

REEDY CREEK IMPROVEMENT DISTRICT
Lake Buena Vista, Florida

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2012

**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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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, 2012

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Report of Independent Certified Public Accountants

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Reedy Creek Improvement District (the District) as of and for the year ended September 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and budgetary comparison for the general fund for the year then ended in conformity with US generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States require that management's discussion and analysis, and Other Post Employment Benefits Schedule of Funding Progress, as listed in the table of contents, 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 who 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.

Ernst & Young LLP

January 17, 2013

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, 2012. 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 \$155,243,901 (*net position*).
- The District's total net position increased during the year by \$33,239,289.
- The District's total noncurrent liabilities decreased by \$10,124,972 during the year.
- As of September 30, 2012, the District's governmental funds reported combined ending fund balances of \$39,692,689, an increase of \$417,738 in comparison with the prior year. Approximately 29% of this total amount is available for spending at the government's discretion (unassigned fund balance).
- At September 30, 2012, unassigned fund balance for the general fund was \$11,536,794, or 21% 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 \$155,243,901 at September 30, 2012.

REEDY CREEK IMPROVEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

District's Net Position

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Current and noncurrent assets	\$ 43,852,351	\$ 44,246,882	\$ 150,851,861	\$ 123,996,760	\$ 194,704,212	\$ 168,243,642
Capital assets	263,424,555	260,791,435	252,388,317	259,310,477	515,812,872	520,101,912
Total assets	307,276,906	305,038,317	403,240,178	383,307,237	710,517,084	688,345,554
Deferred outflow s of resources	-	-	8,150,804	13,605,715	8,150,804	13,605,715
Total deferred outflow s of resources	-	-	8,150,804	13,605,715	8,150,804	13,605,715
Current liabilities *	25,566,859	25,098,383	66,007,704	72,222,821	91,574,563	97,321,204
Noncurrent liabilities	186,159,698	202,157,066	285,689,726	280,468,387	471,849,424	482,625,453
Total liabilities	211,726,557	227,255,449	351,697,430	352,691,208	563,423,987	579,946,657
Net position:						
Net investment in capital assets	203,694,728	195,788,233	11,493,649	(607,477)	215,188,377	195,180,756
Restricted	6,833,130	7,405,732	4,316,971	4,126,206	11,150,101	11,531,938
Unrestricted	(114,977,509)	(125,411,097)	43,882,932	40,703,015	(71,094,577)	(84,708,082)
Total net position	\$ 95,550,349	\$ 77,782,868	\$ 59,693,552	\$ 44,221,744	\$ 155,243,901	\$ 122,004,612

* 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 \$109 million. All of the bonds are Ad Valorem Tax bonds, secured by an irrevocable lien on the ad valorem taxes collected by the District.

As of September 30, 2011, business-type activities reflected a negative amount for net investment in capital assets. This was due to the accumulated depreciation expense, which is netted against capital assets, exceeding the payments of principal on the bonds. Although the depreciable lives of the assets are matched up with the duration of the bonds, during the early years the primary portion of the debt service was interest expense, thus resulting in the debt carried on the books exceeding the depreciated value of the capital assets. As the principal portion of the debt service continues to increase, this negative balance has decreased and is now positive at September 30, 2012.

REEDY CREEK IMPROVEMENT DISTRICT

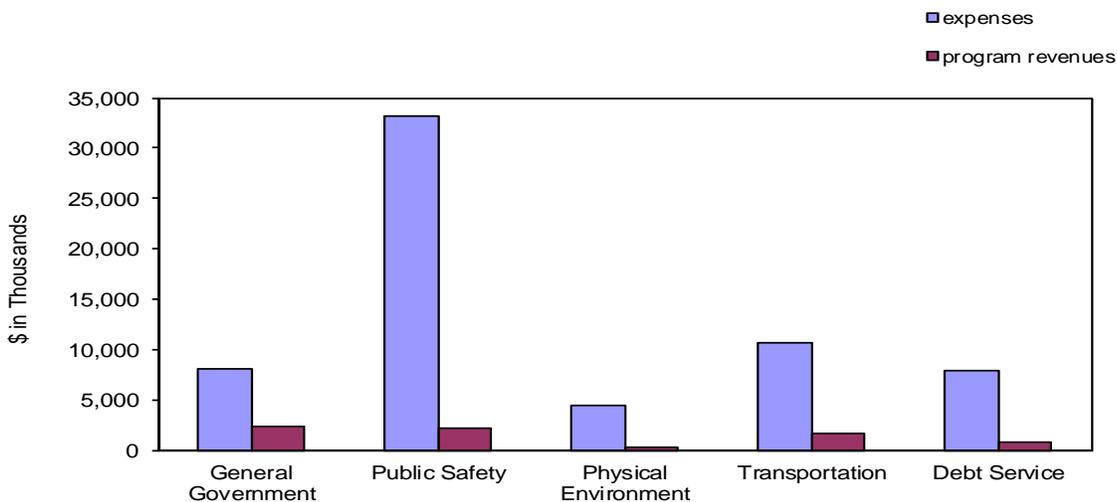
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

District's Change in Net Position

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 3,190,949	\$ 2,684,325	\$192,726,305	\$193,300,274	\$195,917,254	\$195,984,599
Intergovernmental	2,119,843	2,674,229	-	-	2,119,843	2,674,229
Capital contributions	1,810,588	1,436,852	36,401	123,889	1,846,989	1,560,741
General revenues:						
Ad Valorem taxes-net	77,538,181	72,806,513	-	-	77,538,181	72,806,513
Interest income	209,859	424,733	32,259	170,241	242,118	594,974
Gain on sale of capital assets	15,293	-	-	-	15,293	-
Total revenues	84,884,713	80,026,652	192,794,965	193,594,404	277,679,678	273,621,056
Expenses:						
General Government	7,986,263	7,371,215	-	-	7,986,263	7,371,215
Public Safety	33,172,762	34,231,169	-	-	33,172,762	34,231,169
Physical Environment	4,443,541	3,334,847	-	-	4,443,541	3,334,847
Transportation	10,680,768	7,149,346	-	-	10,680,768	7,149,346
Utility operations	-	-	166,640,496	172,075,703	166,640,496	172,075,703
Interest on long-term debt	7,897,824	7,980,332	13,618,735	14,736,241	21,516,559	22,716,573
Total expenses	64,181,158	60,066,909	180,259,231	186,811,944	244,440,389	246,878,853
Increases in net position before transfers						
Transfers	20,703,555	19,959,743	12,535,734	6,782,460	33,239,289	26,742,203
Transfers	(2,936,074)	(2,872,028)	2,936,074	2,872,028	-	-
Change in net position	17,767,481	17,087,715	15,471,808	9,654,488	33,239,289	26,742,203
Net position - beginning	77,782,868	60,695,153	44,221,744	34,567,256	122,004,612	95,262,409
Net position - ending	\$ 95,550,349	\$ 77,782,868	\$ 59,693,552	\$ 44,221,744	\$155,243,901	\$122,004,612

Governmental activities. Capital contributions increased due to a developer contribution toward the Flamingo Crossings infrastructure. Ad valorem tax increased due to an increased levy and increased assessed values. Interest on long-term debt decreased due to refinancing initiatives in fiscal years 2011 and 2012.

