompanying notes are an integral part of these financial statements.

REEDY CREEK IMPROVEMENT DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2007

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,457,958	\$ 168,115	\$ 18,958,546	\$ 21,584,619
Investments	2,634,421	230,980	2,862,631	5,728,032
Accounts receivable	82,535	34,118	-	116,653
Due from other governments	4,341,414	-	-	4,341,414
Due from other funds	80,522	-	-	80,522
Prepays	773,426	-	-	773,426
Deposits	-	-	30,000	30,000
Total current assets	<u>10,370,276</u>	<u>433,213</u>	<u>21,851,177</u>	<u>32,654,666</u>
Investments	<u>12,117,494</u>	<u>1,062,435</u>	<u>13,167,183</u>	<u>26,347,112</u>
Total assets	<u>\$ 22,487,770</u>	<u>\$ 1,495,648</u>	<u>\$ 35,018,360</u>	<u>\$ 59,001,778</u>
LIABILITIES AND FUND BALANCES				
Current liabilities:				
Accounts payable	\$ 1,734,695	\$ -	\$ 2,870,720	\$ 4,605,415
Accrued liabilities	751,379	-	-	751,379
Total current liabilities	<u>2,486,074</u>	<u>-</u>	<u>2,870,720</u>	<u>5,356,794</u>
Fund balances:				
Reserved for capital projects	6,022,819	-	32,147,640	38,170,459
Reserved for debt service	-	1,495,648	-	1,495,648
Unreserved	13,978,877	-	-	13,978,877
Total fund balances	<u>20,001,696</u>	<u>1,495,648</u>	<u>32,147,640</u>	<u>53,644,984</u>
Total liabilities and fund balances	<u>\$ 22,487,770</u>	<u>\$ 1,495,648</u>	<u>\$ 35,018,360</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Bond issuance costs are not financial resources and, therefore, are not reported in the funds.	2,422,961
Accrued interest payable on bonds not currently due is not reported in the funds.	(4,031,897)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	244,420,952
Some liabilities, including bonds payable and other liabilities are not due and payable in the current period and therefore are not reported in the funds.	(271,385,144)
Net assets of governmental activities	<u>\$ 25,071,856</u>

The accompanying notes are an integral part of these financial statements.

REEDY CREEK IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2007

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES				
Ad valorem taxes	\$ 39,465,849	\$ 24,190,012	\$ -	\$ 63,655,861
Intergovernmental	4,333,413	819,575	-	5,152,988
Emergency services	160,583	-	-	160,583
Building permits and fees	1,940,930	-	-	1,940,930
Drainage fees	357,589	-	-	357,589
Interest income	1,654,900	613,760	1,949,578	4,218,238
Post office	170,049	-	-	170,049
Other	1,620,152	-	-	1,620,152
Total revenues	<u>49,703,465</u>	<u>25,623,347</u>	<u>1,949,578</u>	<u>77,276,390</u>
EXPENDITURES				
Current:				
General government	7,043,022	-	-	7,043,022
Public safety	23,227,340	-	-	23,227,340
Physical environment	2,388,338	-	-	2,388,338
Transportation	8,304,119	-	-	8,304,119
Capital outlay	2,868,752	-	3,115,866	5,984,618
Debt service:				
Principal	-	13,875,000	-	13,875,000
Interest and other charges	-	12,652,121	-	12,652,121
Total expenditures	<u>43,831,571</u>	<u>26,527,121</u>	<u>3,115,866</u>	<u>73,474,558</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,871,894</u>	<u>(903,774)</u>	<u>(1,166,288)</u>	<u>3,801,832</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	<u>(3,272,057)</u>	-	-	<u>(3,272,057)</u>
Total other financing sources (uses)	<u>(3,272,057)</u>	-	-	<u>(3,272,057)</u>
Net changes in fund balances	2,599,837	(903,774)	(1,166,288)	529,775
Fund Balances, beginning of year	<u>17,401,859</u>	<u>2,399,422</u>	<u>33,313,928</u>	<u>53,115,209</u>
Fund Balances, end of year	<u>\$ 20,001,696</u>	<u>\$ 1,495,648</u>	<u>\$ 32,147,640</u>	<u>\$ 53,644,984</u>

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances	\$ 529,775
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	3,269,140
The net effect of various miscellaneous transactions involving capital assets resulted in a decrease in net assets.	(316,621)
Governmental funds report the payment of the bond principal and interest when the current financial resources are available and payments are due and they report the payment of issuance costs, premiums, discounts, and similar items when debt is first issued. However, on the statement of activities interest is accrued and bond related costs are deferred and amortized.	14,157,515
Increases in other liabilities reported as expenses in the statement of activities not requiring the use of current financial resources in governmental funds.	(2,280,506)
Change in net assets of governmental activities	<u>\$ 15,359,303</u>

The accompanying notes are an integral part of these financial statements.

REEDY CREEK IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended September 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Ad valorem taxes	\$ 39,902,231	\$ 39,902,231	\$ 39,465,849	\$ (436,382)
Intergovernmental revenue	2,700,000	2,700,000	4,333,413	1,633,413
Emergency services	-	-	160,583	160,583
Building permits and fees	750,000	750,000	1,940,930	1,190,930
Drainage fees	-	-	357,589	357,589
Interest income	700,000	700,000	1,654,900	954,900
Post office	178,000	178,000	170,049	(7,951)
Other	300,000	300,000	1,620,152	1,320,152
Total Revenues	<u>44,530,231</u>	<u>44,530,231</u>	<u>49,703,465</u>	<u>5,173,234</u>
EXPENDITURES				
GENERAL GOVERNMENT				
Administrative:				
Labor	1,331,328	1,331,328	1,328,022	3,306
Operating	2,893,775	2,893,775	2,574,797	318,978
	<u>4,225,103</u>	<u>4,225,103</u>	<u>3,902,819</u>	<u>322,284</u>
Personnel services:				
Labor	423,287	423,287	373,588	49,699
Operating	169,300	169,300	273,894	(104,594)
	<u>592,587</u>	<u>592,587</u>	<u>647,482</u>	<u>(54,895)</u>
Information services:				
Labor	852,624	852,624	836,432	16,192
Operating	706,950	719,350	754,690	(35,340)
Capital outlay	436,935	320,535	232,516	88,019
	<u>1,996,509</u>	<u>1,892,509</u>	<u>1,823,638</u>	<u>68,871</u>
Support services:				
Labor	475,866	475,866	425,719	50,147
Operating	252,750	192,250	164,759	27,491
	<u>728,616</u>	<u>668,116</u>	<u>590,478</u>	<u>77,638</u>
Post office:				
Labor	222,945	222,945	229,224	(6,279)
Operating	94,650	94,650	81,897	12,753
Capital outlay	100,000	100,000	124,414	(24,414)
	<u>417,595</u>	<u>417,595</u>	<u>435,535</u>	<u>(17,940)</u>
TOTAL GENERAL GOVERNMENT	<u>7,960,410</u>	<u>7,795,910</u>	<u>7,399,952</u>	<u>395,958</u>
PUBLIC SAFETY				
Building and safety:				
Labor	2,196,301	2,196,301	2,012,541	183,760
Operating	170,100	170,100	86,264	83,836
Capital outlay	270,000	270,000	143,274	126,726
	<u>2,636,401</u>	<u>2,636,401</u>	<u>2,242,079</u>	<u>394,322</u>

The accompanying notes are an integral part of these financial statements.

