

REEDY CREEK IMPROVEMENT DISTRICT
Lake Buena Vista, Florida

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2014

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

BOARD OF SUPERVISORS

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LAURENCE C. HAMES, VICE PRESIDENT
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DISTRICT ADMINISTRATOR

WILLIAM L. WARREN

DEPUTY DISTRICT ADMINISTRATOR/COMPTROLLER

ANN G. BLAKESLEE

INDEPENDENT AUDITORS

**Ernst & Young LLP
Orlando, Florida**

REEDY CREEK IMPROVEMENT DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2014

TABLE OF CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Position	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	14
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund.....	15
Statement of Net Position – Utility Fund	18
Statement of Revenues, Expenses, and Changes in Net Position – Utility Fund	19
Statement of Cash Flows – Utility Fund	20
Notes to Financial Statements	21
REQUIRED SUPPLEMENTARY INFORMATION	
Condition Rating of the District’s Infrastructure and Comparison of Needed-to-Actual Maintenance Preservation	47
Other Post Employment Benefits Schedule of Funding Progress.....	51



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Report of Independent Certified Public Accountants

District Administrator, Deputy District Administrator, and Board of Supervisors
Reedy Creek Improvement District
Lake Buena Vista, Florida

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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.

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

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

Opinions

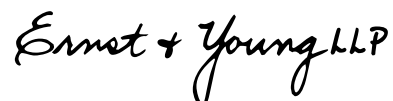
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the District as of September 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that Management's Discussion and Analysis, Condition Rating of the District's Infrastructure and Comparison of Needed-to-Actual Maintenance Preservation, and Other Post-Employment Benefits Schedule of Funding Progress, on pages 3 – 10 and 47 - 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated January 23, 2015 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* in considering the District's internal control over financial reporting and compliance.



January 23, 2015

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, 2014. 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 \$215,463,732 (*net position*).
- The District's total net position increased during the year by \$37,452,979.
- The District's total noncurrent liabilities decreased by \$68,647,574 during the year.
- As of September 30, 2014, the District's governmental funds reported combined ending fund balances of \$314,523,975, a decrease of \$75,716,066 in comparison with the prior year. Approximately 6% of this total amount is available for spending at the government's discretion (unassigned fund balance).
- At September 30, 2014, unassigned fund balance for the general fund was \$17,607,546, or 35% 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 position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 – 17 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 18 – 20 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 21 – 46 of this report.

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 \$215,463,732 at September 30, 2014.

REEDY CREEK IMPROVEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

District's Net Position

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Current and noncurrent assets	\$ 332,004,159	\$ 395,319,060	\$ 113,419,086	\$ 136,358,685	\$ 445,423,245	\$ 531,677,745
Capital assets	342,633,792	268,871,942	257,712,359	248,671,320	600,346,151	517,543,262
Total assets	674,637,951	664,191,002	371,131,445	385,030,005	1,045,769,396	1,049,221,007
Deferred outflow s of resources	1,297,210	1,800,212	6,194,931	12,497,764	7,492,141	14,297,976
Total deferred outflow s of resources	1,297,210	1,800,212	6,194,931	12,497,764	7,492,141	14,297,976
Current liabilities *	46,809,593	29,435,771	58,362,349	55,154,018	105,171,942	84,589,789
Noncurrent liabilities	512,126,946	531,090,106	217,760,439	267,444,853	729,887,385	798,534,959
Total liabilities	558,936,539	560,525,877	276,122,788	322,598,871	835,059,327	883,124,748
Deferred inflow s of resources	-	-	2,738,477	2,383,482	2,738,477	2,383,482
Total deferred inflow s of resources	-	-	2,738,477	2,383,482	2,738,477	2,383,482
Net position:						
Net investment in capital assets	204,232,505	193,946,369	32,066,140	11,536,623	236,298,645	205,482,992
Restricted	10,333,059	15,665,023	4,451,478	4,519,186	14,784,537	20,184,209
Unrestricted	(97,566,943)	(104,146,055)	61,947,493	56,489,607	(35,619,450)	(47,656,448)
Total net position	\$ 116,998,621	\$ 105,465,337	\$ 98,465,111	\$ 72,545,416	\$ 215,463,732	\$ 178,010,753

* includes current liabilities payable from restricted assets

The District's net position includes: 1) invested 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 net investment in capital assets continues to increase as the related debt is paid.

Governmental activities reflect negative unrestricted net position 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 \$86 million. All of the bonds are Ad Valorem Tax bonds, secured by an irrevocable lien on the ad valorem taxes collected by the District.

REEDY CREEK IMPROVEMENT DISTRICT

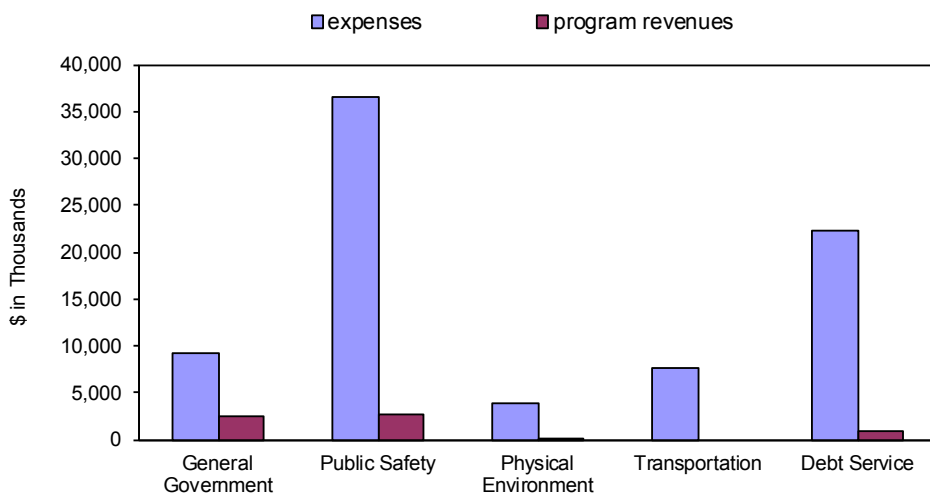
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

District's Change in Net Position

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 3,056,880	\$ 2,250,057	\$192,812,724	\$189,815,624	\$195,869,604	\$192,065,681
Intergovernmental	2,963,900	2,344,356	-	-	2,963,900	2,344,356
Capital contributions	118,097	158,202	721,461	230,801	839,558	389,003
General revenues:						
Ad Valorem taxes-net	87,220,226	77,507,628	-	-	87,220,226	77,507,628
Interest income	1,189,559	38,241	57,906	-	1,247,465	38,241
Gain on sale of capital assets	134,724	628	-	-	134,724	628
Total revenues	94,683,386	82,299,112	193,592,091	190,046,425	288,275,477	272,345,537
Expenses:						
General Government	9,152,859	9,339,059	-	-	9,152,859	9,339,059
Public Safety	36,583,255	35,177,919	-	-	36,583,255	35,177,919
Physical Environment	3,957,881	5,009,985	-	-	3,957,881	5,009,985
Transportation	7,625,827	8,975,257	-	-	7,625,827	8,975,257
Utility operations	-	-	161,652,740	167,030,558	161,652,740	167,030,558
Interest on long-term debt	22,345,564	10,063,125	9,504,372	12,266,148	31,849,936	22,329,273
Total expenses	79,665,386	68,565,345	171,157,112	179,296,706	250,822,498	247,862,051
Increases in net position before transfers						
transfers	15,018,000	13,733,767	22,434,979	10,749,719	37,452,979	24,483,486
Transfers	(3,484,716)	(3,148,767)	3,484,716	3,148,767	-	-
Change in net position	11,533,284	10,585,000	25,919,695	13,898,486	37,452,979	24,483,486
Net position - beginning	105,465,337	94,880,337	72,545,416	58,646,930	178,010,753	153,527,267
Net position - ending	\$116,998,621	\$105,465,337	\$ 98,465,111	\$ 72,545,416	\$215,463,732	\$178,010,753

Governmental activities. Charges for services increased due to additional permits being issued in 2014. More permits associated with the Buena Vista Drive corridor project will continue through 2016. Ad valorem tax revenues increased due to the budgeted increase in millage rates resulting from the additional debt service associated with the issuance of the 2013A bonds.

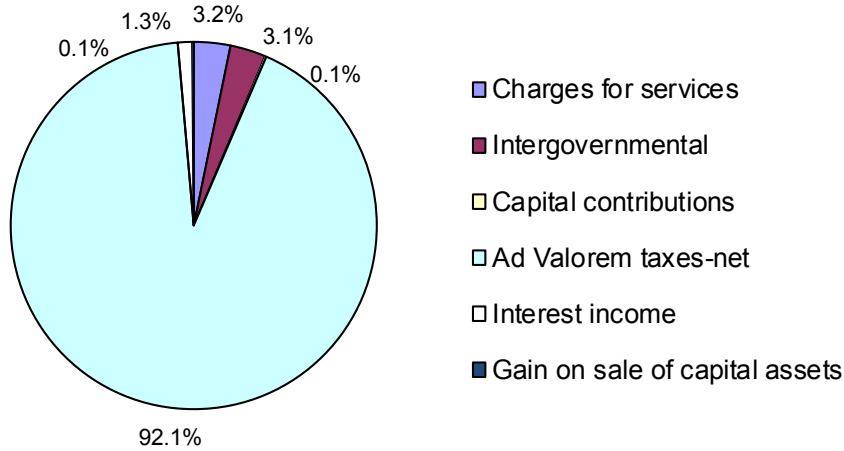
Expenses and Program Revenues – Governmental Activities



REEDY CREEK IMPROVEMENT DISTRICT

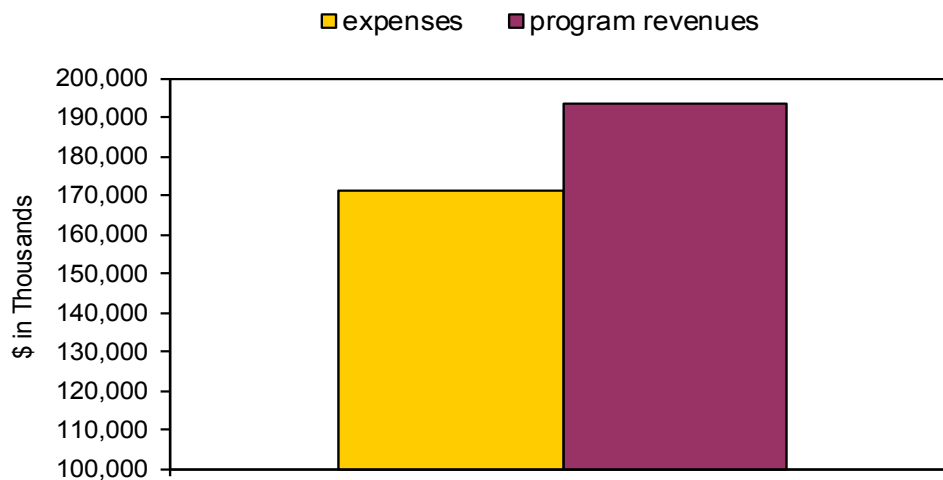
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Total Revenue by Source – Governmental Activities



Business-type activities. Charges for services increased due to growth associated with service expansions and the Four Seasons resort. Utility operating expenses decreased due primarily to reduced purchased power and fuel costs. Interest on long-term debt related to business-type activities decreased due to additional refinancing initiatives in fiscal year 2014.