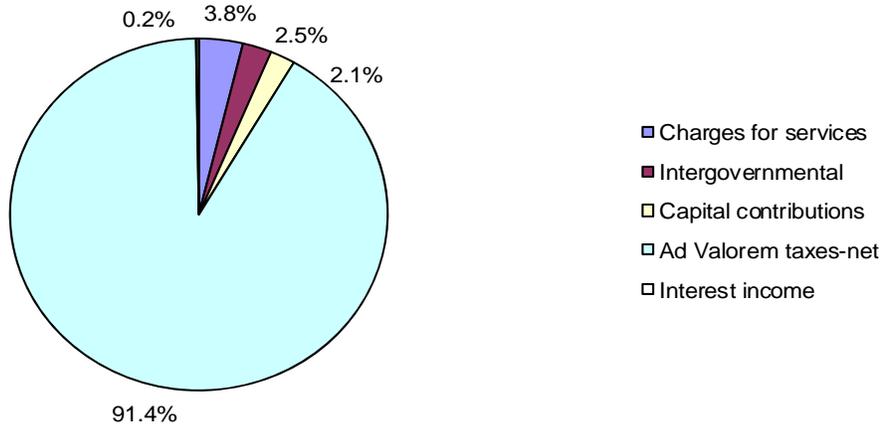
Expenses and Program Revenues – Governmental Activities



REEDY CREEK IMPROVEMENT DISTRICT

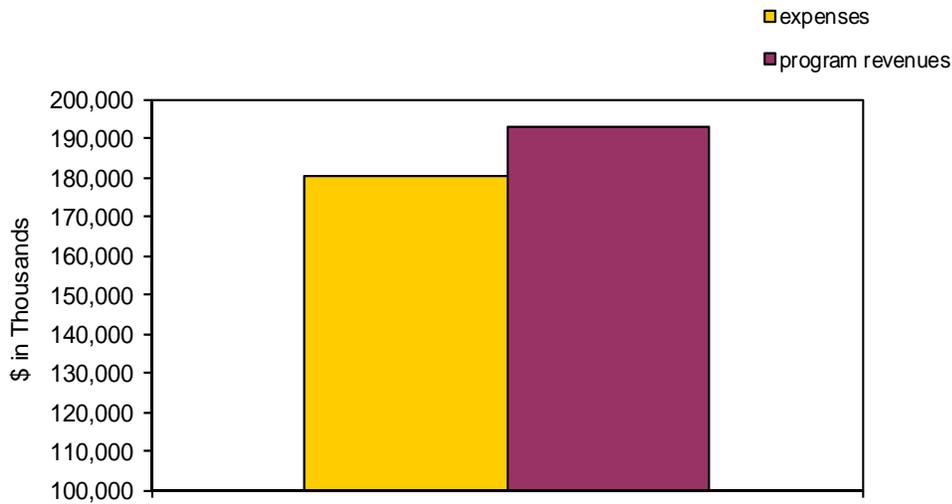
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Total Revenue by Source – Governmental Activities



Business-type activities. Utility operating costs decreased due primarily to decreased purchased power and fuel costs.

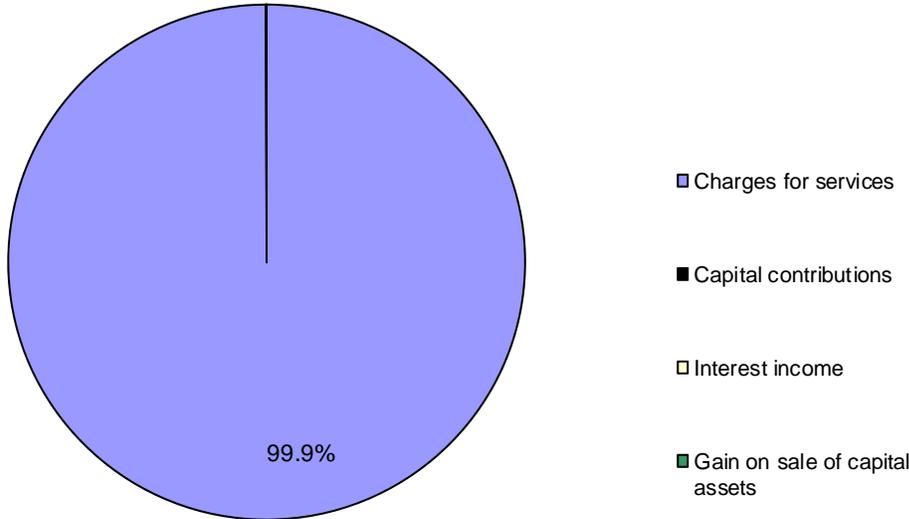
Expenses and Program Revenues – Business-type Activities



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, 2012, the District's governmental funds reported combined fund balances of \$39,692,689. Approximately 29% 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 2013 budget.

The general fund is the chief operating fund of the District. At September 30, 2012, unassigned fund balance of the general fund was \$11,536,794, while total fund balance reached \$24,918,374. 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 21% of the total general fund expenditures (including transfers), while total fund balance represents 45% of that same amount. During fiscal year 2012, the fund balance of the District's general fund increased by \$2,211,534. This increase resulted from an increase in ad valorem tax revenues.

The debt service fund has a total fund balance of \$1,159,981, an increase of \$369,194 from the prior year.

REEDY CREEK IMPROVEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

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, 2012 the unrestricted net position of the Utility Fund amounted to \$43,882,932, an increase of \$3,179,917 from prior year. The restricted net position amounted to \$4,316,971.

General Fund Budgetary Highlights

There were no amendments to the budget or transfers between activity budgets in 2012.

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, 2012 amounted to \$515,812,872 (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	
	2012	2011	2012	2011	2012	2011
Land	\$ 2,762,209	\$ 2,762,209	\$ 6,907,829	\$ 6,907,829	\$ 9,670,038	\$ 9,670,038
Buildings and system	12,993,759	13,713,782	28,996,028	27,485,545	41,989,787	41,199,327
Improvements other than buildings	-	-	77,797,419	81,170,435	77,797,419	81,170,435
Machinery and equipment	6,768,460	7,054,975	129,565,470	137,236,766	136,333,930	144,291,741
Infrastructure	240,507,816	233,572,707	-	-	240,507,816	233,572,707
Construction in progress	392,311	3,687,762	9,121,571	6,509,902	9,513,882	10,197,664
Total	\$ 263,424,555	\$ 260,791,435	\$ 252,388,317	\$ 259,310,477	\$ 515,812,872	\$ 520,101,912

Long-term debt. At September 30, 2012, the District had total long-term bonded debt outstanding of \$492,725,737. Of this amount, \$182,656,011 comprised debt backed by the full faith and credit of the District and \$310,069,726 is secured by the revenues generated by the District's Utilities. During the year, the District's total long-term debt decreased by \$11,169,226 (2%).

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	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 182,656,011	\$ 200,231,576	\$ -	\$ -	\$ 182,656,011	\$ 200,231,576
Revenue bonds	-	-	310,069,726	303,663,387	310,069,726	303,663,387
Total	\$ 182,656,011	\$ 200,231,576	\$ 310,069,726	\$ 303,663,387	\$ 492,725,737	\$ 503,894,963

Infrastructure Assets. As demonstrated in the Required Supplementary Information on pages 46 – 49 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 8.1%. This is consistent with the state's average unemployment rate of 8.1% and is greater than the national average rate of 7.7%.
- Fiscal year 2012 assessed values increased 2.2%.
- Inflationary trends in the region compare to national indices.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information 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, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 9,866,325	\$ 14,577,709	\$ 24,444,034
Cash and cash equivalents - restricted	5,642,065	52,822,028	58,464,093
Investments	15,153,534	48,206	15,201,740
Investments - restricted	9,302,769	53,343,828	62,646,597
Accounts receivable	201,040	18,839,131	19,040,171
Internal balances	72,995	(72,995)	-
Inventories	-	8,454,726	8,454,726
Prepays	1,828,820	1,419,992	3,248,812
Deposits	30,000	-	30,000
Other assets	1,754,803	1,419,236	3,174,039
Capital assets not being depreciated	243,662,336	16,029,400	259,691,736
Capital assets, net of accumulated depreciation	19,762,219	236,358,917	256,121,136
Total Assets	307,276,906	403,240,178	710,517,084
DEFERRED OUTFLOWS OF RESOURCES			
Accumulated decrease in fair value of derivative instruments	-	8,150,804	8,150,804
Total Deferred Outflows of Resources	-	8,150,804	8,150,804
LIABILITIES			
Accounts payable and accrued liabilities	2,129,787	20,291,521	22,421,308
Accounts payable from restricted assets	209,509	640,461	849,970
Deferred fuel	-	4,891,552	4,891,552
Derivative fuel instruments	-	8,150,804	8,150,804
Due to other governments	1,000	-	1,000
Compensated absences	1,149,820	-	1,149,820
Self insurance liability	651,057	-	651,057
Capital leases	863,697	-	863,697
Bonds payable	18,020,000	24,380,000	42,400,000
Accrued interest payable	2,541,989	7,653,366	10,195,355
Noncurrent liabilities:			
Compensated absences	1,060,081	-	1,060,081
Self insurance liability	2,497,122	-	2,497,122
Capital leases	1,290,653	-	1,290,653
Net OPEB obligation	16,675,831	-	16,675,831
Bonds payable	164,636,011	285,689,726	450,325,737
Total Liabilities	211,726,557	351,697,430	563,423,987
NET POSITION			
Net investment in capital assets	203,694,728	11,493,649	215,188,377
Restricted	6,833,130	4,316,971	11,150,101
Unrestricted (deficit)	(114,977,509)	43,882,932	(71,094,577)
Total Net Position	\$ 95,550,349	\$ 59,693,552	\$ 155,243,901