REEDY CREEK IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND
ACTUAL - CONTINUED
GENERAL FUND
For the Year Ended September 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Emergency services:				
Labor	18,403,655	18,403,656	18,845,431	(441,775)
Operating	1,353,000	1,355,000	1,097,560	257,440
Capital outlay	1,691,335	1,793,335	1,327,205	466,130
	<u>21,447,990</u>	<u>21,551,991</u>	<u>21,270,196</u>	<u>281,795</u>
Support services:				
Labor	229,869	229,869	225,149	4,720
Operating	976,500	987,000	960,395	26,605
Capital outlay	4,500	4,500	-	4,500
	<u>1,210,869</u>	<u>1,221,369</u>	<u>1,185,544</u>	<u>35,825</u>
TOTAL PUBLIC SAFETY	<u>25,295,260</u>	<u>25,409,761</u>	<u>24,697,819</u>	<u>711,942</u>
PHYSICAL ENVIRONMENT				
Water control:				
Operating	2,523,000	2,523,000	646,023	1,876,977
Capital outlay	25,000	25,000	14,645	10,355
	<u>2,548,000</u>	<u>2,548,000</u>	<u>660,668</u>	<u>1,887,332</u>
Groves:				
Operating	15,000	15,000	14,955	45
Planning and engineering:				
Labor	876,433	876,433	848,172	28,261
Operating	965,858	965,858	702,798	263,060
Capital outlay	63,000	63,000	56,198	6,802
	<u>1,905,291</u>	<u>1,905,291</u>	<u>1,607,168</u>	<u>298,123</u>
Support services:				
Operating	476,000	186,000	176,390	9,610
TOTAL PHYSICAL ENVIRONMENT	<u>4,944,291</u>	<u>4,654,291</u>	<u>2,459,181</u>	<u>2,195,110</u>
TRANSPORTATION				
Roadway maintenance:				
Operating	10,021,731	10,021,731	8,304,119	1,717,612
Capital outlay	1,114,000	1,114,000	970,500	143,500
TOTAL TRANSPORTATION	<u>11,135,731</u>	<u>11,135,731</u>	<u>9,274,619</u>	<u>1,861,112</u>
Total expenditures	<u>49,335,692</u>	<u>48,995,693</u>	<u>43,831,571</u>	<u>5,164,122</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,805,461)</u>	<u>(4,465,462)</u>	<u>5,871,894</u>	<u>10,337,356</u>
OTHER FINANCING USES				
Transfers out	<u>(3,755,656)</u>	<u>(4,095,655)</u>	<u>(3,272,057)</u>	<u>823,598</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing Uses	<u>\$ (8,561,117)</u>	<u>\$ (8,561,117)</u>	<u>2,599,837</u>	<u>\$ 11,160,954</u>
Fund Balance, beginning of year			<u>17,401,859</u>	
Fund Balance, end of year			<u>\$ 20,001,696</u>	

The accompanying notes are an integral part of these financial statements.

REEDY CREEK IMPROVEMENT DISTRICT
STATEMENT OF NET ASSETS - UTILITY FUND

September 30, 2007

ASSETS

Current assets:	
Cash and cash equivalents	\$ 14,384,482
Accounts receivable	19,655,442
Inventories	5,410,525
Prepays	252,070
Restricted Assets:	
Cash and cash equivalents	57,542,739
Investments	22,179,216
Total current assets	119,424,474
Noncurrent assets:	
Restricted investments	8,698,057
Capital assets:	
Land	6,889,948
Buildings	59,870,799
Improvements other than buildings	186,087,208
Machinery and equipment	336,964,204
Less accumulated depreciation	(290,698,759)
Construction in progress	7,721,610
Total capital assets	306,835,010
Other assets	2,965,471
Total noncurrent assets	318,498,538
Total Assets	437,923,012

LIABILITIES

Current liabilities:	
Accounts payable	17,654,961
Accrued liabilities	1,384,834
Fuel contracts	338,678
Due to principal landowner	744,300
Due to other funds	80,522
Total current liabilities	20,203,295
Current liabilities payable from restricted assets:	
Bonds payable	19,445,000
Accrued interest payable	9,670,474
Contracts and retainage payable	303,253
Total current liabilities payable from restricted assets	29,418,727
Noncurrent liabilities:	
Bonds payable	367,298,150
Due to principal landowner	744,700
Total noncurrent liabilities	368,042,850
Total Liabilities	417,664,872

NET ASSETS

Invested in capital assets, net of related debt	(21,974,485)
Restricted for renewal and replacement	3,533,101
Restricted for emergency repairs	500,000
Unrestricted	38,199,524
Total Net Assets	\$ 20,258,140

The accompanying notes are an integral part of these financial statements.

REEDY CREEK IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
UTILITY FUND
For the Year Ended September 30, 2007

OPERATING REVENUES	
Utility sales	\$ 192,341,419
Total operating revenues	<u>192,341,419</u>
OPERATING EXPENSES	
Purchased power and fuel	103,033,875
Labor support	25,409,119
Operating costs	10,660,656
Taxes	3,359,505
Repairs and maintenance	5,988,853
Insurance	1,135,259
Rental expense	198,998
Depreciation	23,863,029
Total operating expenses	<u>173,649,294</u>
Operating income	<u>18,692,125</u>
NONOPERATING REVENUES (EXPENSES)	
Interest and investment income	3,785,186
Interest expense	(19,292,244)
Amortization of bond issue costs	(510,316)
Gain on asset sales	1,910,838
Loss on abandonment of plant assets	(998,994)
Total nonoperating revenues (expenses)	<u>(15,105,530)</u>
Income before contributions and transfers	3,586,595
Capital contributions	186,083
Transfers in	<u>3,272,057</u>
Increase in net assets	7,044,735
Total net assets - beginning	<u>13,213,405</u>
Total net assets - ending	<u><u>\$ 20,258,140</u></u>

The accompanying notes are an integral part of these financial statements.

REEDY CREEK IMPROVEMENT DISTRICT
STATEMENT OF CASH FLOWS
UTILITY FUND
For the Year Ended September 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 197,649,971
Payments to suppliers	(125,002,586)
Payments for labor contract and management service agreement	(23,950,537)
Payments to employees	(2,099,599)
Net cash provided by operating activities	<u>46,597,249</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating transfers in	<u>3,272,057</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of capital assets	(14,939,200)
Proceeds from sale of capital assets	2,275,091
Principal paid on bonds	(18,575,000)
Interest paid on bonds	(19,773,122)
Capital contributions	186,083
Net cash used by capital and related financing activities	<u>(50,826,148)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(186,841,164)
Proceeds from sales and maturities of investments	170,758,622
Investment income	3,693,120
Net cash provided in investing activities	<u>(12,389,422)</u>
Net decrease in cash and cash equivalents	(13,346,264)
Balances - beginning of the year	85,273,485
Balances - end of the year	<u>\$ 71,927,221</u>

Unrestricted	\$ 14,384,482
Restricted	<u>57,542,739</u>
	<u>\$ 71,927,221</u>

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 18,692,125
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	23,863,029
Change in assets and liabilities:	
Accounts receivable	5,039,874
Inventories	(39,756)
Prepaid items	(190,320)
Other assets	(70,000)
Accounts payable	(150,935)
Due to other funds	78,997
Accrued liabilities	29,857
Fuel derivatives	338,678
Deferred revenue	(250,000)
Due to principal landowner	(744,300)
Net cash provided by operating activities	<u>\$ 46,597,249</u>

The accompanying notes are an integral part of these financial statements.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Reedy Creek Improvement District (the "District") is a public corporation of the State of Florida created on May 12, 1967 by a special act of the legislature. The District includes approximately 25,000 acres of land in Orange and Osceola Counties. Walt Disney World Co. or other wholly owned subsidiaries of the Walt Disney Company own substantially all the land within the District. As outlined in Chapter 67-764 of the Laws of Florida, the District was organized to provide for the reclamation, drainage, and irrigation of land, to establish water, flood, and erosion control, to provide water and sewer systems and waste collection and disposal facilities, to provide for mosquito and other pest controls, to provide for public utilities, to create and maintain conservation areas, to provide streets, roads, bridges and street lighting facilities, and to adopt zoning and building codes and regulations. The governing body of the District is a five-member Board of Supervisors elected to office for four-year terms by landowners of the District.

The accompanying financial statements present the financial position and changes in financial position of the applicable fund types governed by the Board of Supervisors of the District in accordance with accounting principles generally accepted in the United States of America. Determination of the financial reporting entity of the District is founded upon the objective of accountability. Therefore, the financial statements include only the District (the primary government). There are no legally separate component units for which operational or financial responsibility rest with officials of the District or for which the nature and significance of their relationship to the District are such that exclusion would cause the financial statements to be misleading or incomplete.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. As required by generally accepted governmental accounting principles, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses, of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and the proprietary, or enterprise fund. All governmental funds and the enterprise fund are considered to be major funds and are reported as separate columns in the fund financial statements.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are generally not measurable and available until the District receives cash.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* accounts for the financial resources to be used for the acquisition or construction of major general government capital projects.

The District reports the following major proprietary fund:

The *utility fund* accounts for the activities of the District's electric generation and distribution system, wastewater collection and treatment system, water supply and distribution system, natural gas distribution system, solid waste collection and disposal system, reuse water system, chilled water system and hot water system.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following either all or no subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating contributions, and 3) capital contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District enterprise fund are charges to customers for sales and services. The District also recognizes as operating revenue connection fees which are to recover the expense of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Property Taxes

Property taxes are billed and collected within the same fiscal period, and are reflected on the modified accrual basis. Ad Valorem taxes on property values have a lien and assessment date of January 1, with millage established during the preceding September. The fiscal year for which taxes are levied begins October 1. Taxes, which are billed in November, carry a maximum discount available through November 30, and become delinquent April 1. State Statutes permit the District to levy property taxes at a rate up to 30 mills. The millage rates assessed by the District for the fiscal year ended September 30, 2007 were 6.2669 mills for General Operating and 3.8331 mills for Debt Service.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E. Cash, Cash Equivalents and Investments

Cash balances from the majority of funds are pooled for investment purposes. Earnings from such investments are allocated to the respective funds based on applicable balances maintained in the pool by each fund. The holdings in the pool, for purposes of these statements, are allocated to the participating funds based on their equity.