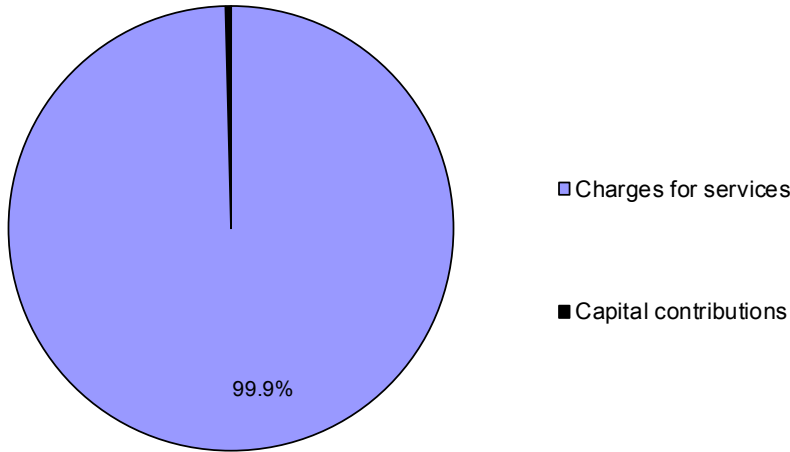
Expenses and Program Revenues – Business-type Activities



REEDY CREEK IMPROVEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Revenue by Source – Business-type Activities



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, 2014, the District's governmental funds reported combined fund balances of \$314,523,975. Approximately 6% of this total amount constitutes unassigned fund balance which is available for spending at the government's discretion. The remainder of fund balance is nonspendable, restricted or assigned. Restricted amounts are not available for general spending as those amounts have been reserved to pay for capital projects out of drainage impact fees or bond proceeds. Assigned amounts have been designated to cover the projected excess of expenditures over revenues in the fiscal year 2015 budget.

The general fund is the chief operating fund of the District. At September 30, 2014, unassigned fund balance of the general fund was \$17,607,546, while total fund balance reached \$27,662,608. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 35% of the total general fund expenditures (including transfers), while total fund balance represents 54% of that same amount. During fiscal year 2014, the fund balance of the District's general fund increased by \$3,144,005. This increase was a result of additional revenues over what was originally budgeted related primarily to building permits and the Osceola Parkway. In addition, overall expenditures were lower than originally budgeted.

REEDY CREEK IMPROVEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

The debt service fund has a total fund balance of \$5,393,717, a decrease of \$5,437,972 from the prior year. When the 2013A bonds were issued, an additional \$10 million was issued as capitalized interest to be used to pay a portion of the interest payments for fiscal years 2014 and 2015. The District used \$5.5 million during fiscal year 2014.

Proprietary fund. The District's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. At September 30, 2014 the unrestricted net position of the Utility Fund amounted to \$61,947,493, an increase of \$5,457,886 from prior year. The restricted net position amounted to \$4,451,478.

General Fund Budgetary Highlights

There were no amendments to the budget or transfers between activity budgets in fiscal year 2014.

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, 2014 amounted to \$600,346,151 (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.

District's Capital Assets
(net of depreciation)

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 2,756,698	\$ 2,762,209	\$ 6,907,829	\$ 6,907,829	\$ 9,664,527	\$ 9,670,038
Buildings and system	11,630,072	12,312,538	24,320,003	26,246,880	35,950,075	38,559,418
Improvements other than buildings	-	-	79,809,248	76,942,515	79,809,248	76,942,515
Machinery and equipment	6,165,749	6,028,553	121,188,338	127,078,857	127,354,087	133,107,410
Infrastructure	240,488,918	240,507,816	-	-	240,488,918	240,507,816
Construction in progress	81,592,355	7,260,826	25,486,941	11,495,239	107,079,296	18,756,065
Total	\$ 342,633,792	\$ 268,871,942	\$ 257,712,359	\$ 248,671,320	\$ 600,346,151	\$ 517,543,262

Long-term debt. At September 30, 2014, the District had total long-term bonded debt outstanding of \$750,152,320. Of this amount, \$504,451,881 comprised debt backed by the full faith and credit of the District and \$245,700,439 is secured by the revenues generated by the District's Utilities. During the year, the District's total long-term debt decreased by \$66,036,679 (8%) due to repayments and refinancing initiatives.

The District has received ratings of "A+" from Standard and Poor's, "AA-" from Fitch and "Aa3" from Moody's for the Ad Valorem Tax general obligation bonds and ratings of "A" from Standard and Poor's, "A" from Fitch and "A1" from Moody's for the Utility Revenue bonds. Additional information on the District's long-term debt can be found in Note 7 of the financial statements.

REEDY CREEK IMPROVEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

District's Outstanding Long-term Debt

General Obligation and Revenue Bonds

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 504,451,881	\$ 525,509,146	-	-	\$ 504,451,881	\$ 525,509,146
Revenue bonds	-	-	\$ 245,700,439	\$ 290,679,853	245,700,439	290,679,853
Total	\$ 504,451,881	\$ 525,509,146	\$ 245,700,439	\$ 290,679,853	\$ 750,152,320	\$ 816,188,999

Infrastructure Assets. As demonstrated in the Required Supplementary Information on pages 47 – 50 of this report, there have been no significant changes in the assessed condition of the bridges, roads and water control structures that use the modified approach for infrastructure reporting. There is an ongoing program to repair the remaining water control structures considered in good condition. The current conditions of the remaining assets are within the established levels maintained by the District.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate of the Central Florida area is currently averaging 5.3%. This is less than both the state and national average unemployment rate of 5.8%.
- Fiscal year 2014 assessed values increased 5.7%.
- Inflationary trends in the region compare to national indices.
- For fiscal year 2015 the District will be implementing GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" – an amendment of GASB Statement No. 27. The primary objective of this statement is to improve accounting and financial reporting for pension plans by providing decision-useful information and creating transparency. The District is currently evaluating the financial impact of this implementation to the Statement of Net Position and the Statement of Activities.

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 provided 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 POSITION
September 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,510,921	\$ 17,334,077	\$ 21,844,998
Cash and cash equivalents - restricted	12,832,253	16,533,388	29,365,641
Investments	19,875,841	-	19,875,841
Investments - restricted	293,271,086	46,129,212	339,400,298
Accounts receivable	66,589	22,033,661	22,100,250
Internal balances	(591,307)	591,307	-
Inventories	-	10,141,141	10,141,141
Prepays	1,967,870	538,627	2,506,497
Deposits	30,000	-	30,000
Other assets	40,906	117,673	158,579
Capital assets not being depreciated	324,837,971	32,394,770	357,232,741
Capital assets, net of accumulated depreciation	17,795,821	225,317,589	243,113,410
Total Assets	674,637,951	371,131,445	1,045,769,396
DEFERRED OUTFLOWS OF RESOURCES			
Accumulated decrease in fair value of derivative instruments	-	2,513,156	2,513,156
Loss on defeased debt due to refundings	1,297,210	3,681,775	4,978,985
Total Deferred Outflows of Resources	1,297,210	6,194,931	7,492,141
LIABILITIES			
Accounts payable and accrued liabilities	3,685,021	21,374,066	25,059,087
Accounts payable from restricted assets	13,689,844	3,191,961	16,881,805
Derivative fuel instruments	-	2,513,156	2,513,156
Compensated absences	1,337,944	-	1,337,944
Self insurance liability	638,938	-	638,938
Capital leases	317,009	-	317,009
Bonds payable	19,400,000	27,940,000	47,340,000
Accrued interest payable	7,740,837	3,343,166	11,084,003
Noncurrent liabilities:			
Compensated absences	1,325,686	-	1,325,686
Self insurance liability	1,211,398	-	1,211,398
Capital leases	667,207	-	667,207
Net OPEB obligation	23,870,774	-	23,870,774
Bonds payable	485,051,881	217,760,439	702,812,320
Total Liabilities	558,936,539	276,122,788	835,059,327
DEFERRED INFLOWS OF RESOURCES			
Deferred fuel	-	2,738,477	2,738,477
Total Deferred Inflows of Resources	-	2,738,477	2,738,477
NET POSITION			
Net investment in capital assets	204,232,505	32,066,140	236,298,645
Restricted	10,333,059	4,451,478	14,784,537
Unrestricted (deficit)	(97,566,943)	61,947,493	(35,619,450)
Total Net Position	\$ 116,998,621	\$ 98,465,111	\$ 215,463,732