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

REEDY CREEK IMPROVEMENT DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2012

	Business-type Activities		Total Governmental Activities
	Total	Utility	
Expenses:			
Labor	\$ 64,660,022	\$ 30,938,570	\$ 33,721,452
Operating expenses	132,665,698	112,961,269	19,704,429
Depreciation	25,272,394	22,414,941	2,857,453
Nonoperating expenses	325,716	325,716	-
Interest on debt	21,516,559	13,618,735	7,897,824
Total expenses	<u>244,440,389</u>	<u>180,259,231</u>	<u>64,181,158</u>
Program revenues:			
Charges for services	195,917,254	192,726,305	3,190,949
Intergovernmental	2,119,843	-	2,119,843
Capital contributions	1,846,989	36,401	1,810,588
Total program revenues	<u>199,884,086</u>	<u>192,762,706</u>	<u>7,121,380</u>
Net program expense (revenue)	<u>44,556,303</u>	<u>(12,503,475)</u>	<u>57,059,778</u>
General revenues:			
Ad valorem taxes	77,538,181	-	77,538,181
Interest income	242,118	32,259	209,859
Gain on sale of capital assets	15,293	-	15,293
Transfers in (out)	-	2,936,074	(2,936,074)
Total general revenues and transfers	<u>77,795,592</u>	<u>2,968,333</u>	<u>74,827,259</u>
Change in net position	33,239,289	15,471,808	17,767,481
Total net position - beginning	<u>122,004,612</u>	<u>44,221,744</u>	<u>77,782,868</u>
Total net position - ending	<u>\$ 155,243,901</u>	<u>\$ 59,693,552</u>	<u>\$ 95,550,349</u>

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

Governmental Activities

General Government	Public Safety	Physical Environment	Transportation	Debt Service
\$ 3,802,576	\$ 28,469,390	\$ 1,173,048	\$ 276,438	\$ -
3,561,789	2,597,794	3,233,278	10,311,568	-
621,898	2,105,578	37,215	92,762	-
-	-	-	-	-
-	-	-	-	7,897,824
<u>7,986,263</u>	<u>33,172,762</u>	<u>4,443,541</u>	<u>10,680,768</u>	<u>7,897,824</u>
998,874	2,192,075	-	-	-
1,301,308	-	-	-	818,535
-	-	210,588	1,600,000	-
<u>2,300,182</u>	<u>2,192,075</u>	<u>210,588</u>	<u>1,600,000</u>	<u>818,535</u>
<u>\$ 5,686,081</u>	<u>\$ 30,980,687</u>	<u>\$ 4,232,953</u>	<u>\$ 9,080,768</u>	<u>\$ 7,079,289</u>

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

REEDY CREEK IMPROVEMENT DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2012

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 9,866,325	\$ 415,884	\$ 5,226,181	\$ 15,508,390
Investments	1,867,674	90,604	1,040,621	2,998,899
Investments - restricted	13,285,860	644,516	7,527,028	21,457,404
Accounts receivable	192,050	8,990	-	201,040
Due from other funds	72,995	-	-	72,995
Prepays	1,828,820	-	-	1,828,820
Deposits	-	-	30,000	30,000
Total assets	\$ 27,113,724	\$ 1,159,994	\$ 13,823,830	\$ 42,097,548
LIABILITIES AND FUND BALANCES				
Accounts payable and accrued liabilities	\$ 2,194,350	\$ 13	\$ 209,496	\$ 2,403,859
Due to other governments	1,000	-	-	1,000
Total liabilities	2,195,350	13	209,496	2,404,859
Fund balances:				
Nonspendable:				
Prepays	1,828,820	-	-	1,828,820
Restricted:				
Capital projects	5,673,149	-	13,614,334	19,287,483
Debt service	-	1,159,981	-	1,159,981
Assigned:				
2013 budget shortfall	5,879,611	-	-	5,879,611
Unassigned	11,536,794	-	-	11,536,794
Total fund balances	24,918,374	1,159,981	13,614,334	39,692,689
Total liabilities and fund balances	\$ 27,113,724	\$ 1,159,994	\$ 13,823,830	

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

Bond issuance costs are not financial resources and, therefore, are not reported in the funds.	1,754,803
Accrued interest payable on bonds not currently due is not reported in the funds.	(2,541,989)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	263,424,555
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.	(206,779,709)
Net position of governmental activities	\$ 95,550,349

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

REEDY CREEK IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES				
Ad valorem taxes	\$ 52,492,409	\$ 25,045,772	\$ -	\$ 77,538,181
Intergovernmental	1,301,308	818,535	-	2,119,843
Emergency services	227,559	-	-	227,559
Building permits and fees	1,964,516	-	-	1,964,516
Drainage fees	210,588	-	-	210,588
Interest income	86,840	35,982	87,037	209,859
Post office	105,109	-	-	105,109
Other	940,013	-	1,600,000	2,540,013
Total revenues	<u>57,328,342</u>	<u>25,900,289</u>	<u>1,687,037</u>	<u>84,915,668</u>
EXPENDITURES				
Current:				
General government	6,937,869	-	-	6,937,869
Public safety	27,776,685	-	-	27,776,685
Physical environment	4,274,719	-	-	4,274,719
Transportation	10,557,084	-	-	10,557,084
Capital outlay	1,690,257	-	3,850,027	5,540,284
Debt service:				
Principal	829,330	17,275,000	-	18,104,330
Interest and other charges	114,790	8,256,095	-	8,370,885
Total expenditures	<u>52,180,734</u>	<u>25,531,095</u>	<u>3,850,027</u>	<u>81,561,856</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,147,608</u>	<u>369,194</u>	<u>(2,162,990)</u>	<u>3,353,812</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(2,936,074)	-	-	(2,936,074)
Total other financing uses	<u>(2,936,074)</u>	<u>-</u>	<u>-</u>	<u>(2,936,074)</u>
Net changes in fund balances	2,211,534	369,194	(2,162,990)	417,738
Fund Balances, beginning of year	<u>22,706,840</u>	<u>790,787</u>	<u>15,777,324</u>	<u>39,274,951</u>
Fund Balances, end of year	<u>\$ 24,918,374</u>	<u>\$ 1,159,981</u>	<u>\$ 13,614,334</u>	<u>\$ 39,692,689</u>

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

Net changes in fund balances	\$ 417,738
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.	2,682,831
The net effect of various miscellaneous transactions involving capital assets resulted in a decrease in net assets.	(49,711)
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 bond related costs are deferred and amortized.	18,577,391
Increases in other liabilities reported as expenses in the statement of activities not requiring the use of current financial resources in governmental funds.	(3,860,768)
Change in net assets of governmental activities	<u>\$ 17,767,481</u>