Cash and cash equivalents consist of demand accounts (interest and non-interest bearing), money market funds and investments with a maturity of three months or less when purchased. Cash and cash equivalents are carried at cost, which approximates fair value.

Investments are stated at fair value based upon quoted market prices.

F. Inventories

Enterprise Fund inventories consist of materials, supplies and fuel. Materials and supplies inventories are valued at the lower of cost or market using the first-in first-out method (FIFO) and fuel oil inventories are accounted for at the lower of cost or market using the moving average cost method.

G. Restricted Assets

Certain assets in the Debt Service Fund, Capital Projects Fund and Enterprise Fund are restricted as to use by specific provisions of bond resolutions. These assets are classified as restricted assets on the statement of net assets.

H. Capital Assets

Infrastructure improvements such as roads, bridges, canals, curbs, gutters, sidewalks, drainage systems and lighting systems, are recorded as capital expenditures in the various governmental funds at the time of purchase. These assets are presented as capital assets in the government-wide statement of net assets for governmental activities. Infrastructure assets are not depreciated and are accounted for using the modified approach, as further explained in the Required Supplementary Information. Condition assessments are periodically performed and preservation and maintenance costs are reflected as expenses in the government-wide statement of activities under transportation expenses.

Land, buildings, plants, machinery and equipment are carried on the statement of net assets for governmental activities and business-type activities at cost, except for contributed assets, which are recorded at estimated fair value at the date of contribution. The District's capitalization threshold is \$1,000. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and land improvements	30-50 years
Improvements, including utility distribution and collection systems	30-50 years
Machinery and equipment	3-30 years

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

H. Capital Assets - Continued

Repairs and maintenance are expensed when incurred. Additions, major renewals and replacements, which increase the useful lives of the assets, are capitalized. Net interest costs incurred during the construction or installation of property, plant and equipment are capitalized.

I. Unamortized Bond Discount and Issuance Costs

Bond discount and issuance costs are amortized over the life of the bonds using the effective interest method. Bond discounts are presented as a reduction of the face amount of the bonds payable and issuance costs are presented as an other asset.

J. Deferred Amount on Refunding

For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized using the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is offset against the new liability.

K. Compensated Absences

In the Government-wide financial statements, compensated absences are recorded as a liability when the benefits are earned. The current portion is the amount accrued during the year that would normally be liquidated with available, expendable resources in the next fiscal year and is reported in accounts payable. In the fund statements, expenditures are recognized when payments are due to the employee.

L. Fund Balance Reserves

Governmental Fund Types - Reserves of governmental fund types represent portions of fund balances not appropriated for expenditures but which have been segregated for specific future use. The reserve for capital projects in the General Fund and the Capital Projects Fund are assets specifically set aside for drainage and road expansion. The reserve for debt service segregates those assets required to be segregated for servicing of general obligation bond indebtedness and for use under the District's trust indenture.

M. Budgets and Budgetary Accounting

The following procedures are used to establish the budgetary data reflected in the financial statements:

- (1) The District Administrator submits to the Board of Supervisors a proposed operating budget for the fiscal year commencing on October 1.
- (2) Public hearings are conducted to obtain taxpayer comments.
- (3) Prior to October 1, the budget is legally enacted through passage of an ordinance.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

M. Budgets and Budgetary Accounting – Continued

- (4) Budgets are legally adopted for the General Fund, Debt Service Fund and the Enterprise Fund.
- (5) Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- (6) The District's charter does not require formal authorization for actual expenditures to exceed budgeted expenditures; however, the Board of Supervisors monitors the budget periodically during the year. The budgetary control is legally maintained at the fund level.
- (7) All appropriations, except those specifically approved by the Board of Supervisors, lapse at the close of the fiscal year to the extent not expended.

N. Forward Contracts

The District enters into forward contracts as part of its normal purchases of power and fuel and accounts for such contracts as settled, as a component of the cost of its operations.

O. Derivative Instruments

Fuel related derivative transactions are executed in accordance with the District's established Energy Risk Management Policy ("Policy") which is controlling the level of price risk exposure involved in the normal course of the District's natural gas purchasing activities. The Policy establishes the Energy Risk Management Oversight Committee which enters into financial hedging agreements and contracts with third parties pursuant to enabling agreements approved by the Board of Supervisors. The Policy establishes the organizational structure of the committee and various volume and pricing limits. The recording of fuel contracts, when appropriate, is included in the Statement of Net Assets as either an asset or liability measured at fair market value. Related gains and/or losses are deferred and recognized in the specific period in which the derivative is settled and included as a part of fuel costs.

P. Rates and Regulations

The District follows the accounting practices set forth in Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*, as amended. This standard allows utilities to capitalize or defer certain costs or revenues based on management's ongoing assessment that it is probable these items will be recovered through the rate-making process. Regulatory assets consist of deferred fuel.

If the District no longer applied SFAS No. 71 due to competition, regulatory changes, or other reasons, the District would make certain adjustments that would include the write-off of all or a portion of its regulatory assets and liabilities, the evaluation of utility plant, contracts and commitments, and the recognition, if necessary, of any losses to reflect market condition. Management believes that the district currently meets the criteria for continued application of SFAS No. 71, but will continue to evaluate significant changes in the regulatory and competitive environment to assess the ability to continue to apply SFAS No. 71.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Q. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and differences could be material.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the balance sheet – governmental funds and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. Further details of certain elements of that reconciliation are as follows:

- 1. *Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.* This amount represents the total capital assets of governmental activities of \$263,519,890 net of related accumulated depreciation of \$19,513,638, or \$244,420,952.
- 2. *Some liabilities, including bonds payable and other long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.* The details of this difference are as follows:

Compensated absences payable	\$ 1,934,440
Arbitrage rebate payable	136,693
Self insurance liability	4,800,000
Bonds payable	<u>264,514,011</u>
Net adjustment to reduce total fund balances - total governmental funds to arrive at net assets of governmental activities	<u>\$ 271,385,144</u>

B. Explanation of certain differences between the statement of revenues, expenditures and changes in fund balances – governmental funds and the government-wide statement of net activities

The statement of revenues, expenditures and changes in fund balances – governmental funds includes a reconciliation between the “net changes in fund balances – total governmental funds” and “change in net assets of governmental activities” as reported in the government-wide statement of activities. Further details of certain elements of that reconciliation are as follows:

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – Continued

B. Explanation of certain differences between the statement of revenues, expenditures and changes in fund balances – governmental funds and the government-wide statement of net activities - Continued

1. *Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This the amount by which capital outlays exceeded depreciation in the current period:*

Capital outlay expenditures:

General fund	
General government	\$ 356,930
Public safety	1,470,479
Physical environment	70,843
Transportation	970,500
Capital projects	3,115,866
Depreciation expense	<u>(2,715,478)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ 3,269,140</u></u>

2. *Governmental funds report the payment of the bond principal and interest when the current financial resources are available and payments are due and they report the payment of issuance costs, premiums, discounts, and similar items when debt is first issued. However, on the statement of activities interest is accrued and bond related costs are deferred and amortized. The details of the difference are as follows:*

Net changes of deferred loss, bond costs, discount, and premium	\$ 101,826
Principal payments on bonds outstanding	13,875,000
Accrued interest payable	<u>180,689</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ 14,157,515</u></u>

3. *Increases in other liabilities reported as expenses in the statement of activities not requiring the use of current financial resources in governmental funds. The details of the difference are as follows:*

Compensated absences	\$ (73,813)
Workers compensation	(2,070,000)
Arbitrage rebate	<u>(136,693)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ (2,280,506)</u></u>

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

3. DEPOSITS AND INVESTMENTS

The District is authorized to invest in securities as described in its investment policy and in its bond resolutions. As of September 30, 2007, the District held the following deposits and investments as categorized below:

	Fair Value	Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
Demand and time deposits	\$ 1,406,247	\$ 1,406,247	\$ -	\$ -	\$ -
US Treasury	57,975,426	57,604,965	-	-	370,461
US Government Agency Securities	45,383,762	10,709,054	34,674,708	-	-
State Board of Administration	31,727,172	31,727,172	-	-	-
Cash Management Funds	19,971,650	19,971,650	-	-	-
Totals	<u>\$ 156,464,257</u>	<u>\$ 120,121,593</u>	<u>\$ 34,674,708</u>	<u>\$ -</u>	<u>\$ 370,461</u>

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy for operating funds is structured to provide sufficient liquidity to pay obligations as they come due and (1) limits investments to not more than 7 year maturities; (2) requires that the portfolio have no more than 15% in securities maturing in or having an average life of more than 5 years; (3) requires that the portfolio have no more than 40% in securities maturing in or having an average life of more than 3 years; and (4) requires that no more than 25% of the investment portfolio shall be of a non-liquid nature. Bond proceeds and reserve funds are managed in accordance with bond covenants and funding needs which could result in maturities longer than seven years.