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

REEDY CREEK IMPROVEMENT DISTRICT

STATEMENT OF ACTIVITIES

For the Period Ended September 30, 2014

	Business-type Activities		Total Governmental Activities
	Total	Utility	
Expenses:			
Labor	\$ 67,926,481	\$ 31,606,589	\$ 36,319,892
Operating expenses	128,511,667	110,355,310	18,156,357
Depreciation	22,278,767	19,435,194	2,843,573
Nonoperating expenses	255,647	255,647	-
Interest on debt	31,849,936	9,504,372	22,345,564
Total expenses	<u>250,822,498</u>	<u>171,157,112</u>	<u>79,665,386</u>
Program revenues:			
Charges for services	195,869,604	192,812,724	3,056,880
Intergovernmental	2,963,900	-	2,963,900
Capital contributions	839,558	721,461	118,097
Total program revenues	<u>199,673,062</u>	<u>193,534,185</u>	<u>6,138,877</u>
Net program expense (revenue)	<u>51,149,436</u>	<u>(22,377,073)</u>	<u>73,526,509</u>
General revenues:			
Ad valorem taxes	87,220,226	-	87,220,226
Interest income	1,247,465	57,906	1,189,559
Gain on sale of capital assets	134,724	-	134,724
Transfers in (out)	-	3,484,716	(3,484,716)
Total general revenues and transfers	<u>88,602,415</u>	<u>3,542,622</u>	<u>85,059,793</u>
Change in net position	37,452,979	25,919,695	11,533,284
Total net position - beginning	<u>178,010,753</u>	<u>72,545,416</u>	<u>105,465,337</u>
Total net position - ending	<u>\$ 215,463,732</u>	<u>\$ 98,465,111</u>	<u>\$ 116,998,621</u>

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

Governmental Activities

General Government	Public Safety	Physical Environment	Transportation	Debt Service
\$ 3,878,723	\$ 30,631,393	\$ 1,503,369	\$ 306,407	\$ -
4,900,362	3,655,934	2,377,888	7,222,173	-
373,774	2,295,928	76,624	97,247	-
-	-	-	-	-
-	-	-	-	22,345,564
<u>9,152,859</u>	<u>36,583,255</u>	<u>3,957,881</u>	<u>7,625,827</u>	<u>22,345,564</u>
333,415	2,723,465	-	-	-
2,145,318	-	-	-	818,582
-	-	118,097	-	-
<u>2,478,733</u>	<u>2,723,465</u>	<u>118,097</u>	<u>-</u>	<u>818,582</u>
<u>\$ 6,674,126</u>	<u>\$ 33,859,790</u>	<u>\$ 3,839,784</u>	<u>\$ 7,625,827</u>	<u>\$ 21,526,982</u>

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

REEDY CREEK IMPROVEMENT DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2014

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 4,510,921	\$ -	\$ -	\$ 4,510,921
Cash and cash equivalents - restricted	734,159	813,787	11,284,307	12,832,253
Investments	19,875,841	-	-	19,875,841
Investments - restricted	4,205,182	4,661,281	284,404,623	293,271,086
Accounts receivable	58,470	8,119	-	66,589
Due from other funds	59,599	-	-	59,599
Prepays	1,967,870	-	-	1,967,870
Deposits	-	-	30,000	30,000
Total assets	<u>\$ 31,412,042</u>	<u>\$ 5,483,187</u>	<u>\$ 295,718,930</u>	<u>\$ 332,614,159</u>
LIABILITIES AND FUND BALANCES				
Accounts payable and accrued liabilities	\$ 3,749,434	\$ 89,470	\$ 13,600,374	\$ 17,439,278
Due to other funds	-	-	650,906	650,906
Total liabilities	<u>3,749,434</u>	<u>89,470</u>	<u>14,251,280</u>	<u>18,090,184</u>
Fund balances:				
Nonspendable:				
Prepays	1,967,870	-	-	1,967,870
Restricted:				
Capital projects	4,939,342	-	281,467,650	286,406,992
Debt service	-	5,393,717	-	5,393,717
Assigned:				
2015 budget shortfall	3,147,850	-	-	3,147,850
Unassigned	17,607,546	-	-	17,607,546
Total fund balances	<u>27,662,608</u>	<u>5,393,717</u>	<u>281,467,650</u>	<u>314,523,975</u>
Total liabilities and fund balances	<u>\$ 31,412,042</u>	<u>\$ 5,483,187</u>	<u>\$ 295,718,930</u>	

Amounts reported for governmental activities in the Statement of Net Position are different because:

Bond insurance costs are not financial resources and, therefore, are not reported in the funds.	40,906
Accrued interest payable on bonds not currently due is not reported in the funds.	(7,740,837)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	342,633,792
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.	(532,459,215)
Net position of governmental activities	<u>\$ 116,998,621</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 Period Ended September 30, 2014

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES				
Ad valorem taxes	\$ 55,445,621	\$ 31,774,605	\$ -	\$ 87,220,226
Intergovernmental	2,145,318	818,582	-	2,963,900
Emergency services	262,472	-	-	262,472
Building permits and fees	2,460,993	-	-	2,460,993
Drainage fees	118,097	-	-	118,097
Interest income	160,228	113,705	915,626	1,189,559
Other	490,064	-	-	490,064
Total revenues	<u>61,082,793</u>	<u>32,706,892</u>	<u>915,626</u>	<u>94,705,311</u>
EXPENDITURES				
Current:				
General government	8,383,361	-	-	8,383,361
Public safety	32,188,267	-	-	32,188,267
Physical environment	3,729,154	-	-	3,729,154
Transportation	7,473,446	-	-	7,473,446
Capital outlay	2,328,879	-	74,331,531	76,660,410
Debt service:				
Principal	306,437	19,250,000	-	19,556,437
Interest and other charges	44,528	18,894,864	6,194	18,945,586
Total expenditures	<u>54,454,072</u>	<u>38,144,864</u>	<u>74,337,725</u>	<u>166,936,661</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,628,721</u>	<u>(5,437,972)</u>	<u>(73,422,099)</u>	<u>(72,231,350)</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)	<u>(3,484,716)</u>	-	-	<u>(3,484,716)</u>
Total other financing sources	<u>(3,484,716)</u>	-	-	<u>(3,484,716)</u>
Net changes in fund balances	3,144,005	(5,437,972)	(73,422,099)	(75,716,066)
Fund Balances, beginning of year	<u>24,518,603</u>	<u>10,831,689</u>	<u>354,889,749</u>	<u>390,240,041</u>
Fund Balances, end of year	<u>\$ 27,662,608</u>	<u>\$ 5,393,717</u>	<u>\$ 281,467,650</u>	<u>\$ 314,523,975</u>

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

Net changes in fund balances	\$ (75,716,066)
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.	73,816,837
The net effect of various miscellaneous transactions involving capital assets resulted in a decrease in net position.	(54,988)
Governmental funds report the payment of 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 prepaid insurance costs are deferred and amortized.	16,156,459
Increases in other liabilities reported as expenses in the statement of activities not requiring the use of current financial resources in governmental funds.	(2,668,958)
Change in net position of governmental activities	<u>\$ 11,533,284</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 Period Ended September 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Ad Valorem Taxes	\$ 55,423,955	\$ 55,423,955	\$ 55,445,621	\$ 21,666
Intergovernmental Revenue	1,000,000	1,000,000	2,145,318	1,145,318
Emergency Services	-	-	262,472	262,472
Building Permits and Fees	1,500,000	1,500,000	2,460,993	960,993
Drainage Fees	-	-	118,097	118,097
Interest Income	250,000	250,000	160,228	(89,772)
Other	250,000	250,000	490,064	240,064
Total Revenues	<u>58,423,955</u>	<u>58,423,955</u>	<u>61,082,793</u>	<u>2,658,838</u>
EXPENDITURES				
GENERAL GOVERNMENT				
Administrative:				
Labor	1,328,709	1,328,709	1,290,288	38,421
Operating	2,769,790	2,764,790	2,559,903	204,887
	<u>4,098,499</u>	<u>4,093,499</u>	<u>3,850,191</u>	<u>243,308</u>
Human Resources:				
Labor	514,458	514,458	458,446	56,012
Operating	321,100	321,100	237,009	84,091
	<u>835,558</u>	<u>835,558</u>	<u>695,455</u>	<u>140,103</u>
Information Systems & Technology:				
Labor	1,288,982	1,288,982	1,029,919	259,063
Operating	1,054,810	867,610	646,233	221,377
Capital outlay	165,920	401,420	256,102	145,318
	<u>2,509,712</u>	<u>2,558,012</u>	<u>1,932,254</u>	<u>625,758</u>
Property Management:				
Labor	287,725	287,725	214,601	73,124
Operating	1,658,750	1,658,750	1,419,342	239,408
Capital outlay	380,000	22,000	15,071	6,929
	<u>2,326,475</u>	<u>1,968,475</u>	<u>1,649,014</u>	<u>319,461</u>
Contracts & Risk Management:				
Labor	690,675	690,675	496,919	193,756
Operating	30,600	30,600	30,701	(101)
	<u>721,275</u>	<u>721,275</u>	<u>527,620</u>	<u>193,655</u>
TOTAL GENERAL GOVERNMENT	<u>10,491,519</u>	<u>10,176,819</u>	<u>8,654,534</u>	<u>1,522,285</u>
PUBLIC SAFETY				
Building and Safety:				
Labor	3,089,269	3,089,269	2,824,587	264,682
Operating	240,648	283,148	263,910	19,238
Capital outlay	32,000	-	-	-
	<u>3,361,917</u>	<u>3,372,417</u>	<u>3,088,497</u>	<u>283,920</u>
Emergency Services:				
Labor	26,497,205	26,497,205	25,417,864	1,079,341
Operating	2,038,600	2,222,102	2,024,334	197,768
Capital outlay	1,826,937	1,573,835	1,569,644	4,191
	<u>30,362,742</u>	<u>30,293,142</u>	<u>29,011,842</u>	<u>1,281,300</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 Period Ended September 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Property Management:				
Labor	296,823	296,823	289,882	6,941
Operating	1,487,500	1,507,100	1,367,690	139,410
Capital outlay	103,000	366,699	349,464	17,235
	<u>1,887,323</u>	<u>2,170,622</u>	<u>2,007,036</u>	<u>163,586</u>
TOTAL PUBLIC SAFETY	<u>35,611,982</u>	<u>35,836,181</u>	<u>34,107,375</u>	<u>1,728,806</u>
PHYSICAL ENVIRONMENT				
Water Control:				
Operating	2,051,000	1,915,908	1,346,925	568,983
Capital outlay	15,000	15,000	-	15,000
	<u>2,066,000</u>	<u>1,930,908</u>	<u>1,346,925</u>	<u>583,983</u>
Planning & Engineering:				
Labor	1,601,488	1,601,488	1,352,745	248,743
Operating	930,830	925,922	715,245	210,677
Capital outlay	55,900	55,900	58,482	(2,582)
	<u>2,588,218</u>	<u>2,583,310</u>	<u>2,126,472</u>	<u>456,838</u>
Property Management:				
Operating	306,200	306,200	314,239	(8,039)
Capital outlay	-	80,301	80,116	185
	<u>306,200</u>	<u>386,501</u>	<u>394,355</u>	<u>(7,854)</u>
TOTAL PHYSICAL ENVIRONMENT	<u>4,960,418</u>	<u>4,900,719</u>	<u>3,867,752</u>	<u>1,032,967</u>
TRANSPORTATION				
Roadway maintenance:				
Labor	221,758	221,758	275,683	(53,925)
Operating	8,493,350	8,633,350	7,197,763	1,435,587
TOTAL TRANSPORTATION	<u>8,715,108</u>	<u>8,855,108</u>	<u>7,473,446</u>	<u>1,381,662</u>
DEBT SERVICE				
Lease payments	306,437	306,437	306,437	-
Interest and other charges	44,528	44,528	44,528	-
TOTAL DEBT SERVICE	<u>350,965</u>	<u>350,965</u>	<u>350,965</u>	<u>-</u>
Total Expenditures	<u>60,129,992</u>	<u>60,119,792</u>	<u>54,454,072</u>	<u>5,665,720</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,706,037)</u>	<u>(1,695,837)</u>	<u>6,628,721</u>	<u>8,324,558</u>
OTHER FINANCING SOURCES & USES				
Transfers out	<u>(3,676,062)</u>	<u>(3,686,262)</u>	<u>(3,484,716)</u>	<u>201,546</u>
Total Other Financing Uses	<u>(3,676,062)</u>	<u>(3,686,262)</u>	<u>(3,484,716)</u>	<u>201,546</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 Period Ended September 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing Uses	\$ (5,382,099)	\$ (5,382,099)	3,144,005	\$ 8,526,104
Fund Balance, beginning of year			24,518,603	
Fund Balance, end of year			\$ 27,662,608	