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

REEDY CREEK IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended September 30, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Ad valorem taxes	\$ 51,891,213	\$ 51,891,213	\$ 52,492,409	\$ 601,196
Intergovernmental revenue	1,250,000	1,250,000	1,301,308	51,308
Emergency services	-	-	227,559	227,559
Building permits and fees	1,000,000	1,000,000	1,964,516	964,516
Drainage fees	-	-	210,588	210,588
Interest income	250,000	250,000	86,840	(163,160)
Post office	178,000	178,000	105,109	(72,891)
Other	250,000	250,000	940,013	690,013
Total Revenues	<u>54,819,213</u>	<u>54,819,213</u>	<u>57,328,342</u>	<u>2,509,129</u>
EXPENDITURES				
GENERAL GOVERNMENT				
Administrative:				
Labor	1,340,189	1,202,622	1,205,680	(3,058)
Operating	2,248,068	2,322,068	2,179,783	142,285
Capital outlay	2,400	5,400	7,415	(2,015)
	<u>3,590,657</u>	<u>3,530,090</u>	<u>3,392,878</u>	<u>137,212</u>
Personnel services:				
Labor	356,722	356,722	375,688	(18,966)
Operating	201,246	197,646	325,676	(128,030)
Capital outlay	-	3,600	1,534	2,066
	<u>557,968</u>	<u>557,968</u>	<u>702,898</u>	<u>(144,930)</u>
Information services:				
Labor	1,053,462	1,062,315	958,901	103,414
Operating	931,058	925,318	652,708	272,610
Capital outlay	133,630	139,370	106,813	32,557
	<u>2,118,150</u>	<u>2,127,003</u>	<u>1,718,422</u>	<u>408,581</u>
Support services:				
Labor	581,806	579,913	524,865	55,048
Operating	409,324	432,180	301,516	130,664
Capital outlay	16,603	16,603	14,818	1,785
	<u>1,007,733</u>	<u>1,028,696</u>	<u>841,199</u>	<u>187,497</u>
Post office:				
Labor	341,728	341,728	310,946	30,782
Operating	117,400	117,400	102,106	15,294
Capital outlay	3,501	3,501	3,441	60
	<u>462,629</u>	<u>462,629</u>	<u>416,493</u>	<u>46,136</u>
TOTAL GENERAL GOVERNMENT	<u>7,737,137</u>	<u>7,706,386</u>	<u>7,071,890</u>	<u>634,496</u>
PUBLIC SAFETY				
Building and safety:				
Labor	2,512,636	2,521,333	2,316,161	205,172
Operating	146,148	146,148	130,644	15,504
Capital outlay	397,500	397,500	208,943	188,557
	<u>3,056,284</u>	<u>3,064,981</u>	<u>2,655,748</u>	<u>409,233</u>

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

REEDY CREEK IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Emergency services:				
Labor	24,851,746	24,861,106	22,639,858	2,221,248
Operating	1,620,672	1,632,672	1,377,752	254,920
Capital outlay	1,079,811	1,047,811	890,438	157,373
	<u>27,552,229</u>	<u>27,541,589</u>	<u>24,908,048</u>	<u>2,633,541</u>
Support services:				
Labor	259,147	259,147	241,628	17,519
Operating	1,073,493	1,065,993	1,070,642	(4,649)
Capital outlay	81,000	101,000	99,813	1,187
	<u>1,413,640</u>	<u>1,426,140</u>	<u>1,412,083</u>	<u>14,057</u>
TOTAL PUBLIC SAFETY	<u>32,022,153</u>	<u>32,032,710</u>	<u>28,975,879</u>	<u>3,056,831</u>
PHYSICAL ENVIRONMENT				
Water control:				
Operating	2,514,000	2,534,400	2,353,302	181,098
Capital outlay	210,000	215,100	294,698	(79,598)
	<u>2,724,000</u>	<u>2,749,500</u>	<u>2,648,000</u>	<u>101,500</u>
Groves:				
Operating	16,000	16,000	10,501	5,499
	<u>16,000</u>	<u>16,000</u>	<u>10,501</u>	<u>5,499</u>
Planning and engineering:				
Labor	1,216,760	1,226,120	1,041,441	184,679
Operating	910,842	868,901	683,220	185,681
Capital outlay	63,800	65,800	62,344	3,456
	<u>2,191,402</u>	<u>2,160,821</u>	<u>1,787,005</u>	<u>373,816</u>
Support services:				
Operating	208,691	208,691	186,255	22,436
	<u>208,691</u>	<u>208,691</u>	<u>186,255</u>	<u>22,436</u>
TOTAL PHYSICAL ENVIRONMENT	<u>5,140,093</u>	<u>5,135,012</u>	<u>4,631,761</u>	<u>503,251</u>
TRANSPORTATION				
Roadway maintenance:				
Labor	262,117	270,073	245,516	24,557
Operating	11,166,277	11,175,718	10,311,568	864,150
TOTAL TRANSPORTATION	<u>11,428,394</u>	<u>11,445,791</u>	<u>10,557,084</u>	<u>888,707</u>
DEBT SERVICE				
Lease payments	829,330	829,330	829,330	-
Interest and other charges	114,789	114,789	114,790	(1)
TOTAL DEBT SERVICE	<u>944,119</u>	<u>944,119</u>	<u>944,120</u>	<u>(1)</u>
Total expenditures	<u>57,271,896</u>	<u>57,264,018</u>	<u>52,180,734</u>	<u>5,083,284</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,452,683)</u>	<u>(2,444,805)</u>	<u>5,147,608</u>	<u>7,592,413</u>

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

REEDY CREEK IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended September 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
OTHER FINANCING SOURCES & USES				
Transfers out	(3,404,198)	(3,412,076)	(2,936,074)	476,002
Total other financing uses	(3,404,198)	(3,412,076)	(2,936,074)	476,002
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing Uses	\$ (5,856,881)	\$ (5,856,881)	2,211,534	\$ 8,068,415
Fund Balance, beginning of year			22,706,840	
Fund Balance, end of year			\$ 24,918,374	

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

REEDY CREEK IMPROVEMENT DISTRICT
STATEMENT OF NET POSITION - UTILITY FUND

September 30, 2012

ASSETS

Current assets:

Cash and cash equivalents	\$	14,577,709
Accounts receivable		18,839,131
Inventories		8,454,726
Prepays		1,419,992

Restricted Assets:

Cash and cash equivalents		52,822,028
Investments		11,400,981

Total current assets		107,514,567
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Noncurrent assets:

Investments		48,206
Restricted investments		41,942,847

Capital assets:

Land		6,907,829
Buildings		67,406,021
Improvements other than buildings		195,944,983
Machinery and equipment		377,041,178
Less accumulated depreciation		(404,033,265)
Construction in progress		9,121,571

Total capital assets		252,388,317
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Other assets		1,419,236
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Total noncurrent assets		295,798,606
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Total Assets

403,313,173

DEFERRED OUTFLOWS OF RESOURCES

Accumulated decrease in the fair value of derivative instruments		8,150,804
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LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities		20,291,521
Deferred fuel		4,891,552
Derivative fuel instruments		8,150,804
Due to other funds		72,995
Total current liabilities		33,406,872

Current liabilities payable from restricted assets:

Bonds payable		24,380,000
Accrued interest payable		7,653,366
Contracts and retainage payable		640,461
Total current liabilities payable from restricted assets		32,673,827

Long-term liabilities:

Bonds payable		285,689,726
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Total Liabilities

351,770,425

NET POSITION

Net investment in capital assets		11,493,649
Restricted for renewal and replacement		3,816,971
Restricted for emergency repairs		500,000
Unrestricted		43,882,932

Total Net Position

\$ 59,693,552

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 Year Ended September 30, 2012

OPERATING REVENUES

Utility sales	\$ 192,726,305
Total operating revenues	192,726,305

OPERATING EXPENSES

Purchased power and fuel	92,278,902
Labor support	30,938,570
Operating costs	10,036,065
Taxes	3,342,436
Repairs and maintenance	6,227,050
Insurance	1,076,816
Depreciation	22,414,941
Total operating expenses	166,314,780

Operating income	26,411,525
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NONOPERATING REVENUES (EXPENSES)

Interest and investment income	32,259
Interest expense	(13,618,735)
Amortization of bond issue costs	(382,091)
Gain on abandonment of plant assets	56,375
Total nonoperating expenses	(13,912,192)

Income before contributions and transfers	12,499,333
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Capital contributions	36,401
Transfers in	2,936,074
	2,936,074

Increase in net position	15,471,808
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Total net position - beginning	44,221,744
Total net position - ending	\$ 59,693,552