Credit Risk - The District's investment policy limits credit risk by restricting authorized investments to the following: direct obligations of, or obligations guaranteed by, the U.S. Government; bonds and notes issued by various federal agencies; state and local government securities; Canadian public obligations; public improvement bonds; public utility obligations; public housing obligations; State Board of Education obligations; international development banks; certain government security mutual funds; repurchase agreements and reverse repurchase agreements. Securities that derive their value from underlying securities ("derivatives") are specifically prohibited except when separately approved by the District's Board of Supervisors. The District's investments held in the portfolio are rated in the highest category by two rating services.

Custodial Credit Risk - All demand deposits are entirely insured by federal depository insurance or by the multiple financial institution collateral pool pursuant to the Public Depository Security Act of the State of Florida.

The District's investment policy requires that all investments be held by a third party custodian and held in the District's name. As of September 30, 2007, all of the District's investments are held in a bank's trust department in the District's name.

Concentration of Credit Risk - At September 30, 2007, there was one issuer with which the District held investments exceeding 5% of the total investment portfolio; Federal Home Loan Bank (19%).

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

3. DEPOSITS AND INVESTMENTS – Continued

Statement of Net Assets Classifications - In addition to demand accounts, the District classifies repurchase agreements, State Board of Administration obligations, cash management funds, mutual funds and investments in U.S. Government Treasury and Agency securities with maturities of three months or less from the date of purchase as cash and cash equivalents on the statement of net assets. As of September 30, 2007 the following is a summary of these amounts reflected on the statement of net assets:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Totals</u>
Statement of Net Assets Classifications:			
Cash and cash equivalents	\$ 16,842,440	\$ 76,669,400	\$ 93,511,840
Investments	<u>14,751,915</u>	<u>48,200,502</u>	<u>62,952,417</u>
	<u>\$ 31,594,355</u>	<u>\$ 124,869,902</u>	<u>\$ 156,464,257</u>

4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007 was as follows:

	<u>Beginning Balance October 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance September 30, 2007</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 3,034,228	\$ -	\$ (274,457)	\$ 2,759,771
Construction in progress	883,125	3,115,865	(848,569)	3,150,421
Infrastructure	<u>217,841,397</u>	<u>1,155,725</u>	<u>-</u>	<u>218,997,122</u>
Total capital assets, not being depreciated	<u>221,758,750</u>	<u>4,271,590</u>	<u>(1,123,026)</u>	<u>224,907,314</u>
Capital assets, being depreciated				
Buildings	16,880,987	124,414	-	17,005,401
Machinery and equipment	<u>20,253,713</u>	<u>2,437,183</u>	<u>(1,083,721)</u>	<u>21,607,175</u>
Total capital assets, being depreciated	<u>37,134,700</u>	<u>2,561,597</u>	<u>(1,083,721)</u>	<u>38,612,576</u>
Less accumulated depreciation for:				
Buildings	5,479,166	562,525	-	6,041,691
Machinery and equipment	<u>11,945,851</u>	<u>2,152,953</u>	<u>(1,041,557)</u>	<u>13,057,247</u>
Total accumulated depreciation	<u>17,425,017</u>	<u>2,715,478</u>	<u>(1,041,557)</u>	<u>19,098,938</u>
Total capital assets, being depreciated, net	<u>19,709,683</u>	<u>(153,881)</u>	<u>(42,164)</u>	<u>19,513,638</u>
Governmental activities capital assets, net	<u>\$ 241,468,433</u>	<u>\$ 4,117,709</u>	<u>\$ (1,165,190)</u>	<u>\$ 244,420,952</u>

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

4. CAPITAL ASSETS – Continued

	Beginning Balance October 1, 2006	Increases	Decreases	Ending Balance September 30, 2007
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 7,210,602	\$ -	\$ (320,654)	\$ 6,889,948
Construction in progress	7,090,698	13,333,000	(12,702,088)	7,721,610
Total capital assets, not being depreciated	<u>14,301,300</u>	<u>13,333,000</u>	<u>(13,022,742)</u>	<u>14,611,558</u>
Capital assets, being depreciated				
Buildings	59,309,406	561,393	-	59,870,799
Improvements other than buildings	185,459,832	627,376	-	186,087,208
Machinery and equipment	325,387,567	12,618,974	(1,042,337)	336,964,204
Total capital assets, being depreciated	<u>570,156,805</u>	<u>13,807,743</u>	<u>(1,042,337)</u>	<u>582,922,211</u>
Less accumulated depreciation for:				
Buildings	26,192,517	2,122,452	-	28,314,969
Improvements other than buildings	80,938,302	6,179,818	-	87,118,120
Machinery and equipment	160,667,783	15,596,625	(998,738)	175,265,670
Total accumulated depreciation	<u>267,798,602</u>	<u>23,898,895</u>	<u>(998,738)</u>	<u>290,698,759</u>
Total capital assets, being depreciated, net	<u>302,358,203</u>	<u>(10,091,152)</u>	<u>(43,599)</u>	<u>292,223,452</u>
Business-type activities capital assets, net	<u>\$ 316,659,503</u>	<u>\$ 3,241,848</u>	<u>\$ (13,066,341)</u>	<u>\$ 306,835,010</u>

During the year, the Enterprise Fund incurred interest costs totaling \$19,668,610. Interest incurred during the construction period relating to the construction of property, plant and equipment, net of interest earned on the investment of funds borrowed for construction, totaling \$376,367, was capitalized during the year.

5. LEASE OF ASSETS

Reedy Creek Energy Services (RCES)

On January 1, 1999, the District entered into a ten year lease with Walt Disney World Company (WDWC), whereby the District leased assets used for the production and distribution of chilled water. The annual payments amounted to \$700,000. On January 1, 2007, the District renegotiated the annual rental payment to \$191,000.

The lease, which is classified as an operating lease for financial reporting purposes, has annual payments as follows:

Year Ending September 30,	
2008	\$ 191,000
2009	<u>60,250</u>
	<u>\$ 251,250</u>

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

6. INTERFUND RECEIVABLE AND PAYABLE BALANCES AND TRANSFERS

Interfund receivable and payable balances as of September 30, 2007 are as follows:

	<u>Interfund Receivables (Due from)</u>	<u>Interfund Payables (Due to)</u>
General	\$ 80,522	\$ -
Utility Fund	-	80,522
	<u>\$ 80,522</u>	<u>\$ 80,522</u>

Interfund transfers as of September 30, 2007 consisted of a transfer to the Utility Fund from the General Fund to subsidize operations of the Environmental Lab and a transfer of residual bond funds in the Capital Projects fund to the General Fund. The transfers are as follows:

	<u>Interfund Transfers In</u>	<u>Interfund Transfers Out</u>
General	\$ -	\$ 3,272,057
Enterprise	3,272,057	-
	<u>\$ 3,272,057</u>	<u>\$ 3,272,057</u>

7. LONG – TERM DEBT

A. Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2007, was as follows:

	<u>Beginning Balance October 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance September 30, 2007</u>	<u>Due Within One Year</u>
Governmental activities:					
General Obligation Bonds:					
1995C Ad Valorem	\$ 510,000	\$ -	\$ (510,000)	\$ -	\$ -
1998A Ad Valorem	5,125,000	-	(1,650,000)	3,475,000	3,475,000
1998B Ad Valorem Refunding	25,595,000	-	(3,315,000)	22,280,000	3,915,000
2001A Ad Valorem Refunding	65,500,000	-	(5,745,000)	59,755,000	300,000
2004A Ad Valorem	56,340,000	-	(2,265,000)	54,075,000	2,310,000
2004B Ad Valorem	9,470,000	-	(390,000)	9,080,000	400,000
2005A Ad Valorem	18,925,000	-	-	18,925,000	-
2005B Ad Valorem Refunding	90,310,000	-	-	90,310,000	4,055,000
Deferred amounts:					
Discount/Premium	10,110,465	-	(656,239)	9,454,226	-
On refunding	(3,341,883)	-	501,668	(2,840,215)	-
Total long-term bonds payable	<u>278,543,582</u>	<u>-</u>	<u>(14,029,571)</u>	<u>264,514,011</u>	<u>14,455,000</u>
Compensated absences	1,913,378	88,910	-	2,002,288	988,645
Arbitrage rebate	-	136,693	-	136,693	-
Self insurance liability	2,730,000	2,070,000	-	4,800,000	-
Long-term liabilities	<u>\$ 283,186,960</u>	<u>\$ 2,295,603</u>	<u>\$ (14,029,571)</u>	<u>\$ 271,452,992</u>	<u>\$ 15,443,645</u>