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

REEDY CREEK IMPROVEMENT DISTRICT
STATEMENT OF NET POSITION - UTILITY FUND
September 30, 2014

ASSETS

Current assets:

Cash and cash equivalents	\$	17,334,077
Accounts receivable		22,033,661
Due from other funds		650,906
Inventories		10,141,141
Prepays		538,627

Restricted Assets:

Cash and cash equivalents		16,533,388
Investments		4,998,755

Total current assets		72,230,555
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Noncurrent assets:

Restricted investments		41,130,457
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Capital assets:

Land		6,907,829
Buildings		65,652,135
Improvements other than buildings		207,212,935
Machinery and equipment		382,668,441
Less accumulated depreciation		(430,215,922)
Construction in progress		25,486,941

Total capital assets		257,712,359
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Other assets		117,673
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Total noncurrent assets		298,960,489
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Total Assets		371,191,044
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DEFERRED OUTFLOWS OF RESOURCES

Accumulated decrease in the fair value of derivative instruments		2,513,156
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Loss on defeased debt due to refundings		3,681,775
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Total Deferred Outflows of Resources		6,194,931
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LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities		21,374,066
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Derivative fuel instruments		2,513,156
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Due to other funds		59,599
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Total current liabilities		23,946,821
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Current liabilities payable from restricted assets:

Bonds payable		27,940,000
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Accrued interest payable		3,343,166
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Contracts and retainage payable		3,191,961
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Total current liabilities payable from restricted assets		34,475,127
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Long-term liabilities:

Bonds payable		217,760,439
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Total Liabilities		276,182,387
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DEFERRED INFLOWS OF RESOURCES

Deferred fuel		2,738,477
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NET POSITION

Net investment in capital assets		32,066,140
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Restricted for renewal and replacement		3,951,478
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Restricted for emergency repairs		500,000
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Unrestricted		61,947,493
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Total Net Position	\$	98,465,111
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The accompanying notes are an integral part of these financial statements.

REEDY CREEK IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
UTILITY FUND
For the Period Ended September 30, 2014

OPERATING REVENUES	
Utility sales	\$ 192,812,724
Total operating revenues	<u>192,812,724</u>
OPERATING EXPENSES	
Purchased power and fuel	86,464,079
Labor support	31,606,589
Operating costs	12,807,187
Taxes	3,440,385
Repairs and maintenance	6,533,773
Insurance	1,109,886
Depreciation	19,435,194
Total operating expenses	<u>161,397,093</u>
Operating income	<u>31,415,631</u>
NONOPERATING REVENUES (EXPENSES)	
Interest and investment income	57,906
Interest expense	(9,504,372)
Amortization of bond issue costs	(231,000)
Loss on abandonment of plant assets	(24,647)
Total nonoperating expenses	<u>(9,702,113)</u>
Income before contributions and transfers	21,713,518
Capital contributions	721,461
Transfers in	<u>3,484,716</u>
Increase in net position	25,919,695
Total net position - beginning	<u>72,545,416</u>
Total net position - ending	<u>\$ 98,465,111</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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 191,170,843
Payments to suppliers	(110,233,413)
Payments for labor contract and management service agreement	(28,985,188)
Payments to employees	(2,659,177)
Net cash provided by operating activities	49,293,065

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating transfers in	3,484,716
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from bonds	111,595,000
Payment of bond issue costs	(132,016)
Purchases of capital assets	(25,788,798)
Proceeds from sale of capital assets	249,092
Principal paid on bonds	(150,040,000)
Interest paid on bonds	(15,597,489)
Capital contributions	721,461
Net cash used by capital and related financing activities	(78,992,750)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(30,596,749)
Proceeds from sales and maturities of investments	45,530,527
Investment income	62,069
Net cash used in investing activities	14,995,847
Net increase in cash and cash equivalents	(11,219,122)
Balances - beginning of the year	45,086,587
Balances - end of the year	\$ 33,867,465

Unrestricted	\$ 17,334,077
Restricted	16,533,388
	\$ 33,867,465

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 31,415,631
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	19,435,194
Change in assets and liabilities:	
Accounts receivable	(1,641,881)
Inventories	(1,344,836)
Prepaid items	32,250
Other assets	(29,925)
Accounts payable and accrued liabilities	1,015,648
Due from other funds	55,989
Unearned revenue	354,995
Net cash provided by operating activities	\$ 49,293,065

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

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

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.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all 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, 2014

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 sixty 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.

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.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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, 2014 were 7.5045 for General Operating and 4.3008 for Debt Service.

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. 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 or matrix pricing for certain fixed income securities.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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. Similarly, certain assets in the General Fund are also restricted by provisions of drainage resolutions. These assets are classified as restricted assets on the statement of net position.

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 \$5,000. 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

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 for business-type activities.

I. Unamortized Bond Issuance Costs

Bond issuance costs, other than prepaid insurance, are expensed in the period incurred. Prepaid insurance costs are amortized over the life of the bonds using the effective interest method and are presented as other assets.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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. Deferred amounts are presented as a deferred outflow of resources.

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 Balances

In the Governmental Fund financial statements, fund balances are classified as follows:

Nonspendable – The portion of fund balance that includes amounts that cannot be spent because they are either not in a spendable form or legally or contractually required to be maintained intact.

Restricted – Amounts that can only be used for specific purposes due to constraints that have been placed on them by external parties, constitutional provisions or enabling legislation.

Committed – Amounts that are constrained for specific purposes that are internally imposed through formal action of the Board of Supervisors and does not lapse at year end.

Assigned – Amounts constrained by the Board of Supervisors to be used for a specific purpose.

Unassigned – All amounts not included in other spendable classifications.

The District spends restricted amounts first when both restricted and unrestricted fund balance is available unless legally prohibited from doing so. When expenditures are incurred for payment from the unrestricted fund balances, assigned is used first, followed by unassigned fund balance. The District does not have a formal minimum fund balance policy.

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.
- (4) Budgets are legally adopted for the General Fund, Debt Service Fund and the Enterprise Fund.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

M. Budgets and Budgetary Accounting - Continued

- (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 and encumbrances, 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 fair value of these derivative fuel instruments is included in the Statement of Net Position with the accumulated changes in fair value reported as deferred outflows or deferred inflows of resources as they have been determined to qualify for hedge accounting. 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. Implementation of New Accounting Standard

Effective October 1, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (GASB No. 70). GASB No. 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. GASB No. 70 also specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. Implementation of this standard did not have a material impact on the financial statements.

Q. Recent Accounting Standard

In 2012, GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions" (GASB No. 68) – an amendment to GASB Statement No.27, "Accounting for Pensions by State and Local Governmental Employers". GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses related to pensions. This statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Q. Recent Accounting Standard – Continued

and expense for the cost-sharing plan. It also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The impact of GASB No. 68 is currently being evaluated and is anticipated to be material to the presentation of the District's financial position. This statement will be implemented as required by GASB in fiscal year 2015.

R. Rates and Regulations

The District follows the accounting practices set forth in GASB No. 62, paragraphs 476-500, Regulated Operations. 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 liabilities consist of deferred fuel.

If the District no longer applied GASB No. 62 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 GASB No. 62, but will continue to evaluate significant changes in the regulatory and competitive environment to assess the ability to continue to apply GASB No. 62.