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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 190,752,454
Payments to suppliers	(116,165,358)
Payments for labor contract and management service agreement	(28,469,463)
Payments to employees	(2,385,862)
Net cash provided by operating activities	43,731,771

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating transfers in	2,936,074
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from bonds	30,000,000
Payment of bond issue costs	(82,974)
Purchases of capital assets	(14,174,512)
Proceeds from sale of capital assets	124,470
Principal paid on bonds	(23,195,000)
Interest paid on bonds	(15,191,322)
Capital contributions	36,401
Net cash used by capital and related financing activities	(22,482,937)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(42,879,467)
Proceeds from sales and maturities of investments	27,361,539
Investment income	55,645
Net cash used in investing activities	(15,462,283)
Net increase in cash and cash equivalents	8,722,625
Balances - beginning of the year	58,677,112
Balances - end of the year	\$ 67,399,737

Unrestricted	\$ 14,577,709
Restricted	52,822,028
	\$ 67,399,737

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 26,411,525
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	22,414,941
Change in assets and liabilities:	
Accounts receivable	(1,973,851)
Inventories	(484,215)
Prepaid items	(73,498)
Other assets	-
Accounts payable and accrued liabilities	(224,401)
Due to other funds	(282,333)
Due to other governments	(91,012)
Deferred revenue	(1,965,385)
Net cash provided by operating activities	\$ 43,731,771

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

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net 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, 2012

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.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District enterprise fund are charges to customers for sales and services. The District also recognizes as operating revenue connection fees which are to recover the expense of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Property Taxes

Property taxes are billed and collected within the same fiscal period, and are reflected on the modified accrual basis. Ad Valorem taxes on property values have a lien and assessment date of January 1, with millage established during the preceding September. The fiscal year for which taxes are levied begins October 1. Taxes, which are billed in November, carry a maximum discount available through November 30, and become delinquent April 1. State Statutes permit the District to levy property taxes at a rate up to 30 mills. The millage rates assessed by the District for the fiscal year ended September 30, 2012 were 7.7240 for General Operating and 3.6850 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.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

E. Cash, Cash Equivalents and Investments – Continued

Investments are stated at fair value based upon quoted market prices or matrix pricing for certain fixed income securities.

F. Inventories

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

G. Restricted Assets

Certain assets in the Debt Service Fund, Capital Projects Fund and Enterprise Fund are restricted as to use by specific provisions of bond resolutions. These assets are classified as restricted assets on the statement of net 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 \$1,000. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

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

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.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

I. Unamortized Bond Discount and Issuance Costs

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

J. Deferred Amount on Refunding

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

K. Compensated Absences

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

L. Fund 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.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.
- (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 under GASB Statement No. 53. 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. New Accounting Pronouncements

Effective October 1, 2011, the District adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB No. 62), GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB No. 63), and GASB Statement No. 66, *Technical Corrections – 2012 an amendment of GASB Statements No. 10 and No. 62* (GASB No. 66). GASB No. 62 is intended to improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

P. New Accounting Pronouncements – Continued

GASB No. 63 is intended to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. GASB No. 66 resolves conflicting guidance resulting from the issuance of two pronouncements; Statements No. 54 and No. 62. The implementation of these new standards does not materially affect the District's financial reporting.

Q. 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.

R. 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:

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

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

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 \$294,396,416 net of accumulated depreciation of \$30,971,861, or \$263,424,555.
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	\$ 2,145,338
Self insurance liability	3,148,179
Capital leases	2,154,350
Net OPEB obligation	16,675,831
Bonds payable	<u>182,656,011</u>
Net adjustment to reduce total fund balances - total governmental funds to arrive at net position of governmental activities	<u>\$ 206,779,709</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	\$ 134,021
Public safety	1,199,194
Physical environment	357,042
Capital projects	3,850,027
Depreciation expense	<u>(2,857,453)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 2,682,831</u>

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

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 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	\$ 103,587
Principal payments on bonds outstanding	18,104,330
Accrued interest payable	<u>369,474</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 18,577,391</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	\$ (49,440)
Workers compensation	(89,805)
Net OPEB obligation	<u>(3,721,523)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (3,860,768)</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, 2012, 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	\$ 389,845	\$ 286,025	\$ 103,820	\$ -	\$ -
US Treasury Securities	55,421,842	14,399,880	40,550,016	-	471,946
US Government Agency Securities	22,059,600	-	22,059,600	-	-
Florida Prime, Money Market Fund	1,274,458	1,274,458	-	-	-
SBA Fund B	263,076	-	-	-	263,076
Money market mutual funds	81,347,643	81,347,643	-	-	-
Totals	<u>\$ 160,756,464</u>	<u>\$ 97,308,006</u>	<u>\$ 62,713,436</u>	<u>\$ -</u>	<u>\$ 735,022</u>

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

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.

In November 2007, the State Board of Administration's Florida Local Government Investment Pool (SBA) which was normally classified as a cash and cash equivalent, experienced liquidity difficulties with certain of its investments that were either in default, having payment extensions or experiencing significant credit risk. At that time the SBA restructured its investments into two separate funds; Fund A consisted of all money market appropriate assets and Fund B consisted of the riskier investments where availability to the funds would be limited. Initially \$2.1 million of the District's funds at the SBA were transferred to Fund B. Fund A is currently referred to as Florida Prime and is considered a "2a-7" like pool where the actual pooled share price approximates fair value. To date \$1.84 million has been transferred back to the District's Florida Prime accounts from Fund B. The estimated fair market value of Fund B at year end of the remaining \$0.28 million was \$0.26 million. The \$0.02 million unrealized loss has been recognized by the District in investment earnings.

All of the District's investments held in the portfolio are currently rated in the highest credit category by two rating services, except for Fund B which is not rated by any nationally recognized rating agency.

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, 2012, all of the District's investments are held in a bank's trust department in the District's name.

Concentration of Credit Risk – At September 30, 2012, there was one issuer with which the District held investments exceeding 5% of the total investment portfolio which was the Federal National Mortgage Association (FNMA) (10%).

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

3. DEPOSITS AND INVESTMENTS – Continued

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, 2012 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	\$ 24,444,034	\$ 58,464,093	\$ 82,908,127
Investments	<u>15,201,740</u>	<u>62,646,597</u>	<u>77,848,337</u>
	<u>\$ 39,645,774</u>	<u>\$ 121,110,690</u>	<u>\$ 160,756,464</u>

4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012 was as follows:

	<u>Beginning Balance October 1,</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance September 30, 2012</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,762,209	\$ -	\$ -	\$ 2,762,209
Construction in progress	3,687,762	3,850,027	(7,145,478)	392,311
Infrastructure	<u>233,572,707</u>	<u>6,935,109</u>	<u>-</u>	<u>240,507,816</u>
Total capital assets, not being depreciated	<u>240,022,678</u>	<u>10,785,136</u>	<u>(7,145,478)</u>	<u>243,662,336</u>
Capital assets, being depreciated				
Buildings	22,492,460	-	-	22,492,460
Machinery and equipment	<u>26,851,017</u>	<u>1,976,588</u>	<u>(585,985)</u>	<u>28,241,620</u>
Total capital assets, being depreciated	<u>49,343,477</u>	<u>1,976,588</u>	<u>(585,985)</u>	<u>50,734,080</u>
Less accumulated depreciation for:				
Buildings	8,778,678	720,023	-	9,498,701
Machinery and equipment	<u>19,796,042</u>	<u>2,137,430</u>	<u>(460,312)</u>	<u>21,473,160</u>
Total accumulated depreciation	<u>28,574,720</u>	<u>2,857,453</u>	<u>(460,312)</u>	<u>30,971,861</u>
Total capital assets, being depreciated, net	<u>20,768,757</u>	<u>(880,865)</u>	<u>(125,673)</u>	<u>19,762,219</u>
Governmental activities capital assets, net	<u>\$ 260,791,435</u>	<u>\$ 9,904,271</u>	<u>\$ (7,271,151)</u>	<u>\$ 263,424,555</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 6,907,829	\$ -	\$ -	\$ 6,907,829
Construction in progress	6,509,902	13,047,239	(10,435,570)	9,121,571
Total capital assets, not being depreciated	<u>13,417,731</u>	<u>13,047,239</u>	<u>(10,435,570)</u>	<u>16,029,400</u>
Capital assets, being depreciated				
Buildings	63,904,471	3,501,550	-	67,406,021
Improvements other than buildings	193,175,398	2,769,585	-	195,944,983
Machinery and equipment	<u>371,783,786</u>	<u>6,678,072</u>	<u>(1,420,680)</u>	<u>377,041,178</u>
Total capital assets, being depreciated	<u>628,863,655</u>	<u>12,949,207</u>	<u>(1,420,680)</u>	<u>640,392,182</u>
Less accumulated depreciation for:				
Buildings	36,418,926	1,991,067	-	38,409,993
Improvements other than buildings	112,004,963	6,142,601	-	118,147,564
Machinery and equipment	<u>234,547,020</u>	<u>14,281,273</u>	<u>(1,352,585)</u>	<u>247,475,708</u>
Total accumulated depreciation	<u>382,970,909</u>	<u>22,414,941</u>	<u>(1,352,585)</u>	<u>404,033,265</u>
Total capital assets, being depreciated, net	<u>245,892,746</u>	<u>(9,465,734)</u>	<u>(68,095)</u>	<u>236,358,917</u>
Business-type activities capital assets, net	<u>\$ 259,310,477</u>	<u>\$ 3,581,505</u>	<u>\$ (10,503,665)</u>	<u>\$ 252,388,317</u>