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

7. LONG-TERM DEBT - Continued

A. Changes in long-term liabilities - Continued

	Beginning Balance October 1, 2006	Additions	Reductions	Ending Balance September 30, 2007	Due Within One Year
Business-type activities:					
Revenue Bonds:					
1997-1 Utility	\$ 32,095,000	\$ -	\$ (9,575,000)	\$ 22,520,000	\$ 10,115,000
1999-1 Utility	4,035,000	-	(940,000)	3,095,000	990,000
1999-2 Utility Refunding	14,925,000	-	(3,485,000)	11,440,000	3,640,000
2003-1 Utility	56,610,000	-	(2,805,000)	53,805,000	2,855,000
2003-2 Utility Refunding	194,435,000	-	(1,770,000)	192,665,000	1,845,000
2005-1 Utility	26,930,000	-	-	26,930,000	-
2005-2 Utility Refunding	73,045,000	-	-	73,045,000	-
Deferred amounts:					
Discount/Premium	27,546,284	-	(2,187,612)	25,358,672	-
On refunding	(24,815,198)	-	2,699,676	(22,115,522)	-
Total long-term bonds payable	404,806,086	-	(18,062,936)	386,743,150	19,445,000
Arbitrage rebate	-	-	-	-	-
Due to principal landowner	2,233,300	-	(744,300)	1,489,000	744,300
Unearned revenue	250,000	-	(250,000)	-	-
Long-term liabilities	<u>\$ 407,289,386</u>	<u>\$ -</u>	<u>\$ (19,057,236)</u>	<u>\$ 388,232,150</u>	<u>\$ 20,189,300</u>

General Obligation Bonds Payable

1995C Ad Valorem Tax Bonds - In December 1995, the District issued \$52,395,000 Ad Valorem Tax Bonds at interest rates of 3.8% to 5.22%, priced to yield 3.9% to 5.13%. The bonds were issued to pay for a portion of the costs of construction of certain road improvements and interchanges within and outside the District. A portion of these bonds was advance refunded by the 2005B Ad Valorem Tax Refunding Bonds.

1998A Ad Valorem Tax Bonds - In October 1998, the District issued \$56,765,000 Ad Valorem Tax Bonds at interest rates of 3.7% to 5.25%, priced to yield 3.4% to 4.9%. The bonds were issued to pay for a portion of the costs of construction of certain road improvements and interchanges within and outside the District. A portion of these bonds was advance refunded by the 2005B Ad Valorem Tax Refunding Bonds.

1998B Ad Valorem Tax Refunding Bonds – In October 1998, the District issued \$33,650,000 Ad Valorem Tax Refunding Bonds at interest rates of 3.4% to 5.25%, priced to yield 3.4% to 4.85%. The proceeds were used for the advance refunding of a portion of the Series 1991A Ad Valorem Tax Bonds.

2001A Ad Valorem Tax Refunding Bonds – In June 2001, the District issued \$101,025,000 in Ad Valorem Tax Refunding Bonds at interest rates of 3.5% to 5.5%, priced to yield 2.7% to 5.1%. The proceeds were used for the advance refunding of the 1991A and 1995A Ad Valorem Tax Bonds.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

7. LONG-TERM DEBT - Continued

A. Changes in long-term liabilities - Continued

General Obligation Bonds Payable - continued

2004A Ad Valorem Tax Bonds – In January 2004, the District issued \$63,520,000 Ad Valorem Tax Bonds at interest rates of 2.0% to 5.0%, priced to yield 1.1% to 4.57%. The proceeds were used to refund, together with proceeds from the Osceola County Transportation Improvement Refunding Bonds Series 2004 issued by Osceola County, the Osceola County Transportation Improvement Bonds Series 1992.

2004B Ad Valorem Tax Bonds – In January 2004, the District issued \$10,230,000 Ad Valorem Tax Bonds at interest rates of 2.0% to 4.5%, priced to yield 1.4% to 3.68%. The proceeds were used to finance certain road improvement projects within and outside of the District.

2005A Ad Valorem Tax Bonds – In June 2005, the District issued \$18,925,000 Ad Valorem Tax Bonds at interest rates of 4.25% to 5.0%, priced to yield 4.14% to 4.3%. The proceeds were used to finance road improvements and the construction of two fire stations.

2005B Ad Valorem Tax Refunding Bonds – In June 2005, the District issued \$90,310,000 Ad Valorem Tax Refunding Bonds at interest rates of 3.25% to 5.0%, priced to yield 2.97% to 4.04%. The proceeds were used for the advance refunding of a portion of the 1995C and 1998A Ad Valorem Tax Bonds.

The major provisions of the District's Ad Valorem Tax Bond Resolutions authorizing its debt are as follows:

- (1) The Ad Valorem tax bond issues and related interest are collateralized by an irrevocable lien on the proceeds from Ad Valorem taxes levied by the District.
- (2) Additional bonds may be issued by the District provided (a) the maximum bond debt service requirement of the proposed and then outstanding bonds does not exceed 85% of the maximum annual collection from Ad Valorem Taxes calculated for the current year and (b) the principal amount of all bonds proposed and then outstanding not exceed 50% of the assessed value of the taxable property within the District.

Revenue Bonds Payable

1997-1 Utilities Revenue Bonds - In August 1997, the District issued \$109,950,000 of Utility Revenue Bonds to partially refund the District's Utility Revenue Bonds Series 1987-1 and 1991-1; and to finance construction and acquisition of improvements to the utility system. Interest is payable semi-annually at interest rates of 3.85% to 5.5%, priced to yield 3.85% to 5.45%. A portion of these bonds was advance refunded by the 2005-2 Utilities Revenue Refunding Bonds.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

7. LONG-TERM DEBT - Continued

A. Changes in long-term liabilities – Continued

Revenue Bonds Payable – continued

1999-1 Utilities Revenue Bonds - In September 1999, the District issued \$27,060,000 Utilities Revenue Bonds to finance the construction and acquisition of improvements to its utility systems. Interest is payable semi-annually at rates of 4.0% to 5.56%, priced to yield 3.6% to 5.56%. A portion of these bonds was advance refunded by the 2005-2 Utilities Revenue Refunding Bonds.

1999-2 Utilities Revenue Refunding Bonds – In September 1999, the District issued \$61,460,000 Utilities Revenue Refunding Bonds at interest rates of 4.0% to 5.5%, priced to yield 3.6% to 5.46%. The proceeds were used for the advance refunding of the Series 1990-1 Utilities Revenue Bonds that were outstanding after October 1, 1999. A portion of these bonds was advance refunded by the 2005-2 Utilities Revenue Refunding Bonds.

2003-1 Utilities Revenue Bonds – In July 2003, the District issued \$69,605,000 Utilities Revenue bonds at interest rates of 1.4% to 6%, priced to yield .92% to 4.03%. The proceeds will be used to finance the construction and acquisition of improvements to the utility systems. A portion of these bonds was advance refunded by the 2005-2 Utilities Revenue Refunding Bonds.

2003-2 Utilities Revenue Refunding Bonds – In January 2004, the District issued \$200,720,000 Utilities Revenue Refunding Bonds at interest rates of 5.0% to 5.25%, priced to yield 1.45% to 4.15%. The proceeds were used for the advance refunding of the 1994-1 Utilities Revenue Bonds that were outstanding after October 1, 2003.

2005-1 Utilities Revenue Bonds – In June 2005, the District issued \$26,930,000 Utilities Revenue Bonds at a 5% interest rate, priced to yield 4.17% to 4.33%. The proceeds will be used to finance the construction and acquisition of improvements to the utility systems.

2005-2 Utilities Revenue Refunding Bonds – In June 2005, the District issued \$73,045,000 Utilities Revenue Refunding Bonds at interest rates of 3.5% to 5.25%, priced to yield 3.1% to 4.33%. The proceeds were used for the partial advance refunding of the 1997-1, 1999-1, 1999-2 and 2003-1 Utilities Revenue Bonds.

The major provisions of the Utility Fund's trust indentures securing its debt are as follows:

- (1) The debt obligation and related interest are collateralized by a pledge of the net revenues of the combined utility systems.
- (2) The District will establish rates that will provide for applicable revenues (excluding depreciation), 100% of the annual debt service requirements due each year, all sinking fund requirements and all payments for rent under the leases with WDW. Applicable revenues are defined to mean all rates, fees, charges or other income (including certain investment earnings, impact fees and special assessments) generated by the Enterprise Fund.
- (3) The District will pay all current operating expenses.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

7. LONG-TERM DEBT - Continued

A. Changes in long-term liabilities – Continued

Revenue Bonds Payable – continued

- (4) The District will deposit into the Sinking Fund on a monthly basis an amount equal to one-sixth of the next semi-annual interest payment and one-twelfth of the next annual principal payment.
- (5) The District will maintain a renewal and replacement fund equal to 5% of the gross revenues (less expenses for purchased power and fuel) received in the prior year. Such amount may be reduced upon certification from a consulting engineer.
- (6) The District will maintain on deposit in the emergency repair fund at least \$500,000.
- (7) The debt service reserve requirements are being provided by Debt Service Reserve accounts with the bond trustee.
- (8) Additional bonds may be issued if the net revenues (revenues of the system less operating expenses (excluding lease payments to WDWC)) for twelve consecutive prior months are at least equal to 125% of the maximum annual debt service of the proposed and then outstanding bonds.