S. 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 position

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. 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 \$376,177,904 net of accumulated depreciation of \$33,544,112, or \$342,633,792.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

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

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

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	\$ 2,599,217
Self insurance liability	1,850,336
Capital leases	984,216
Net OPEB obligation	23,870,774
Bonds payable	504,451,881
Deferred outflow - losses on defeased debt	<u>(1,297,210)</u>
Net adjustment to reduce total fund balances - total governmental funds to arrive at net position of governmental activities	<u>\$ 532,459,214</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 of the “net changes in fund balances – total governmental funds” and “change in net position of governmental activities” as reported in the government-wide statement of activities. Further details of certain elements of that reconciliation are as follows:

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. The amount by which capital outlays exceeded depreciation in the current period is as follows:

Capital outlay expenditures:	
General fund	
General government	\$ 271,173
Public safety	1,919,108
Physical environment	138,598
Capital projects	74,331,531
Depreciation expense	<u>(2,843,573)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 73,816,837</u>

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

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

2. Governmental funds report the payment of the bond and capital lease 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 certain 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	\$ 1,209,282
Principal payments on bonds outstanding	19,556,437
Accrued interest payable	<u>(4,609,260)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 16,156,459</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	\$ (124,833)
Workers compensation	1,077,909
Net OPEB obligation	<u>(3,622,034)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (2,668,958)</u>

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, 2014, 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 certificate of deposits	\$ 6,777,542	\$ 6,673,987	\$ 103,555	\$ -	\$ -
US Treasury Securities	45,259,038	4,998,755	39,831,603	-	428,680
US Government Agency Securities	55,221,284	24,004,341	25,282,892	5,934,051	-
Florida Prime, Money Market Fund	474,689	474,689	-	-	-
State and Local Government Securities	249,640,800	86,317,840	73,342,960	-	89,980,000
Canadian Public Obligations	16,251,464	8,073,680	8,177,784	-	-
Money market mutual funds	36,861,961	36,861,961	-	-	-
Totals	<u>\$ 410,486,778</u>	<u>\$ 167,405,253</u>	<u>\$ 146,738,794</u>	<u>\$ 5,934,051</u>	<u>\$ 90,408,680</u>

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

3. DEPOSITS AND INVESTMENTS – Continued

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 money market 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.

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, 2014, all District investments are held in a bank's trust department in the District's name.

Concentration of Credit Risk – At September 30, 2014, there were no issuers with which the District held investments exceeding 5% of the total investment portfolio.

Statement of Net Position Classifications - In addition to demand accounts, the District classifies repurchase agreements, Florida Prime, money market mutual funds and investments with maturities of three months or less from the date of purchase as cash and cash equivalents on the statement of net position. As of September 30, 2014 the following is a summary of these amounts reflected on the statement of net position:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Totals</u>
Statement of Net Position Classifications:			
Cash and cash equivalents	\$ 21,844,998	\$ 29,365,641	\$ 51,210,639
Investments	<u>19,875,841</u>	<u>339,400,298</u>	<u>359,276,139</u>
	<u>\$ 41,720,839</u>	<u>\$ 368,765,939</u>	<u>\$ 410,486,778</u>

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014 was as follows:

	Beginning Balance October 1,	Increases	Decreases	Ending Balance September 30, 2014
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,762,209	\$ -	\$ (5,511)	\$ 2,756,698
Construction in progress	7,260,826	74,331,529	-	81,592,355
Infrastructure	240,507,816	-	(18,898)	240,488,918
Total capital assets, not being depreciated	<u>250,530,851</u>	<u>74,331,529</u>	<u>(24,409)</u>	<u>324,837,971</u>
Capital assets, being depreciated				
Buildings	22,492,460	-	(2,490)	22,489,970
Machinery and equipment	28,485,652	2,328,879	(1,964,568)	28,849,963
Total capital assets, being depreciated	<u>50,978,112</u>	<u>2,328,879</u>	<u>(1,967,058)</u>	<u>51,339,933</u>
Less accumulated depreciation for:				
Buildings	10,179,922	681,221	(1,245)	10,859,898
Machinery and equipment	22,457,099	2,162,352	(1,935,237)	22,684,214
Total accumulated depreciation	<u>32,637,021</u>	<u>2,843,573</u>	<u>(1,936,482)</u>	<u>33,544,112</u>
Total capital assets, being depreciated, net	<u>18,341,091</u>	<u>(514,694)</u>	<u>(30,576)</u>	<u>17,795,821</u>
Governmental activities capital assets, net	<u>\$ 268,871,942</u>	<u>\$ 73,816,835</u>	<u>\$ (54,985)</u>	<u>\$ 342,633,792</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 6,907,829	\$ -	\$ -	\$ 6,907,829
Construction in progress	11,495,239	26,301,702	(12,310,000)	25,486,941
Total capital assets, not being depreciated	<u>18,403,068</u>	<u>26,301,702</u>	<u>(12,310,000)</u>	<u>32,394,770</u>
Capital assets, being depreciated				
Buildings	65,627,630	25,803	(1,298)	65,652,135
Improvements other than buildings	200,088,781	7,124,154	-	207,212,935
Machinery and equipment	386,979,460	7,608,314	(11,919,333)	382,668,441
Total capital assets, being depreciated	<u>652,695,871</u>	<u>14,758,271</u>	<u>(11,920,631)</u>	<u>655,533,511</u>
Less accumulated depreciation for:				
Buildings	39,380,750	1,952,162	(780)	41,332,132
Improvements other than buildings	123,146,266	4,257,421	-	127,403,687
Machinery and equipment	259,900,603	13,225,611	(11,646,111)	261,480,103
Total accumulated depreciation	<u>422,427,619</u>	<u>19,435,194</u>	<u>(11,646,891)</u>	<u>430,215,922</u>
Total capital assets, being depreciated, net	<u>230,268,252</u>	<u>(4,676,923)</u>	<u>(273,740)</u>	<u>225,317,589</u>
Business-type activities capital assets, net	<u>\$ 248,671,320</u>	<u>\$ 21,624,779</u>	<u>\$ (12,583,740)</u>	<u>\$ 257,712,359</u>

During the year, the Enterprise Fund incurred interest costs totaling \$9,504,372. 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 \$895,510 was capitalized during fiscal year 2014.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

5. LEASE OF ASSETS

Capital leases – Governmental activities

During fiscal year 2011, the District entered into leasing agreements for 911 emergency communications equipment. The terms of the lease are such that the District capitalized them. This year, \$307,143 was included in depreciation expense for 911 equipment.

The following is a schedule of future minimum lease payments of \$1,052,895 for 911 equipment assets capitalized under lease agreements, and the present value of the minimum lease payments as of September 30, 2014:

Fiscal Year Ending September 30	Total
2015	\$ 350,965
2016	350,965
2017	<u>350,965</u>
Total Minimum Lease Payments	1,052,895
Less Amount Representing Interest	<u>68,679</u>
 Present Value of Minimum Lease Payments	 <u>\$ 984,216</u>

6. INTERFUND RECEIVABLE AND PAYABLE BALANCES AND TRANSFERS

Interfund receivable and payable balances as of September 30, 2014 are as follows:

	Interfund Receivables (Due from)	Interfund Payables (Due to)
General	\$ 59,599	\$ -
Utility Fund	<u>-</u>	<u>59,599</u>
	<u>\$ 59,599</u>	<u>\$ 59,599</u>

Interfund transfers consisted of a transfer to the Utility Fund from the General Fund to subsidize the operations of Environmental Sciences. The transfers were as follows:

	Interfund Transfers In	Interfund Transfers Out
General	\$ -	\$ 3,484,716
Enterprise	<u>3,484,716</u>	<u>-</u>
	<u>\$ 3,484,716</u>	<u>\$ 3,484,716</u>

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

7. LONG – TERM DEBT

A. Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2014, was as follows:

	Beginning Balance October 1, 2013	Additions	Reductions	Ending Balance September 30, 2014	Due Within One Year
Governmental activities:					
General Obligation Bonds:					
2004A Ad Valorem	\$ 2,785,000	\$ -	\$ (2,785,000)	\$ -	\$ -
2004B Ad Valorem	485,000	-	(485,000)	-	-
2005A Ad Valorem	18,925,000	-	-	18,925,000	-
2005B Ad Valorem Refunding	52,650,000	-	(7,240,000)	45,410,000	7,600,000
2010A Ad Valorem Refunding	7,410,000	-	(2,430,000)	4,980,000	2,470,000
2011A Ad Valorem Refunding	36,865,000	-	(5,740,000)	31,125,000	5,895,000
2013A Ad Valorem	344,960,000	-	-	344,960,000	-
2013B Ad Valorem Refunding	40,950,000	-	(570,000)	40,380,000	3,435,000
Deferred amounts:					
Discount/Premium	20,479,146	-	(1,807,265)	18,671,881	-
Total long-term bonds payable	525,509,146	-	(21,057,265)	504,451,881	19,400,000
Compensated absences	2,544,498	119,132	-	2,663,630	1,337,944
Capital leases	1,290,653	-	(306,437)	984,216	317,009
Self insurance liability	2,928,245	-	(1,077,909)	1,850,336	638,938
Net OPEB obligation	20,248,740	3,622,034	-	23,870,774	-
Long-term liabilities	<u>\$ 552,521,282</u>	<u>\$ 3,741,166</u>	<u>\$ (22,441,611)</u>	<u>\$ 533,820,837</u>	<u>\$ 21,693,891</u>
Business-type activities:					
Revenue Bonds:					
2003-2 Utility Refunding	\$ 142,985,000	\$ -	\$ (142,985,000)	\$ -	\$ -
2005-2 Utility Refunding	46,375,000	-	(6,190,000)	40,185,000	6,500,000
2011-1 Utility Refunding	1,200,000	-	-	1,200,000	-
2011-2 Utility	30,000,000	-	-	30,000,000	-
2013-1 Utility Refunding	54,915,000	-	(865,000)	54,050,000	3,285,000
2013-2 Utility Refunding	-	111,595,000	-	111,595,000	18,155,000
Deferred amounts:					
Discount/Premium	15,204,853	-	(6,534,414)	8,670,439	-
Long-term liabilities	<u>\$ 290,679,853</u>	<u>\$ 111,595,000</u>	<u>\$ (156,574,414)</u>	<u>\$ 245,700,439</u>	<u>\$ 27,940,000</u>

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

7. LONG – TERM DEBT – Continued

A. Changes in long-term liabilities – Continued

General Obligation Bonds Payable

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.