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

4. CAPITAL ASSETS – Continued

During the year, the Enterprise Fund incurred interest costs totaling \$13,618,735. 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 \$994,687 was capitalized during the year.

5. LEASE OF ASSETS

Capital leases – Governmental activities

During fiscal year 2008, the District entered into leasing agreements for 911 emergency communications equipment and data storage equipment. During fiscal year 2011, the district entered into additional leasing agreements for 911 emergency communications equipment and computer equipment. The terms of these leases are such that the District capitalized them under the provisions of GASB No. 62. This year, \$1,867,022 and \$102,774 were included in depreciation expense for 911 equipment and computer equipment, respectively.

The following is a schedule of future minimum lease payments of \$2,081,729 for 911 equipment and \$72,623 for computer equipment assets capitalized under lease agreements, and the present value of these minimum lease payments as of September 30, 2012:

Fiscal Year Ending September 30	Total	911 Equipment	Computer Equipment
2013	\$ 944,120	\$ 870,515	\$ 73,605
2014	350,965	350,965	-
2015	350,965	350,965	-
2016	350,965	350,965	-
2017	350,965	350,965	-
Total Minimum Lease Payments	2,347,980	2,274,375	73,605
Less Amount Representing Interest	193,628	192,646	982
Payments	<u>\$ 2,154,352</u>	<u>\$ 2,081,729</u>	<u>\$ 72,623</u>

6. INTERFUND RECEIVABLE AND PAYABLE BALANCES AND TRANSFERS

Interfund receivable and payable balances as of September 30, 2012 are as follows:

	Interfund Receivables (Due from)	Interfund Payables (Due to)
General	\$ 72,995	\$ -
Utility Fund	-	72,995
	<u>\$ 72,995</u>	<u>\$ 72,995</u>

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

	Interfund Transfers In	Interfund Transfers Out
General	\$ -	\$ 2,936,074
Enterprise	2,936,074	-
	<u>\$ 2,936,074</u>	<u>\$ 2,936,074</u>

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

7. LONG – TERM DEBT

A. Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2012, was as follows:

	Beginning Balance October 1, 2011	Additions	Reductions	Ending Balance September 30, 2012	Due Within One Year
Governmental activities:					
General Obligation Bonds:					
2004A Ad Valorem	\$ 44,410,000	-	\$ (2,605,000)	\$ 41,805,000	\$ 2,695,000
2004B Ad Valorem	7,410,000	-	(450,000)	6,960,000	465,000
2005A Ad Valorem	18,925,000	-	-	18,925,000	-
2005B Ad Valorem Refunding	66,140,000	-	(6,580,000)	59,560,000	6,910,000
2010A Ad Valorem Refunding	12,150,000	-	(2,350,000)	9,800,000	2,390,000
2011A Ad Valorem Refunding	47,715,000	-	(5,290,000)	42,425,000	5,560,000
Deferred amounts:					
Discount/Premium	6,153,048	-	(895,299)	5,257,749	-
Loss on refunding	<u>(2,671,472)</u>	-	<u>594,734</u>	<u>(2,076,738)</u>	-
Total long-term bonds payable	200,231,576	-	(17,575,565)	182,656,011	18,020,000
Compensated absences	2,178,377	\$ 31,524	-	2,209,901	1,149,820
Capital leases	2,983,680	-	(829,330)	2,154,350	863,697
Self insurance liability	3,058,374	89,805	-	3,148,179	651,057
Net OPEB obligation	12,954,308	3,721,523	-	16,675,831	-
Long-term liabilities	<u>\$ 221,406,315</u>	<u>\$ 3,842,852</u>	<u>\$ (18,404,895)</u>	<u>\$ 206,844,272</u>	<u>\$ 20,684,574</u>
Business-type activities:					
Revenue Bonds:					
2003-1 Utility	\$ 42,040,000	-	\$ (3,170,000)	\$ 38,870,000	\$ 3,315,000
2003-2 Utility Refunding	172,965,000	-	(14,605,000)	158,360,000	15,375,000
2005-1 Utility	26,930,000	-	-	26,930,000	-
2005-2 Utility Refunding	57,485,000	-	(5,420,000)	52,065,000	5,690,000
2011-1 Utility Refunding	1,200,000	-	-	1,200,000	-
2011-2 Utility	-	\$ 30,000,000	-	30,000,000	-
Deferred amounts:					
Discount/Premium	15,348,366	-	(2,651,451)	12,696,915	-
Loss on refunding	<u>(12,304,979)</u>	-	<u>2,252,790</u>	<u>(10,052,189)</u>	-
Total long-term bonds payable	303,663,387	30,000,000	(23,593,661)	310,069,726	24,380,000
Long-term liabilities	<u>\$ 303,663,387</u>	<u>\$ 30,000,000</u>	<u>\$ (23,593,661)</u>	<u>\$ 310,069,726</u>	<u>\$ 24,380,000</u>

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

7. LONG – TERM DEBT – Continued

A. Changes in long-term liabilities – Continued

General Obligation Bonds Payable

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

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

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

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

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.

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, 2012

7. LONG - TERM DEBT – Continued

A. Changes in long-term liabilities – Continued

Revenue Bonds Payable

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

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

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

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

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.

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.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

7. LONG - TERM DEBT – Continued

A. Changes in long-term liabilities – Continued

- (4) The District will deposit into the Sinking Fund on a monthly basis an amount equal to one-sixth of the next semi-annual interest payment and one-twelfth of the next annual principal payment.
- (5) The District will maintain a renewal and replacement fund equal to 5% of the gross revenues (less expenses for purchased power and fuel) received in the prior year. Such amount may be 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
2013	\$ 18,020,000	\$ 7,495,914
2014	18,680,000	6,855,602
2015	19,355,000	6,186,638
2016	20,080,000	5,454,004
2017	21,155,000	4,677,934
2018-2022	59,365,000	11,920,283
2023-2027	22,820,000	2,270,360
Total	179,475,000	\$ 44,860,735
Current portion	(18,020,000)	
Deferred amounts:		
Discount/Premium	5,257,749	
Loss on refunding	(2,076,738)	
Long-term bonds payable	\$ 164,636,011	

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

7. LONG - TERM DEBT – Continued

B. Annual Debt Service Requirements – Continued

Year Ended September 30,	Revenue Bonds	
	Principal	Interest
2013	\$ 24,380,000	\$ 14,677,571
2014	25,855,000	13,377,960
2015	27,190,000	12,026,873
2016	28,370,000	10,611,466
2017	29,850,000	9,102,785
2018-2022	121,655,000	22,774,491
2023-2027	50,125,000	4,524,115
Total	307,425,000	\$ 87,095,261
Current portion	(24,380,000)	
Deferred amounts:		
Discount/Premium	12,696,915	
Loss on refunding	(10,052,189)	
Long-term bonds payable	<u>\$ 285,689,726</u>	

C. Refunded Debt

The balances outstanding of the refunded debt at September 30, 2012 are as follows:

<u>Issue</u>	<u>Date Refunded</u>	<u>Outstanding as of September 30, 2012</u>
2003-1 Utility Revenue Bonds	June 6, 2005	\$ 7,855,000

8. TRANSACTIONS WITH PRINCIPAL LANDOWNERS

During fiscal 2012, 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 \$752,324.
- (2) The operation and maintenance of various District water control facilities amounted to \$510,892.
- (3) The maintenance of certain right of ways and District property within the District amounted to \$73,119.