B. Annual Debt Service Requirements

The annual requirements to amortize the principal balance and interest of all bonds outstanding are as follows:

Year Ended September 30,	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 14,455,000	\$ 12,095,691
2009	14,955,000	11,559,924
2010	15,495,000	10,984,869
2011	16,115,000	10,368,056
2012	16,845,000	9,635,819
2013-2017	97,040,000	35,361,313
2018-2022	60,175,000	11,694,215
2023-2025	<u>22,820,000</u>	<u>3,000,378</u>
Total	257,900,000	<u>\$ 104,700,265</u>
Current portion	(14,455,000)	
Deferred amounts:		
Discount/Premium	9,454,226	
On refunding	<u>(2,840,215)</u>	
Long-term bonds payable	<u>\$ 250,059,011</u>	

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

7. LONG-TERM DEBT - Continued

B. Annual Debt Service Requirements, Continued

Year Ended September 30,	Revenue Bonds	
	Principal	Interest
2008	\$ 19,445,000	\$ 18,933,445
2009	20,260,000	18,042,711
2010	21,105,000	17,077,370
2011	22,070,000	16,032,073
2012	23,195,000	14,877,479
2013-2017	135,645,000	54,693,355
2018-2022	112,455,000	17,922,931
2023-2026	29,325,000	3,037,375
Total	383,500,000	\$ 160,616,739
Current portion	(19,445,000)	
Deferred amounts:		
Discount/Premium	25,358,672	
On refunding	(22,115,522)	
Long-term bonds payable	<u>\$ 367,298,150</u>	

C. Refunded Debt

The District has refunded certain bond issues. Sufficient funds to pay the principal and interest, when due, on the bonds earliest call date are held on deposit with an escrow agent. The balances outstanding of the refunded debt at September 30, 2007 are as follows:

<u>Issue</u>	<u>Date Refunded</u>	<u>Outstanding as of September 30, 2007</u>
1998A Ad Valorem Tax Bonds	June 6, 2005	\$ 45,245,000
1997-1 Utility Revenue Bonds	June 6, 2005	19,890,000
1999-1 Utility Revenue Bonds	June 6, 2005	17,940,000
1999-2 Utility Revenue Bonds	June 6, 2005	28,525,000
2003-1 Utility Revenue Bonds	June 6, 2005	7,855,000

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

8. TRANSACTIONS WITH PRINCIPAL LANDOWNERS

During fiscal 2007, Walt Disney World Co. and other wholly owned subsidiaries of The Walt Disney Company provided certain services to the District as follows:

Governmental Funds

- (1) Financial and other administrative services amounted to \$9,000.
- (2) The management and construction of various capital improvements amounted to \$35,915.
- (3) The operation and maintenance of various District water control facilities amounted to \$493,213.
- (4) The maintenance of certain right of ways and District property within the District amounted to \$1,724,112.

At September 30, 2007, accounts payable of the General Fund included \$325,703 to Walt Disney World Co. and other wholly owned subsidiaries of the Walt Disney Company.

Enterprise Fund

- (1) Financial and other administrative services amounted to \$464,000.
- (2) The management and construction of various capital improvements amounted to \$1,964,914.
- (3) The operation and maintenance of the utility systems for which the District has a labor agreement. The District incurred \$23,230,522 of labor support fees under this agreement.
- (4) The utility operation leases certain assets which are described in Note 5.

At September 30, 2007 the Enterprise Fund had accounts receivable of \$13,598,064 and accounts payable of \$6,337,062 with Walt Disney World Co. and other wholly owned subsidiaries of The Walt Disney Company.

In connection with the termination of an asset lease in 2003, the District agreed to pay Walt Disney World Co. \$4,595,021 over six years. The balance as of September 30, 2007 was \$1,489,000 with \$744,300 due during the year ending September 30, 2008.

The District provides utility services to Walt Disney World Co. and other associated companies within its service area. Revenues from services provided to these companies were 85% of total utility revenues for the year ended September 30, 2007.

9. RETIREMENT SYSTEM

All full-time employees of the District participate in the Florida Retirement System (FRS), administered by the State of Florida (State). Employees elect participation in either the defined benefit plan ("Pension Plan"), a multiple-employer cost-sharing defined benefit retirement plan, or the defined contribution plan ("Investment Plan") under the FRS. 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 Legislature.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

9. RETIREMENT SYSTEM - Continued

Pension Plan members are eligible for retirement after vesting, which occurs at 6 years of credited service. For Regular class and Senior Management Service class employees, normal retirement age is attained at the earlier of 30 years of credited service regardless of age, or attainment of age 62 with at least six years of credited service. For Special Risk employees, normal retirement age is attained at the earlier of 25 years of credited service or attainment of age 55 with at least six years of credited service. Early retirement may be taken anytime; however, there is a five percent benefit reduction for each year prior to normal retirement age. Members are also eligible for in-line-of-duty or regular disability benefits if permanently disabled and unable to work. Pension Plan Members eligible for retirement are given the option to enter the DROP (Deferred Retirement Option Program), which effectively allows them to work for a FRS employer for up to 60 months beyond their eligible retirement date and receive, at termination, a lump sum payment of their benefits accumulated over that time period. Benefits are computed on the basis of age, average final compensation and service credit.

Investment Plan members are vested after one year of credited service. These participants receive a contribution for self-direction in an investment product with a third party administrator selected by the State.

The State issues a publicly available report that includes financial statements and required supplementary information for FRS. That report may be obtained by writing to State of Florida Division of Retirement, Department of Management Services, Tallahassee, Florida, 32299-1560.

Funding Policy

The FRS has six classes of membership (of which District employees qualify under four classes) with descriptions and contribution rates in effect at September 30, 2007 as follows:

Regular Class - Members not qualifying for other classes (9.85% rate).

Special Risk Class - Members employed as law enforcement officers, firefighters, or correctional officers and meet the criteria set to qualify for this class (20.92% rate).

Senior Management Class - Qualifying member of senior management (13.12% rate).

Deferred Retirement Option Program (DROP) – Participating members of the program, not to exceed 60 months (10.91% rate).

The contribution requirements of the District are established and may be amended by FRS. The plan is non-contributory for employees with all contributions being the obligation of the District. The District contributed 16.1% of covered payroll during the year. The District's contributions to FRS for the year ended September 30, 2005, 2006 and 2007, respectively, were \$2,255,148, \$2,486,642 and \$2,944,698. Contributions made were equal to the required contributions for each year.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

10. POST RETIREMENT BENEFITS

The District provides post retirement healthcare benefits. State Statute requires the District to continue offering healthcare coverage to retirees at the District's cost; however the District has elected, by policy, to provide this coverage at no cost to retirees that have met certain requirements during employment with the District. To qualify for this benefit non-union employees must have 20 years of service with the District and be age 62 to obtain paid coverage for themselves and their eligible dependent and union employees must have 20 years of service with the District and be age 55 to obtain paid coverage for themselves. The District currently has 33 retirees that meet these eligibility requirements resulting in 57 persons being insured. The District records the cost of the coverage as it is incurred. During fiscal year 2007, the District paid \$379,799.

The District also has a Survivor Income Plan for retirees that have met certain requirements during employment with the District. This benefit provides an equivalent of two times the participant's final annual base salary at retirement to their designated beneficiary upon their death. To qualify for this benefit they must have reached the position of manager, director or administrator and be age 62 with 10 years (7 years for directors and administrators) of service or 25 years of service with no age requirement. The District has purchased certain life insurance policies that can, but are not required to be used to fund these obligations. The District currently has two retirees that meet these eligibility requirements. Benefit payments of \$44,048 have been required to date.

The GASB has recently issued Statement of Governmental Accounting Standards (GASB) No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, effective for financial statements for periods beginning after December 15, 2006. The District will be performing the required analysis as to the financial impacts of the new accounting pronouncement that will be adopted in 2008.

11. RISK MANAGEMENT

The District is exposed to various risks of loss-related to theft of, damage to and destruction of assets, torts, injuries to employees and natural disasters for which the District is self insured and carries excess commercial insurance.