2010A Ad Valorem Tax Refunding Bonds – In September 2010, the District issued \$12,150,000 Ad Valorem Tax Refunding Bonds at an interest rate of 1.58%. The proceeds were used for the advance refunding of the 1998B Ad Valorem Tax Bonds.

2011A Ad Valorem Tax Refunding Bonds – In April 2011, the District issued \$47,715,000 Ad Valorem Refunding Bonds at an interest rate of 2.75%. The proceeds were used for the advance refunding of the 2001A Ad Valorem Tax Bonds.

2013A Ad Valorem Tax Bonds – In September 2013, the District issued \$344,960,000 Ad Valorem Tax Bonds at interest rates of 4.5% to 5.25%. The proceeds will be used to finance the costs to design, construct, equip and improve roadways and parking facilities within and outside the District.

2013B Ad Valorem Tax Refunding Bonds – In September 2013, the District issued \$40,950,000 Ad Valorem Refunding Bonds at interest rates of 4.0% to 5.0%. The proceeds were used for the advance refunding of the 2004A and 2004B Ad Valorem Tax Bonds maturing on and after June 1, 2015.

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.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

7. LONG - TERM DEBT – Continued

A. Changes in long-term liabilities – Continued

Revenue Bonds Payable

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.

2011-1 Utilities Revenue Refunding Bonds – In August 2011, the District issued \$1,200,000 Utilities Revenue Refunding Bonds at an interest rate of 2.93%. The proceeds were used for the advance refunding of the 1997-1 Utilities Revenue Bonds outstanding after October 1, 2010.

2011-2 Utilities Revenue Bonds – In December 2011, the District issued \$30,000,000 Utilities Revenue Bonds at an interest rate of 3.49%. The proceeds are being used to pay for construction and acquisition of improvements to the utility systems.

2013-1 Utilities Revenue Refunding Bonds – In July 2013, the District issued \$54,915,000 Utilities Revenue Refunding Bonds at interest rates of 2.5% to 5.0%. The proceeds were used to refund the 2003-1 and 2005-1 Utilities Revenue Bonds.

2013-2 Utilities Revenue Refunding Bonds – In July 2014, the District issued \$111,595,000 Utilities Revenue Refunding Bonds at an interest rate of 1.710%. The proceeds were used for the advance refunding of the 2003-2 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 sufficient net revenues (revenues less operating expenses (excluding depreciation and lease payments to WDWC)), to pay 110% of the annual debt service requirements due each year. 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.
- (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.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

7. LONG - TERM DEBT – Continued

A. Changes in long-term liabilities – Continued

- (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 and was reduced to 4% by certification from the District's 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 depreciation and 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,	General Obligation Bonds	
	Principal	Interest
2015	19,400,000	23,188,551
2016	20,065,000	22,515,868
2017	21,075,000	21,805,398
2018	21,910,000	20,964,497
2019	17,340,000	20,054,777
2020-2024	95,255,000	88,110,600
2025-2029	87,240,000	64,585,305
2030-2034	101,755,000	41,708,863
2035-2038	101,740,000	13,027,500
Total	485,780,000	\$ 315,961,360
Current portion	(19,400,000)	
Deferred amounts:		
Discount/Premium	18,671,881	
Long-term bonds payable	\$ 485,051,881	

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

7. LONG - TERM DEBT – Continued

B. Annual Debt Service Requirements – Continued

Year Ended September 30,	Revenue Bonds	
	Principal	Interest
2015	\$ 27,940,000	\$ 7,298,907
2016	36,505,000	6,420,019
2017	31,605,000	5,587,198
2018	32,165,000	4,897,190
2019	16,910,000	4,306,190
2020-2024	66,170,000	11,833,338
2025-2026	25,735,000	1,136,285
Total	237,030,000	\$ 41,479,127
Current portion	(27,940,000)	
Deferred amounts:		
Discount/Premium	8,670,439	
Long-term bonds payable	\$ 217,760,439	

C. Refunded Debt

In July 2014, the District issued \$111,595,000 Utilities Revenue Refunding Bonds Series 2013-2 at an interest rate of 1.710%. Proceeds were used to refund the 2003-2 Utilities Revenue Bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,961,666. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being recognized as a component of interest expense through fiscal year 2019 using the effective-interest method. This refunding was undertaken to reduce total debt service payments over the next 13 years by \$11.7 million and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$10.2 million.

Balances outstanding of the refunded debt at September 30, 2014 are as follows:

<u>Issue</u>	<u>Date Refunded</u>	<u>Outstanding</u>
2005-1 Utility Revenue Bonds	July 10, 2013	26,930,000

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

8. TRANSACTIONS WITH PRINCIPAL LANDOWNERS

During fiscal 2014, 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 \$1,111,517.
- (2) The operation and maintenance of various District water control facilities amounted to \$697,863.
- (3) The maintenance of certain right of ways and District property within the District amounted to \$92,134.

At September 30, 2014, accounts payable of the General Fund included \$85,806 to Walt Disney World Co. and other wholly owned subsidiaries of the Walt Disney Company.

The District's primary source of revenue is ad valorem taxes. Walt Disney Co. comprised 89% of the total taxable assessed value within the District for the year ended September 30, 2014.

Enterprise Fund

- (1) Financial and other administrative services amounted to \$95,324.
- (2) The management and construction of various capital improvements amounted to \$351,711.
- (3) The operation and maintenance of the utility systems for which the District has a labor agreement. The District incurred \$28,695,545 of labor support fees under this agreement.

At September 30, 2014 the Enterprise Fund had accounts receivable of \$14,613,188 and accounts payable of \$6,972,665 with Walt Disney World Co. and other wholly owned subsidiaries of The Walt Disney Company.

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 83% of total utility revenues for the year ended September 30, 2014.

9. RETIREMENT SYSTEM

Plan description - 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. Amendments to the law can be made only by an act of the Florida Legislature. The State of Florida 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.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

9. RETIREMENT SYSTEM – Continued

Pension plan members are eligible for retirement as follows:

	Class			
	Regular	Senior Management	Special Risk	Special Risk Administrative Support
Enrolled prior to July 1, 2011				
Vested	6 years	6 years	6 years	6 years
Normal retirement age	earlier of 30 years of credited service or attainment of age 62	earlier of 30 years of credited service or attainment of age 62	earlier of 25 years of credited service or attainment of age 55	earlier of 25 years of credited service or attainment of age 55
Retirement benefit	1.6% of average final compensation for each year of credited service	2% of average final compensation for each year of credited service	3% of average final compensation for each year of credited service	1.6% of average final compensation for each year of credited service
Enrolled on or after July 1, 2011				
Vested	8 years	8 years	8 years	8 years
Normal retirement age	earlier of 33 years of credited service or attainment of age 65	earlier of 33 years of credited service or attainment of age 65	earlier of 30 years of credited service or attainment of age 60	earlier of 30 years of credited service or attainment of age 60
Retirement benefit	1.6% of average final compensation for each year of credited service	2% of average final compensation for each year of credited service	3% of average final compensation for each year of credited service	1.6% of average final compensation for each year 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.

Funding Policy - The FRS has numerous classes of membership (of which District employees qualify in five classes) with descriptions and employer contribution rates in effect at September 30, 2014 as follows:

Regular Class - Members not qualifying for other classes (7.37% rate).

Special Risk Class - Members employed as law enforcement officers, firefighters, correctional officers or community-based correctional probation officers, and paramedics and EMTs who meet the criteria set to qualify for this class (19.82% rate).

Special Risk Administrative Support Class – Special risk employees who are transferred or reassigned to a non-special risk position (42.07%).

Senior Management Service Class - Qualifying member of senior management (21.14% rate).

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

9. RETIREMENT SYSTEM – Continued

Deferred Retirement Option Program (DROP) – Participating members of the program, not to exceed 60 months (12.28% rate).

The contribution requirements of the District are established and may be amended by FRS. Effective July 1, 2011 Florida Legislature required employees contribute 3% of their annual earnings on a pretax basis, with remaining contributions being the obligation of the District. The District contributed 14.43% of covered payroll during the year. The District’s contributions to FRS for the years ended September 30, 2012, 2013 and 2014, respectively, were \$2,236,110, \$2,744,991 and \$3,494,222. Employee contributions to FRS for the years ended September 30, 2012, 2013 and 2014, respectively, were \$607,586, \$659,502 and \$685,577. Contributions made and accrued were equal to the required contributions for each year.

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan description - The District provides postemployment healthcare benefits. State Statute requires the District to continue offering healthcare coverage to retirees at the District’s cost; however, for employees hired prior to March 1, 2013, the District 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. For employees hired after March 1, 2013, retirees may elect to continue coverage for themselves and their eligible dependents at the full, unsubsidized cost to the District for the elected coverage.

Annual OPEB cost and net OPEB obligation - The actuary’s estimate of the District’s *accrued OPEB liability*, also known as the *actuarial accrued liability*, which approximates the present value of all future expected postemployment medical premiums, associated administrative costs and stipend payments (which are attributable to the past service of active and retired employees) was \$57.6 million at September 30, 2014 as valued on October 1, 2013. The District’s annual OPEB cost is the District’s OPEB expenses on an accrual basis. The annual OPEB cost is calculated based on the annual required contribution (ARC), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost (current and future benefits earned) each year and to amortize any unfunded actuarial liabilities over a period of time not to exceed thirty years.