At September 30, 2012, accounts payable of the General Fund included \$101,822 to Walt Disney World Co. and other wholly owned subsidiaries of the Walt Disney Company.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

8. TRANSACTIONS WITH PRINCIPAL LANDOWNERS – Continued

Enterprise Fund

- (1) Financial and other administrative services amounted to \$176,057.
- (2) The management and construction of various capital improvements amounted to \$114,142.
- (3) The operation and maintenance of the utility systems for which the District has a labor agreement. The District incurred \$28,462,204 of labor support fees under this agreement.

At September 30, 2012 the Enterprise Fund had accounts receivable of \$13,142,006 and accounts payable of \$7,340,765 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, 2012.

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.

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

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

9. RETIREMENT SYSTEM – Continued

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, 2012 as follows:

Regular Class - Members not qualifying for other classes (5.18% 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 (14.9% rate).

Special Risk Administrative Support Class – Special risk employees who are transferred or reassigned to a non-special risk position (5.91%).

Senior Management Service Class - Qualifying member of senior management (6.3% rate).

Deferred Retirement Option Program (DROP) – Participating members of the program, not to exceed 60 months (5.44% 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 10.18% of covered payroll during the year. The District's contributions to FRS for the years ended September 30, 2010, 2011 and 2012, respectively, were \$3,453,974, \$3,376,966 and \$2,236,110. Employee contributions to FRS for the 3 months ended September 30, 2011 and for the year ended September 30, 2012, respectively, were \$146,132 and \$607,586. Contributions made and accrued were equal to the required contributions for each year.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

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 the District has elected by policy, which can be changed, 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.

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 \$54.3 million at September 30, 2012 as valued on October 1, 2011. 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 in accordance with GASB Statement No. 45. 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.

	<u>Unfunded 3%</u>
Annual required Contribution (ARC)	\$ 4,986,936
Interest on net OPEB Obligation	388,629
Adjustment to Annual Required Contribution	641,669
Annual OPEB Cost	4,733,896
Projected Pay-as-you-go Expense	1,012,373
Net OPEB Obligation - Beginning of Year	12,954,308
Prefunding	-
Net OPEB Obligation - Projected End of Year	16,675,831

The District's estimated annual OPEB cost and ARC for fiscal year 2012 were approximately \$4.7 and \$5.0 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, 2012 was approximately \$16.7 million.

<u>Fiscal</u> <u>Year</u>	<u>Annual OPEB</u> <u>Costs</u>	<u>% Costs</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2008	\$ 2,526,331	15%	\$ 2,153,758
2009	4,136,160	14%	5,707,901
2010	4,136,562	15%	9,226,480
2011	4,438,894	16%	12,954,308
2012	4,733,896	21%	16,675,831

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – Continued

Funding policy, status and progress – The District has not currently funded any portion of the net OPEB obligation, however during fiscal years 2010 and 2011 the Board of Supervisors designated \$1,000,000 each year for the future funding of the liability, and an additional \$2,000,000 in fiscal year 2012. The Actuarial Accrued Liability (AAL) and the Unfunded Actuarial Accrued Liability (UAAL) as of October 1, 2011 was \$54,318,654.

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, 2012 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 2020. 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 three retirees that meet these eligibility requirements. Benefit payments of \$220,241 have been required to date.

11. RISK MANAGEMENT

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

The District provides coverage for up to a maximum of \$1,000,000 for each worker's compensation claim, \$1,000,000 for each general liability claim and \$100,000 for each property damage claim. The District purchases commercial insurance for claims in excess of coverage provided. There have been no claim settlements in excess of insurance coverage during the three fiscal years ended September 30, 2010, 2011 and 2012.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

11. RISK MANAGEMENT – Continued

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 \$3,148,179 at September 30, 2012 is reported in accordance with the requirements of GASB Statement No. 10 based on an actuarial review of claims pending and past experience. Increases in the claims liability have occurred due to the District increasing the maximum coverage in recent years. Changes in the claims liability amount during fiscal years 2011 and 2012 are as follows:

	Year ended September 30	
	2012	2011
Self insurance liability beginning balance	\$ 3,058,374	\$ 2,953,516
Claims and changes in estimates	734,077	563,074
Claims payments	(644,272)	(458,216)
Self insurance liability ending balance	<u>\$ 3,148,179</u>	<u>\$ 3,058,374</u>

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 in accordance with GASB Statement No. 53 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 \$13,878,363 in settlement losses were recognized in fuel expense.

The following is a summary of the derivative fuel instruments of the Utility Fund as of September 30, 2012 which have been deemed effective and are recorded as deferred outflows.

Classification	Fair Value at September 30,		2012	Notional	Maturity
	2011	Change in fair value			
Deferred outflows	\$ 13,605,715	\$(5,454,911)	\$ 8,150,804	12,445,196	MMBTUs FY2013 - 2016

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.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

13. NET POSITION AND FUND BALANCE REPORTING

In the Statement of Net Position for Governmental activities reflects a negative unrestricted net position of \$114,977,509 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 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 \$109,311,850 at September 30, 2012, 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 set aside 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 to be spent on road system and building improvements subject to specific provisions in bond resolutions.
- Debt Service Fund - Assets required for servicing of general obligation bond indebtedness under the District's trust indenture.

Assigned amounts in the General Fund represent that portion of fund balance designated by the Board of Supervisors to cover the projected excess of expenditures over revenues in the District's fiscal year 2013 budget. Note 1(M) discusses the District's budget approval process.

14. COMMITMENTS AND CONTINGENCIES

Purchased Power and Gas

The District has entered into several Purchase Power Agreements (PPA) with public and private entities throughout Florida for the purchase and sale of power at wholesale rates, and associated transmission service. Some of these PPAs require the District to pay reservation charges for capacity. The District's minimum commitment for fiscal year 2012 reservation charges under these agreements is approximately \$30,500,000. 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 October 27, 2010, the District entered into a PPA with Florida Power Corporation (FPC) for the period of January 1, 2011 through December 31, 2012. On October 27, 2010, the District entered into a PPA with MM Tomoka Farms Energy LLC for the period of January 1, 2011 through December 31, 2014. 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 Florida Power Corporation (FPC) for the period January 1, 2013 through December 31, 2015.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

14. COMMITMENTS AND CONTINGENCIES – Continued

Similarly, the District is obligated to purchase minimum pipeline capacity to transport natural gas under two agreements with Florida Gas Transmission Company. Minimum payments for natural gas under these agreements will total approximately \$3,400,000 for fiscal year 2012. The terms of the agreements expire in the years 2015 and 2017.

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. Osceola County agreed to participate in such financing by reimbursing the District for a portion of the debt service on the Bonds. However, such payments by Osceola County are not pledged to collateralize the District's Ad Valorem Tax Bonds. The District expects to receive from Osceola County approximately \$20,800,000 in total to be paid in various annual installments over the term of the 1995C bonds. The maximum annual payments are calculated based on growth in certain areas of the County affected by the improvements and are subject to annual appropriation by the County. The District records the annual payments as Intergovernmental Revenue when received from the County. Osceola County paid to the District \$818,535 during the 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 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.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

14. COMMITMENTS AND CONTINGENCIES – Continued

In January 2004, the District entered into an Amended and Restated Bond Guarantee Agreement in connection with the issuance of the Series 2004A Ad Valorem Tax Bonds in the amount of \$63,520,000. These bonds were issued to refinance, together with proceeds from \$110,935,000 Osceola County Transportation Improvement Refunding Bonds, the Prior Osceola Bonds. The District's obligation to make payments required by the Amended and Restated Bond Guarantee Agreement is subordinate to all outstanding Ad Valorem Tax Bonds of the District. Osceola County has agreed to repay the debt service of the District's 2004A Ad Valorem Tax Bonds and any guarantee payments that are required along with accrued interest from excess toll revenues, if any, when they become available. These payments will terminate upon the earlier of repayment in full or April 1, 2034. The District received \$1,301,308 from Osceola County during the year.