The District provides coverage for up to a maximum of \$1,000,000 for each worker's compensation claim, \$1,000,000 for each general liability claim and \$100,000 for each property damage claim. The District purchases commercial insurance for claims in excess of coverage provided. There have been no claim settlements in excess of insurance coverage during the three fiscal years ended September 30, 2005, 2006 and 2007.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonable estimated. Liabilities included an amount for claims that have been incurred by not reported. The self insurance liability of \$4,800,000 at September 30, 2007 is reported in accordance with the requirements of GASB Statement No. 10 based on an actuarial review of claims pending and past experience. Increases in the claims liability have occurred due to the District increasing the maximum coverage in recent years. Changes in the claims liability amount during fiscal years 2006 and 2007 are as follows:

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

11. RISK MANAGEMENT - Continued

	<u>Year ended September 30</u>	
	<u>2007</u>	<u>2006</u>
Self insurance liability beginning balance	\$ 2,730,000	\$ 1,635,000
Claims and changes in estimates	2,637,246	1,371,830
Claims payments	<u>(567,246)</u>	<u>(276,830)</u>
Self insurance liability ending balance	<u>\$ 4,800,000</u>	<u>\$ 2,730,000</u>

12. UNRESTRICTED NET ASSETS DEFICIT

In the Statement of Net Assets the Governmental activities reflects a negative unrestricted net asset balance of \$151,386,197 due primarily to the financing, with long-term bonds of the District, of certain roadways that were subsequently donated to the State of Florida and long-term bonds issued in order to contribute to Osceola County's refinancing of their Transportation Improvement Bonds (Osceola Parkway). The roadways are not assets of the District, however the remaining debt associated with the roadways is a liability of the District amounting to \$156,953,850. All of the bonds are Ad Valorem Tax bonds secured by an irrevocable lien on the ad valorem taxes collected by the District.

13. COMMITMENTS AND CONTINGENCIES

Construction

The District had outstanding construction commitments totaling approximately \$8 million for various projects at September 30, 2007. A total of approximately \$9 million has been spent on these projects to date.

Purchased Power and Gas

The District has entered into several Purchase Power Agreements (PPA) with public and private entities throughout Florida for the purchase and sale of power at wholesale rates. Some of these PPAs require the District to pay reservation charges for capacity. The District's minimum commitment for fiscal year 2008 reservation charges under these agreements is approximately \$29,745,201. There are no requirements for the District to sell wholesale power or reserve capacity for wholesale sales. Initial terms of the agreements expire in fiscal years 2010 through 2017, with various options for renewal or cancellation exercisable by both parties.

Similarly, the District is obligated to purchase minimum pipeline capacity to transport natural gas under two agreements with Florida Gas Transmission Company. Minimum payments for natural gas under these agreements will total approximately \$2,448,217 for fiscal year 2008. The terms of the agreements expire in the year 2011 and 2015.

The District has entered into forward contracts for specified periods of time to purchase natural gas at either specified prices in the future or prices that fluctuate within ceiling and floor amounts. The District enters into these contracts to help plan its natural gas costs for the year and to protect itself against an increase in the market price of the commodity.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

13. COMMITMENTS AND CONTINGENCIES - Continued

Purchased Power and Gas, Continued

It is possible that the market price before or at the specified time to purchase natural gas may be lower or higher than the price at which the District is committed to buy. This would reduce or increase the value of the contracts. The District would have options with respect to holding the forward contracts.

The District is also exposed to the failure of the counterparty to fulfill the contracts. The terms of the contracts included provisions for recovering the cost in excess of the guaranteed price from the counterparty should the District have to procure natural gas on the open market.

Derivative Fuel Instruments

The District's fuel-related derivative transactions, where applicable, are recorded on the Statement of Net Assets as either an asset or liability measured at fair market value. Related gains and/or losses on these transactions are deferred and recognized in the specific period in which the instrument is settled.

At September 30, 2007 the District has \$338,678 in fuel-related derivative instruments (swaps and options).

Concurrency Management Agreement

On December 7, 1995, pursuant to a Concurrency Management Agreement dated February 28, 1994, between the District and Osceola County, the District issued the 1995C Ad Valorem Tax Bonds, in order to fund certain road improvements and interchanges in the vicinity of U.S. Route 192, World Drive and Interstate 4. Osceola County agreed to participate in such financing by reimbursing the District for a portion of the debt service on the Bonds. However, such payments by Osceola County are not pledged to collateralize the District's Ad Valorem Tax Bonds. The District expects to receive from Osceola County approximately \$20,800,000 in total to be paid in various annual installments over the term of the 1995C bonds. The maximum annual payments are calculated based on growth in certain areas of the County affected by the improvements and are subject to annual appropriation by the County. The District records the annual payments as Intergovernmental Revenue when received from the County. Osceola County paid to the District \$819,575 during fiscal year 2007.

Osceola Parkway Agreement

In July of 1992, Osceola County issued \$149,999,313 Osceola County, Florida Transportation Improvement Bonds ("the Prior Osceola Bonds") for the construction of the Osceola Parkway, a toll road constructed to improve the transportation systems in certain areas of Osceola County and the District. In connection with the issuance of the bonds, the District entered into a Bond Guarantee Agreement which required the District to make certain funds available for debt service on the bonds if operations of the toll road were insufficient to meet scheduled debt service. Amounts paid were to be reimbursed to the District by Osceola County. This obligation was junior and subordinate to all outstanding Ad Valorem Tax Bonds of the District. As of September 30, 2003 the District wrote off \$23,368,613 in amounts previously advanced and recorded as receivables from Osceola County under the Bond Guarantee Agreement in connection with its entrance into the transactions described below.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

13. COMMITMENTS AND CONTINGENCIES - Continued

Osceola Parkway Agreement, Continued

In January 2004, the District entered into an Amended and Restated Bond Guarantee Agreement in connection with the issuance of the Series 2004A Ad Valorem Tax Bonds in the amount of \$63,520,000. These bonds were issued to refinance, together with proceeds from \$110,935,000 Osceola County Transportation Improvement Refunding Bonds, the Prior Osceola Bonds. The District's obligation to make payments required by the Amended and Restated Bond Guarantee Agreement is subordinate to all outstanding Ad Valorem Tax Bonds of the District. Osceola County has agreed to repay the debt service of the District's 2004A Ad Valorem Tax Bonds and any guarantee payments that are required along with accrued interest from excess toll revenues, if any, when they become available. These payments will terminate upon the earlier of repayment in full or April 1, 2034. The District has recorded \$4,333,413 due from Osceola County as of September 30, 2007. The funds were received in October 2007.

STOPR Agreements

In September 2007, the District entered into agreements with the City of St. Cloud, the Tohopekaliga Water Authority, Orange County and Polk County in cooperation with South Florida Water Management District to provide for wetland restoration of certain wetlands within and outside of the District and to engage in mitigation, monitoring and to conduct studies relating to their potential contribution to future harm to certain wetlands. The agreements provide that in order to jointly fund these projects the parties will make payments over four years totaling \$10,219,831. The District's portion of these payments is \$4,575,578 beginning in fiscal year 2008.

Litigation and Other Claims

Various suits and claims arising in the ordinary course of operations are pending against the District. Management believes that the ultimate disposition of such matters will not materially affect the financial position of the District or the results of its operations.

14. SUBSEQUENT EVENTS

Equipment Lease

The District entered into a five year equipment lease/purchase agreement with Motorola Credit Corporation commencing October 1, 2007 amounting to \$2,250,000. The annual payments will be \$519,550 totaling \$2,597,748 with the first installment due on October 1, 2008. The 911 call center communication equipment is to be delivered and installed during fiscal year 2008 and will replace the District's existing system. This lease will be recorded as a capital lease in fiscal year 2008.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2007

14. SUBSEQUENT EVENTS - Continued

State Board of Administration

On November 29, 2007, the trustees of the State Board of Administration (SBA) suspended deposits and withdrawals from the Florida Local Government Investment Pool (Investment Pool). This action was taken to stop withdrawals that caused the Investment Pool's assets to fall from about \$27 billion down to \$14 billion in a month's time. Some local governments initiated withdrawals due to fears associated with securities that were downgraded below the credit quality guidelines set for initial purchase as well as some limited defaults. Most principal and interest payments continue to be received by the Investment Pool. On December 4, 2007, the SBA split the Investment Pool into two funds: 86% was placed in Fund A to hold high-quality money-market appropriate securities and 14% was placed in Fund B to hold higher-risk securities in default, having payment extensions or experiencing significant credit risk. In addition, the Investment Pool's entire November interest and loan loss reserve will be placed in Fund B to offset some of the lost value. The goal of Fund B is to maximize the collection of Fund B's principal and interest and to allow all or as much principal as possible to be returned to participants. The District believes that its principal balance in Fund A will be maintained without loss by the SBA, but the maintenance of the principal balance in Fund B is uncertain at this time. The SBA appointed BlackRock Inc. to be the interim investment manager of the investment pool until an outside money management firm is hired. To assist with the cash flow needs of participating local governments, the SBA has authorized withdrawals of the greater of \$4 million or 37% of the entity's holdings. Increased withdrawals are likely to be permitted in the future as Investment Pool conditions improve. As of January 18, 2008, the District has \$6.7 million in Fund A and \$2.1 million in Fund B.