	2014
Annual required Contribution (ARC)	\$ 5,114,301
Interest on net OPEB Obligation	607,462
Adjustment to Annual Required Contribution	(1,002,986)
Annual OPEB Cost	4,718,777
Projected Pay-as-you-go Expense	(1,096,743)
Change in OPEB Obligation	3,622,034
Net OPEB Obligation - Beginning of Year	20,248,740
Net OPEB Obligation - Projected End of Year	\$ 23,870,774

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – Continued

The District's estimated annual OPEB cost and ARC for fiscal year 2014 were approximately \$4.7 and \$5.1 million, respectively. The *net OPEB obligation* is the net amount for which the District would be obligated and is equivalent to the cumulative sum of the annual OPEB cost less estimated retiree claims, stipends and contributions to the plan paid by the District. The District's net OPEB obligation at September 30, 2014 was approximately \$23.9 million.

<u>Fiscal Year</u>	<u>Annual OPEB Costs</u>	<u>% Costs Contributed</u>	<u>Net OPEB Obligation</u>
2012	4,733,896	21%	16,675,831
2013	4,569,948	22%	20,248,740
2014	4,718,777	23%	23,870,774

Funding policy, status and progress – The District has not currently funded any portion of the net OPEB obligation, however during fiscal years 2010 through 2014, the Board of Supervisors designated \$7 million for the future funding of the liability. The Actuarial Accrued Liability (AAL) and the Unfunded Actuarial Accrued Liability (UAAL) as of October 1, 2013 was \$57,579,673.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Actuarial evaluations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The projected unit credit method was used in the September 30, 2014 actuarial valuation. Actuarial assumptions included a 30 year (closed) amortization period, a 3% investment rate of return, a 20.188 Amortization Factor and an annual healthcare cost trend rate of 10% initially, reduced by 1% decrements to an ultimate rate of 5% by fiscal year 2024. The District's unfunded actuarial accrued liability is being amortized as a level dollar amount.

Survivor Income Plan - 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 four retirees that meet these eligibility requirements. Benefit payments of \$220,241 have been required to date.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

11. RISK MANAGEMENT

The District is exposed to various risks of loss related to theft, 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 retains risk up to a maximum of \$1,000,000 for each worker's compensation claim, \$250,000 for each liability claim, \$100,000 for most property damage claims, and \$50,000 for criminal acts. The District purchases commercial insurance for claims in excess of risk retained. There have been no claim settlements in excess of insurance coverage during the three fiscal years ended September 30, 2012, 2013 and 2014.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The self-insurance liability of \$1,850,336 at September 30, 2014 is based on an actuarial review of claims pending and past experience. Decreases in the claims liability have occurred due to the nullification of a large previously existing claim. Changes in the claims liability amount during fiscal years 2013 and 2014 are as follows:

	Year ended September 30	
	2014	2013
Self insurance liability beginning balance	\$ 2,928,245	\$ 3,148,179
Claims and changes in estimates	(188,650)	282,161
Claims payments	<u>(889,259)</u>	<u>(502,095)</u>
Self insurance liability ending balance	<u>\$ 1,850,336</u>	<u>\$ 2,928,245</u>

The District has established an Owner Controlled Insurance Program (OCIP) in connection with significant capital projects. The program will cease upon completion of the projects, estimated to be in 2017. The program provides associated General Liability and Workers Compensation coverage to eligible participants. The program is fully insured by purchased primary and excess liability insurance and is administered by a third party.

12. DERIVATIVE FUEL INSTRUMENTS

The District entered into derivative fuel instruments – cash flow hedges (commodity swaps, caps and collars) in order to financially hedge the cost of natural gas. The District's fuel-related derivative transactions are recorded at fair value on the Statement of Net Position as either an asset or liability depending on their fair value, and the related unrealized gains and/or losses for effective hedges are deferred and reported as either deferred inflows or outflows of resources. Realized gains and losses on these transactions are recognized as fuel expense in the specific period in which the instrument is settled. During the year a total of \$902,974 in settlement losses were recognized in fuel expense.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

12. DERIVATIVE FUEL INSTRUMENTS – Continued

The following is a summary of the derivative fuel instruments of the Utility Fund as of September 30, 2014 which have been deemed effective and are recorded as deferred outflows.

Classification	Fair Value at September 30,			Notional	Maturity
	2013	Change in fair value	2014		
Deferred outflows	\$ 5,038,726	\$ (2,525,570)	\$ 2,513,156	12,691,929 MMBTUs	FY 2015 - 2018

Credit Risk – The District’s counterparties must have a minimum credit rating of BBB- issued by Standard and Poor’s or Fitch’s rating service or Baa3 issued by Moody’s Investor Services.

Basis Risk - All of the District’s transactions are based on the same reference rates, thus there is no basis risk.

Termination Risk – The District’s Energy Risk Management Oversight Committee oversees the derivative instrument activity and of the counterparties who are required to maintain a minimum credit rating and present collateral at certain levels which mitigates the chance of a termination event. To date, no termination events have occurred.

13. NET POSITION AND FUND BALANCE REPORTING

The Statement of Net Position for Governmental activities reflects a negative unrestricted net position of \$97,566,943 due to the financing, with long-term bonds of the District, certain roadways that were subsequently donated to the State of Florida; and long-term bonds that were 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, amounting to \$85,880,154 at September 30, 2014, associated with the roadways is a liability of the District. All of the bonds are Ad Valorem Tax bonds secured by an irrevocable lien on the ad valorem taxes collected by the District.

Governmental Fund Balances

In the Balance Sheet – Governmental Funds, the District has classified fund balances into nonspendable, restricted, assigned and unassigned amounts. Restricted amounts represent the following:

- General Fund - Funds restricted for capital projects by contracts with developers of property, outside of the District, for ongoing maintenance of the District’s drainage system.
- Capital Projects Fund – Bond funds restricted for road system and building improvements subject to specific provisions in bond resolutions.
- Debt Service Fund - Assets required for servicing general obligation bond indebtedness under the District’s trust indenture.

Assigned amounts in the General Fund represent the portion of fund balance designated by the Board of Supervisors to cover the projected excess of expenditures over revenues in the fiscal year 2015 budget. Note 1(M) discusses the District’s budget approval process.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

14. COMMITMENTS AND CONTINGENCIES

Construction

As of September 30, 2014, the District's Board of Supervisors authorized a budget of approximately \$280.4 million for two major projects. A total of approximately \$72.9 million was spent on these projects as of September 30, 2014. Executed construction commitments associated with these projects at September 30, 2014 approximate \$175.6 million.

Purchased Power and Gas

The District has entered into Purchase Power Agreements (PPA) with public and private entities throughout Florida for the purchase and sale of power at wholesale rates, and associated transmission service. Some of the PPAs require the District to pay reservation charges for capacity. The District's minimum commitment for fiscal year 2014 reservation charges under the agreements is approximately \$29,000,000. 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 2013 through 2016, with various provisions for renewal or cancellation by both parties.

On December 14, 2010, the District entered into a Service Agreement for Network Integration Transmission Service with FPC for the period January 1, 2011 through December 31, 2015. On January 25, 2012, the District entered into two separate PPAs with FPC for the period January 1, 2013 through December 31, 2015.

Similarly, the District is obligated to purchase minimum pipeline capacity to transport natural gas under two agreements with Florida Gas Transmission Company ("FGTC"), and a gas transportation and supply agreement dated January 25, 2012 with Peoples Gas System (PGS). Minimum payments for natural gas under these agreements will total approximately \$3,600,000 for fiscal year 2014. The terms of the FGTC agreements expire in the years 2015 and 2017, and the term of the PGS agreement expires in the year 2028.

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. 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.

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. The Bonds were subsequently refunded by the District's 2005B Bonds, however, the refunding did not affect the terms of the original agreement.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

14. COMMITMENTS AND CONTINGENCIES – Continued

Concurrency Management Agreement - Continued

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 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 \$818,582 during the fiscal year.

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 by the District 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.

In 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.

In January 2004, the District entered into an Amended and Restated Bond Guarantee Agreement in connection with the issuance of the Reedy Creek Improvement District Series 2004A Ad Valorem Tax Bonds ("2004A 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 ("Refunded Bonds"), the Prior Osceola Bonds.

In September 2013, the District issued the 2013B Ad Valorem Tax Refunding Bonds in the amount of \$40,950,000. These bonds were issued to refinance, in part, the 2004A Bonds.

In September 2014, Osceola County issued \$80,100,000 Osceola County, Florida Transportation Improvement Refunding Bonds ("the 2014 Bonds") to refinance the Refunded Bonds. The District entered into a new Bond Guarantee Agreement.

The District's obligation to make payments required by the Bond Guarantee Agreement is subordinate to all outstanding Ad Valorem Tax Bonds of the District. Osceola County has agreed to repay from excess toll revenues, if any, when they become available, the 1) debt service of the District's 2013B Ad Valorem Tax Refunding Bonds, 2) any guarantee payments that are required, along with 3) accrued interest. These payments will terminate upon the earlier of repayment in full or April 1, 2034. The related agreements have been authorized by the District's Board of Supervisors and the County's Board of County Commissioners. The District received \$2,145,318 from Osceola County during fiscal year 2014.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

14. COMMITMENTS AND CONTINGENCIES – Continued

STOPR Agreements

In September 2007, the District entered into an agreement with the City of St. Cloud, Tohopekaliga Water Authority (TWA), Orange County and Polk County to jointly perform permit compliance monitoring activities as required by the Water Use Permits issued by the South Florida Water Management District. The agreement, as amended, requires the District to contribute 18.2% of the total costs until June 30, 2015. As of September 30, 2014, the District has paid \$589,506 for these efforts.

In November 2010, the District entered into an agreement with the City of St. Cloud, TWA, Orange County and Polk County to jointly participate in the Central Florida Coordination Area (currently referred to as the Central Florida Water Initiative) rulemaking, monitoring and modeling to work with South Florida Water Management District in identifying the availability of groundwater and other water resources to accommodate future growth in the Central Florida area. The agreement, as amended, requires the District to contribute up to \$282,433 for this effort. As of September 30, 2014, the District has paid \$277,969.