STOPR Agreements

In 2007, the District entered into agreements with the City of St. Cloud, the Tohopekaliga Water Authority (TWA), Orange County, Polk County and South Florida Water Management District to provide for mitigation of certain wetlands within and outside the District. The agreements, as amended, provide that in order to jointly fund these projects the parties will make payments totaling \$6,908,791. The District's portion of these payments was \$3,972,969. The final payment was made in December 2010.

In September 2007, the District entered into an agreement with the City of St. Cloud, 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. That agreement, as amended, requires the District to contribute 18.2% of the total costs until June 30, 2015. As of September 30, 2012, the District has paid \$462,860 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 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. That agreement, as amended, requires the District to contribute up to \$282,433 for this effort. As of September 30, 2012, the District has paid \$132,313.

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. That agreement, as amended, requires the District to contribute \$459,062 for this work. As of September 30, 2012, the District has paid \$221,558.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2012

14. COMMITMENTS AND CONTINGENCIES – Continued

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 is not expected to be fully operational until October, 2013.

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, 2012

	% of Roadways				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Roads (Note 2. A.):					
Excellent	92%	93%	96%	99%	98%
Acceptable	8%	7%	4%	1%	2%
Poor	0%	0%	0%	0%	0%

	Bridges by Category				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Bridges (Note 2. B.):					
Excellent	26	24	41	41	40
Good	17	19	2	2	3
Poor	-	-	-	-	-
	<u>43</u>	<u>43</u>	<u>43</u>	<u>43</u>	<u>43</u>

	Structures by Priority
	<u>2008</u>
Water Control Structures (Note 2. C.)	
Structures requiring Priority 1 repairs	3
Structures requiring Priority 2 repairs	-
Structures requiring Priority 3 repairs	<u>547</u>
	<u>550</u>

	Structures by Category			
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Water Control Structures (Note 2. C.)				
Excellent	17	19	20	19
Good	5	3	4	5
Poor	-	-	-	-
	<u>22</u>	<u>22</u>	<u>24</u>	<u>24</u>

Maintenance and Preservation Costs - Budget and Actual

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Budgeted Costs:						
Roads	\$ 2,972,000	\$ 4,435,500	\$ 1,550,000	\$ 2,569,804	\$ 4,179,834	\$ 2,192,405
Bridges	1,034,500	365,000	55,000	300,000	127,000	158,220
Water Control Structures	2,850,000	2,139,000	1,935,000	2,403,100	2,967,100	2,153,100
Actual Costs:						
Roads	n/a	\$ 4,173,108	\$ 1,088,718	\$ 920,767	\$ 2,710,368	\$ 1,787,605
Bridges	n/a	62,881	43,724	371,784	68,610	-
Water Control Structures	n/a	1,877,020	988,684	789,363	415,199	385,189

REEDY CREEK IMPROVEMENT DISTRICT

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

Year Ended September 30, 2012

1. Election to use Modified Approach

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

2. Basis for Condition Assessments and Targeted Condition Level

A. Roads

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

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

As a result of our previous year’s annual assessment of the pavement in the District’s roadway system, as well as our desire to extend the pavement life and to improve the comfort and ride-ability of the system, we planned for the refurbishment/overlay of 13.7 lane miles of roadway and the total replacement of structural course for 19.6 lane miles of roadway during fiscal year 2012. The cost of this major rehabilitation was estimated and budgeted at \$4,235,500, and this work was completed prior to the end of fiscal year 2012 at a cost of \$4,102,535. Based on the work completed, at the conclusion of fiscal year 2012, 92% of the District roadways remain within the “Excellent” ranking and 8% are within the “Acceptable” ranking. No District roadways are ranked as “Poor”.

REEDY CREEK IMPROVEMENT DISTRICT

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

Year Ended September 30, 2012

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

A. Roads - Continued

In addition to this major asphalt refurbishment, the District continued with routine maintenance and repairs throughout its system. These routine expenditures for fiscal year 2012 encompassed routine repair of asphalt, shoulder protection, as well as repair and replacement of guardrail and totaled \$70,573.

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 1971, a majority of the bridges built during the 1990's and an additional seven bridges constructed within the last ten years. Preservation and maintenance of the bridges is an on-going activity and because of this work, all bridges are 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, a test program was implemented to find a better alternative for protecting these bridge joints. After testing various products, it was decided that the replacement of these armor joints by a new expansion joint system would greatly reduce maintenance efforts, decrease maintenance costs and extend the useful life of the bridge joints. Subsequently, in 2008 the District ceased repairing armor joints, choosing instead to remove armor joints as they experienced initial signs of failure and replace them with an alternative expansion media. Based on the results of bi-annual inspections, no expansion joint replacements were needed in fiscal year 2012.

In fiscal year 2012, major bridge repairs were initiated and consisted of encapsulating the concrete piles on bridges 756005 and 756006. This encapsulation protects the piling from further deterioration due to the high levels of acidity in the water and is accomplished by installing epoxy filled jackets around the piles. These repairs were performed during fiscal year 2012 at a cost of \$59,037.

Erosion around bridge embankments continues to be an on-going maintenance issue and this issue as well as minor guardrail replacements were addressed during 2012 in the course of routine maintenance activities. Maintenance expenditures for fiscal year 2012 totaled \$3,844.

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. Many of these structures were constructed during the late 1960's making the structures 35 to 40 years old. The structures are all in working order and generally in good condition.

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

Year Ended September 30, 2012

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

C. Water Control Structures – Continued

It is important to note the District reported 24 water control structures in previous years. Although there are 24 structures lying within the Drainage System, two of these structures are owned and maintained by a private entity. These two structures were eliminated from the assessment table in fiscal year 2011, thereby resulting in 22 reported structures.

The major water control structures are inspected annually and a condition assessment report is generated. This Annual Water Control Structure (WCS) 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.

Prior to fiscal year 2009, the Condition of Infrastructure Assets table included in this report categorized the structures by the number of repairs within each priority category. In an effort to make this table more readable and informative, the report format was changed in 2009. Structures are now classified by their overall condition and are listed as Good, Fair or Poor condition.

During fiscal year 2012 one Priority 1 repair was completed. This repair involved the replacement of both gate leaves for Structure S-40 as well as pressure injection and crack sealing of the wing wall and structure apron. Pile jackets were installed and to accomplish the complete refurbishment of the energy dissipaters, all structural support members were either replaced or sanded, weld repaired and coated. These major rehabilitative costs for the S-40 water control structure totaled \$1,175,471. Routine maintenance on levees, canals and structures totaled \$414,691.

Also during fiscal year 2012, construction of safety enhancements to all of the Amil gate structures was performed. These enhancements included construction of handrails on the upstream walls of these structures, walkways were constructed to provide access to the center pier of the structures with dual Amil gates, and ladders were constructed to safely access the lower portions of these structures. These enhancements were constructed at a cost of \$286,858.

REEDY CREEK IMPROVEMENT DISTRICT

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

Year Ended September 30, 2012

<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>
10/1/2007	\$ 24,115,157	\$ -	\$ 24,115,157	0.00%	\$ 19,562,298	123.27%
10/1/2008	43,172,825	-	43,172,825	0.00%	20,651,822	209.05%
10/1/2009	44,613,950	-	44,613,950	0.00%	21,374,045	208.73%
10/1/2010	49,746,556	-	49,746,556	0.00%	21,588,424	230.43%
10/1/2011	54,318,654	-	54,318,654	0.00%	21,960,067	247.35%

The District implemented GASB Statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions during the 2007-08 fiscal year, hence only five years of data is available.