REEDY CREEK IMPROVEMENT DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (RSI)
SCHEDULES SUPPORTING MODIFIED APPROACH FOR DISTRICT
INFRASTRUCTURE CAPITAL ASSETS

Year Ended September 30, 2007

Assessed Condition of Infrastructure Assets

	% of Roadways				
	2007	2006	2005	2004	2003
Roads (Note 2. A.):					
Excellent	98%	97%	95%	98%	93%
Acceptable	2%	3%	5%	2%	4%
Poor	0%	0%	0%	0%	3%

	Bridges by Category				
	2007	2006	2005	2004	2003
Bridges (Note 2. B.):					
Excellent	43	38	41	41	41
Good	-	5	-	-	-
Poor	-	-	-	-	-
	<u>43</u>	<u>43</u>	<u>41</u>	<u>41</u>	<u>41</u>

	Structures by Priority				
	2007	2006	2005	2004	2003
Water Control Structures (Note 2. C.)					
Structures requiring Priority 1 repairs	3	2	3	3	3
Structures requiring Priority 2 repairs	-	-	-	-	-
Structures requiring Priority 3 repairs	<u>547</u>	<u>548</u>	<u>547</u>	<u>547</u>	<u>547</u>
	<u>550</u>	<u>550</u>	<u>550</u>	<u>550</u>	<u>550</u>

Maintenance and Preservation Costs - Budget and Actual

	2008	2007	2006	2005	2004	2003
Budgeted Costs:						
Roads	\$ 1,965,650	\$ 3,772,000	\$ 1,910,000	\$ 732,277	\$ 1,952,500	\$ 1,322,885
Bridges	158,200	582,000	-	-	20,000	60,000
Water Control Structures	1,828,100	1,108,000	1,152,000	-	155,000	80,000
Actual Costs:						
Roads	n/a	\$ 2,114,069	\$ 1,997,000	\$ 621,102	\$ 2,139,000	\$ 515,000
Bridges	n/a	531,764	-	-	38,000	20,000
Water Control Structures	n/a	-	409,000	-	186,000	103,000

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (RSI) SCHEDULES SUPPORTING MODIFIED APPROACH FOR DISTRICT INFRASTRUCTURE CAPITAL ASSETS

Year Ended September 30, 2007

1. Election to use Modified Approach

The District has elected to use the "Modified Approach" as defined by GASB Statement No. 34 for infrastructure reporting for its roads, bridges and water control structures. The infrastructure capital assets are managed using an asset management system with (1) an up-to-date inventory; (2) annual or bi-annual (depending on the asset) condition assessment that is summarized using a numerical measurement scale; and (3) estimate annual amount to maintain and preserve the asset at the established condition assessment level.

2. Basis for Condition Assessments and Targeted Condition Level

A. Roads

The District performs a bi-annual physical condition assessment of the streets/roadways within its jurisdiction. Roads and/or streets which are most commonly asphaltic pavement, were defined as public right-of-way used primarily for vehicular transportation. The physical condition assessment was performed using the Pavement Surface Evaluation and Rating (PASER) method, developed at the University of Wisconsin - Madison. All roads were visually inspected and given a numerical rating of 1 to 10, varying from poor to excellent condition. The ratings were based on visual observation of the roads surface condition: defects or deformation, cracking (transverse, reflective, longitudinal and alligator), and patching/pot hole frequency. A numerical rating of 7 through 10 corresponded to an assessment of 'Excellent' and requires no or only routine maintenance. A numerical rating of 5 or 6 corresponded to an assessment of 'Acceptable' and requires crack sealing, minor patching or preservative treatments. A rating of 1 through 4 would require structural improvement or reconstruction and received an assessment of 'Poor'. The District attempts to preserve all roadways at an assessment condition of Excellent. The minimum acceptable level is a condition assessment of 'Acceptable'. Infrequently, a roadway may fall into the Poor category, due to unexpected and/or severe stresses, i.e. overloading due to construction traffic, base deterioration due to a saturated condition, etc. In this circumstance the required repairs are accelerated so as to restore the roadway to a minimum acceptable level.

Streets and roads are constantly deteriorating due to environmental causes (weathering and aging) and structural causes (repeated traffic loading). The rate at which pavement deteriorates depends on the original construction quality, environmental conditions, drainage, traffic loading and interim maintenance procedures. The Reedy Creek Improvement District bases all pavement design on existing traffic counts, proposed traffic generation due to planned development and known loading factors. We continually maintain the pavement by way of crack sealing, patching and applying preservative treatments as well as structural overlay work when warranted. This substantially extends the useful life of asphaltic pavement.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (RSI) SCHEDULES SUPPORTING MODIFIED APPROACH FOR DISTRICT INFRASTRUCTURE CAPITAL ASSETS - CONTINUED

Year Ended September 30, 2007

2. Basis for Condition Assessments and Targeted Condition Level - Continued

B. Bridges

All bridges within RCID are inspected bi-annually and the results of these inspections reported annually to the Florida Department of Transportation. Under the Florida Department of Transportation (FDOT) reporting system, the bridge deck, superstructure, substructure, and channel configuration are each rated from Excellent to Poor. Based on the number and severity of items noted in these inspections, bridges in the District are given an overall rating of Excellent, good or Poor. Any item (deck, superstructure or substructure) receiving a Poor rating is scheduled for immediate repair. Any item noted in the inspection that requires detailed or specialized maintenance, but having no impact on the structural integrity, is scheduled for completion prior to the next inspection date. All other items noted in the bi-annual inspection reports are included in routine annual maintenance schedules. The minimum acceptable assessment for bridges within the District is Excellent or Good.

In 2007 inspections revealed 2 bridges that had an overall rating of Good, the remaining 41 bridges were rated excellent. Repairs were initiated on the first of these two bridges in January 2007 and completed in May; repairs on the second bridge were completed in June 2007.

C. Water Control Structures

The Master Drainage System within the District is comprised of 66 river miles of canals and waterway. It incorporates 22 water control structures, or Amil Gates, three sharp crested weirs, and two 48" diameter culverts. The Amil Gates are constant level water control structures. They provide a consistent water level within the waterways or canals and open, due to water pressure, during a storm event, allowing flood waters to pass downstream and exit the District. The three weirs maintain water levels at a set elevation; as the flood waters rise due to a storm event, they spill over the weirs and pass downstream. The two 48" culverts act as an overflow or pass through allowing flood waters to pass to an adjacent wetland on the eastern perimeter of the District. Many of these structures were constructed during the late 1960's making the structures 35 - 40 years old. The structures are all in working order and generally in good condition.

This system of canals, gates, weirs, and culverts is inspected annually. The report generated from these inspections list all necessary repairs as Priority 1, 2 or 3. Priority 1 repairs are to be done as soon as possible as these items, if not repaired, may degrade the integrity of the structural element, or reduce the operation of the structure. We have found that most Priority 1 concerns evolve over long periods of time in underwater conditions. Priority 2 repairs are those that are not considered to be significantly time sensitive and can be done as the opportunity arises – usually during monthly maintenance. Priority 3 items are not in current need of repair and although the conditions may progress to a point where a repair may be necessary, the condition is expected to remain stable for a number of years. As such, the recommendation is that these items not be scheduled for repair, but addressed with our on-going maintenance program unless they can be incorporated with a scheduled Priority 1 or Priority 2 repair. The cost of repairing structures requiring a significant number of Priority 1 repairs are capitalized. Priority 2 and 3 repairs are done as routine maintenance. It should be noted that rarely is there a priority 2 repair reported due to the fact that items reported as a priority 3 are generally repaired before they reach a priority 2 level.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (RSI) SCHEDULES SUPPORTING MODIFIED APPROACH FOR DISTRICT INFRASTRUCTURE CAPITAL ASSETS - CONTINUED

Year Ended September 30, 2007

2. Basis for Condition Assessments and Targeted Condition Level - Continued

C. Water Control Structures - Continued

In 2000, we were able to accomplish an extremely in-depth examination of the structures, due to low flow water conditions. At that point eight structures were identified as requiring one or more, Priority 1 repairs. By 2003, five of these structures had been completely rehabilitated. Due to extreme weather conditions in 2004 and the impacts resulting from those conditions, no major repairs were accomplished in 2004 or 2005.

In 2006, repairs were initiated on the largest of the three structures remaining on the Priority 1 list. The repairs on that structure were far more time consuming than anticipated and as a result, repairs were completed on only one of the two aml gates within that structure. The second gate within that structure, as well as one additional water control structure is scheduled for repair in 2008.

Inspections in 2007 revealed that an additional water control structure needed to be added to the list requiring major rehabilitative repairs. The additional structure, as well as the final structure identified in the 2000 inspection, is scheduled for repair in 2009. Upon completion of these last two structure rehabs, all priority one repairs will be complete.