In August 2011, the District entered into an agreement with the Water Cooperative of Central Florida (which currently consists of the City of St. Cloud, TWA, Orange County and Polk County) to participate in the preliminary design and permitting of the Cypress Lake Wellfield alternative water supply project. The agreement, as amended, requires the District to contribute \$459,062 for this work. As of September 30, 2014, the District has paid \$347,787.

Harvest Power Agreements

In December 2011, the District entered into a lease agreement with Harvest Power Orlando, LLC to provide District-owned land to Harvest Power for the construction and operation of an anaerobic digestion facility, which will convert organic waste into electrical energy and fertilizer. The term of the lease is for 20 years. In addition to the lease, the District entered into the following project agreements with Harvest Power:

- The “Waste Supply Agreement” describes the process, quality and amounts of organic waste to be provided to Harvest Power, operational requirements related to the facility, and fees to be paid to Harvest Power to accept and process the District’s organic waste.
- The “Power Purchase Agreement” describes the sale of electrical energy to the District and the fees to be paid to Harvest Power to purchase the energy.
- The “Effluent Pre-Treatment Agreement” describes the quality and delivery of liquid effluent produced from the digestion facility to the District for treatment at the District’s waste water treatment plant, and the compensation to be paid to the District by Harvest Power.

The facility became fully operational in March, 2014.

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.

REEDY CREEK IMPROVEMENT DISTRICT

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

Year Ended September 30, 2014

	% of Roadways				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Roads (Note 2. A.):					
Excellent	95%	96%	92%	93%	96%
Acceptable	5%	4%	8%	7%	4%
Poor	0%	0%	0%	0%	0%

	Bridges by Category				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Bridges (Note 2. B.):					
Excellent	27	27	26	24	41
Good	16	16	17	19	2
Poor	-	-	-	-	-
	<u>43</u>	<u>43</u>	<u>43</u>	<u>43</u>	<u>43</u>

	Structures by Category				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Water Control Structures (Note 2. C.)					
Excellent	17	17	17	19	20
Good	5	5	5	3	4
Poor	-	-	-	-	-
	<u>22</u>	<u>22</u>	<u>22</u>	<u>22</u>	<u>24</u>

Maintenance and Preservation Costs - Budget and Actual

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Budgeted Costs:						
Roads	\$ 1,550,000	\$ 1,435,000	\$ 2,972,000	\$ 4,435,500	\$ 1,550,000	\$ 2,569,804
Bridges	225,000	384,500	1,034,500	365,000	55,000	300,000
Water Control Structures	1,445,000	1,656,000	2,850,000	2,139,000	1,935,000	2,403,100
Actual Costs:						
Roads		\$ 1,489,097	\$ 2,637,745	\$ 4,173,108	\$ 1,088,718	\$ 920,767
Bridges		190,410	398,963	62,881	43,724	371,784
Water Control Structures		920,716	2,187,645	1,877,020	988,684	789,363

REEDY CREEK IMPROVEMENT DISTRICT

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

Year Ended September 30, 2014

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) an estimated 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

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 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 preventative maintenance substantially extends the useful life of asphaltic pavement and ensures the comfort and ride-ability of the network.

In an effort to ensure the quality of the District’s roadway network, RCID performs an annual physical condition assessment of the public streets/roadways within its jurisdiction. The physical condition assessment was performed using the Road Manager Condition Evaluation test method. All roads are evaluated and given a numerical rating, or Pavement Condition Index (PCI) of 1 through 100. This identifies the condition and helps determine what work is required. 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. The field ratings are put into an equation to determine the Pavement Condition Number (PCN). A PCN of 81-100 indicates the road is in excellent condition and no improvements are required. A PCN of 71-80 indicates some surface improvement is recommended. A PCN of 56-70 indicates some structural improvement is required. A PCN of 55 or lower indicates reconstruction is required. Based on the PCN, the determination is made as to whether the road requires structural improvement, requires only surface improvement or does not currently require work. Currently, less than 6% of the RCID owned roadways require improvement. The majority of roads have PCNs in excess of 81, a small percentage have a PCN rating that indicates surface work would be advisable, and no roads have a PCN below 59.

In order to prioritize roadway repairs, a benefit value for each roadway is determined based on the roadway use and the projected cost of the necessary repair. Based on the identified priorities, RCID budgets for the pavement repairs. As a result of the last annual assessment & prioritization, the work effort for fiscal year 2014 was identified and budgeted at \$1,435,000. The work completed was the refurbishment and overlay of 1.1 lane miles of roadway on World Drive and the replacement of structural asphalt for 3.0 lane miles along Buena Vista Drive. In addition, a total of 21,870 square yards of asphalt was replaced within RCID owned public parking lots. The final cost of this rehabilitation work was \$1,441,305.

REEDY CREEK IMPROVEMENT DISTRICT

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

Year Ended September 30, 2014

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

A. Roads - Continued

In addition to major asphalt refurbishment, the District continued with routine maintenance and repairs throughout the roadway system. This work encompassed routine repairs of asphalt, shoulder protection and repair and replacement of guardrail and totaled \$47,792.

B. Bridges

There are currently 43 bridges within the District and all are inspected bi-annually by a Florida licensed Structural Engineer. Using the Florida Department of Transportation (FDOT) reporting system, the bridge deck, super-structure, substructure, and channel configuration are rated Excellent, Good or Poor. The age of the bridges within the District span 40 years with the first bridges constructed in the 1970's; the majority of the bridges built during the 1990's with an additional seven bridges constructed within the last ten years. Preservation and maintenance of the bridges is an ongoing activity yielding bridges in either Excellent or Good condition.

Within recent years it has become apparent that the high volume of bus traffic along the District roadways was causing excess deterioration of the armor joints within the bridge decks. Although this deterioration was not critical and yielded no safety issues, it was an ongoing and costly maintenance issue. In an attempt to reduce these costs, a test program was implemented to find a better alternative for protecting these bridge joints. In 2008, where feasible, the District began replacing failing armor joints with a new expansion joint system, which was better suited to withstand the types of traffic experienced within the District's roadway system. The program has greatly reduced maintenance efforts, decreased maintenance costs, and is expected to extend the useful life of the bridge joints.

The oldest bridges within the District were constructed utilizing a method of construction that is now obsolete. The construction method results in excessive cracking and spalling of the bridge deck. Although temporary repairs can be made to decelerate the damage, the only effective and permanent repair method for this condition is to replace the bridge deck. Nine (9) bridges within the roadway system were constructed in this manner. Of the 9, two are being replaced in the ongoing Buena Vista Drive (BVD) Reconstruction project. This work is scheduled for completion in mid-2016. The next five bridges will be addressed during the Epcot Center Drive Interchange (ECDI) Improvement project, which is scheduled for completion at the end of 2016. As a part of the ECDI project, two bridges will undergo full deck replacement and three bridges will be replaced. At the conclusion of the BVD and ECDI projects, two bridges constructed in this manner will remain. These two bridges experience a much lower average daily traffic volume than the other seven, but they have begun to show spalling and cracking. The District will continue enhanced monitoring of these two bridges and future maintenance projects shall include replacing or re-decking.

In fiscal year 2014, major bridge repairs included the replacement of the armored joint expansion system on bridges 756017, 756036 and 756037. Results of the most recent bi-annual inspection revealed deterioration of the armored joint material on these three bridges. Erosion repairs on bridges 756013, 756004 and 756005 were also completed. These repairs were completed at a cost of \$190,410.

REEDY CREEK IMPROVEMENT DISTRICT

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

Year Ended September 30, 2014

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

C. Water Control Structures

The Master Drainage System within the District is comprised of 66 river miles of canals and waterway. It incorporates 22 major water control structures comprised of Amil Gates, sharp crested weirs, and one set of 48" diameter culverts. Amil Gates are constant level water control structures. These gates provide a consistent water level within the waterways or canals, and open due to increasing water pressure during a storm event, thereby allowing flood waters to pass downstream and exit the District. 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. Construction on these structures began in the late 1960's, thus many are approaching 50 years old. Despite their age, all are in working order and generally in good condition.

Structures are classified by their overall condition and are listed as Excellent, Good or Poor condition. This rating is generated by the annual inspection and condition assessment report. This Annual Water Control Structure Report lists all items inspected both above ground and below the water surface. Using this information, the structure condition is assigned, the required repairs are prioritized and the repair work is scheduled. Required repairs are listed as Priority 1, 2 or 3. Priority 1 signifies a major rehabilitative repair. Priority 1 repairs are items that if not repaired, may degrade the integrity of the structural element or reduce the operational capacity of the structure. Historically, we have found Priority 1 repairs often occur in underwater conditions and have evolved over long periods of time. This type of repair may require extensive construction work and as such, cannot always be done immediately, but must be scheduled & budgeted in a future year. Priority 2 repairs are those that can be addressed as routine monthly maintenance. Priority 3 identifies items not in current need of repair but signify a condition, though noteworthy, that is expected to remain stable for a number of years. As such, the recommendation is that Priority 3 items need not be separately scheduled for repair, but addressed when the structure undergoes Priority 1 or Priority 2 repairs.

During fiscal year 2014, several Priority 1 repairs were completed. The repairs involved refurbishment of gate leaves for Structures S-105A and S-405C as well as crack sealing, coating of all the walls and pressure grouting of the structure aprons. Pile jackets were installed as needed, to accomplish the complete refurbishment of the energy dissipaters. All structural support members were either replaced or sanded, weld repaired and coated. The major rehabilitative costs for these water control structures totaled \$573,338. Routine maintenance was also conducted on the structures, levees and canals throughout the water control system, and this work totaled \$347,378.

REEDY CREEK IMPROVEMENT DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION (RSI)
OTHER POST EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS

Year Ended September 30, 2014

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded AAL (UAAL)</u>	<u>Percentage Funded</u>	<u>Annual Covered Payroll</u>	<u>UAAL as Percentage of Payroll</u>
10/1/2011	\$54,318,654	\$ -	\$ 54,318,654	0.00%	\$21,960,067	247.35%
10/1/2012	54,761,549	-	54,761,549	0.00%	23,420,014	233.82%
10/1/2013	57,579,673	-	57,579,673	0.00%	24,221,740	237.72%