

**REEDY CREEK IMPROVEMENT DISTRICT**  
Lake Buena Vista, Florida

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2013

**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, 2013

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## **Report of Independent Certified Public Accountants**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Reedy Creek Improvement District (the District) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the District as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

### **Adoption of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities"**

As discussed in Note 1 to the financial statements, the District restated its financial statements as a result of the adoption of Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities" effective October 1, 2012. Our opinion is not modified with respect to this matter.

### **Required Supplementary Information**

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we also have issued our report dated January 17, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



January 17, 2014

## 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, 2013. 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 \$178,010,753 (*net position*).
- The District's total net position increased during the year by \$24,483,486.
- The District's total noncurrent liabilities increased by \$314,346,674 during the year.
- As of September 30, 2013, the District's governmental funds reported combined ending fund balances of \$390,240,041, an increase of \$350,547,352 in comparison with the prior year. Approximately 3% of this total amount is available for spending at the government's discretion (unassigned fund balance).
- At September 30, 2013, unassigned fund balance for the general fund was \$12,724,961, or 22% 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 – 47 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 \$178,010,753 at September 30, 2013.

## REEDY CREEK IMPROVEMENT DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

#### District's Net Position

|                                       | Governmental<br>activities |               | Business-type<br>activities |                | Total          |                |
|---------------------------------------|----------------------------|---------------|-----------------------------|----------------|----------------|----------------|
|                                       | 2013                       | 2012**        | 2013                        | 2012**         | 2013           | 2012**         |
| Current and noncurrent assets         | \$ 395,319,060             | \$ 42,752,359 | \$ 136,358,685              | \$ 150,425,426 | \$ 531,677,745 | \$ 193,177,785 |
| Capital assets                        | 268,871,942                | 263,424,555   | 248,671,320                 | 252,388,317    | 517,543,262    | 515,812,872    |
| Total assets                          | 664,191,002                | 306,176,914   | 385,030,005                 | 402,813,743    | 1,049,221,007  | 708,990,657    |
| Deferred outflow s of resources       | 1,800,212                  | 2,096,466     | 12,497,764                  | 17,752,714     | 14,297,976     | 19,849,180     |
| Total deferred outflow s of resources | 1,800,212                  | 2,096,466     | 12,497,764                  | 17,752,714     | 14,297,976     | 19,849,180     |
| Current liabilities *                 | 29,435,771                 | 25,566,859    | 55,154,018                  | 61,116,152     | 84,589,789     | 86,683,011     |
| Noncurrent liabilities                | 531,090,106                | 187,826,184   | 267,444,853                 | 296,362,101    | 798,534,959    | 484,188,285    |
| Total liabilities                     | 560,525,877                | 213,393,043   | 322,598,871                 | 357,478,253    | 883,124,748    | 570,871,296    |
| Deferred inflow s of resources        | -                          | -             | 2,383,482                   | 4,891,552      | 2,383,482      | 4,891,552      |
| Total deferred inflow s of resources  | -                          | -             | 2,383,482                   | 4,891,552      | 2,383,482      | 4,891,552      |
| Net position:                         |                            |               |                             |                |                |                |
| Net investment in capital assets      | 193,946,369                | 202,047,970   | 11,536,623                  | 821,274        | 205,482,992    | 202,869,244    |
| Restricted                            | 15,665,023                 | 6,163,118     | 4,519,186                   | 4,316,971      | 20,184,209     | 10,480,089     |
| Unrestricted                          | (104,146,055)              | (113,330,751) | 56,489,607                  | 53,508,685     | (47,656,448)   | (59,822,066)   |
| Total net position                    | \$ 105,465,337             | \$ 94,880,337 | \$ 72,545,416               | \$ 58,646,930  | \$ 178,010,753 | \$ 153,527,267 |

\* includes current liabilities payable from restricted assets

\*\* as restated due to GASB 65 implementation

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 \$97 million. All of the bonds are Ad Valorem Tax bonds, secured by an irrevocable lien on the ad valorem taxes collected by the District.

**REEDY CREEK IMPROVEMENT DISTRICT**

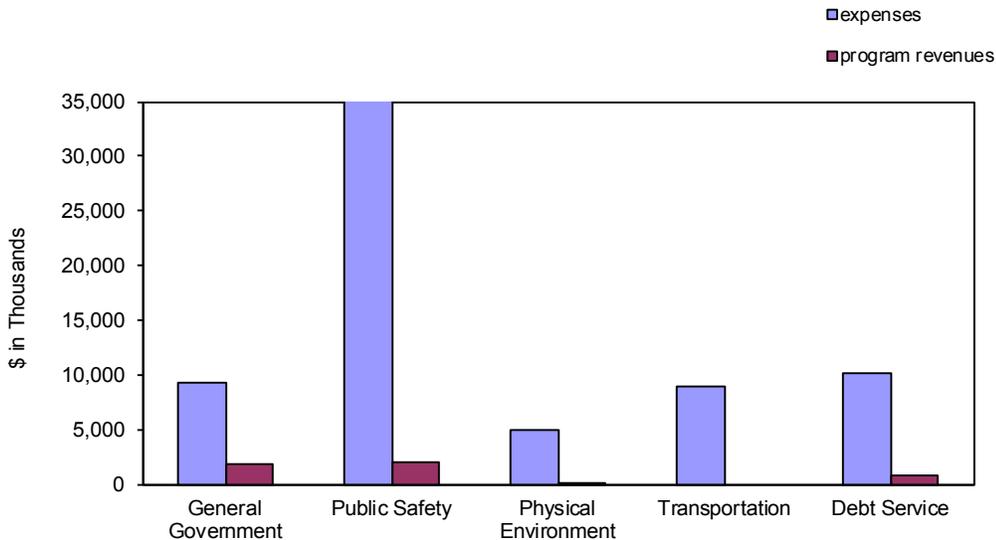
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**District's Change in Net Position**

|  | Governmental activities |                      | Business-type activities |                      | Total                |                      |
|--|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
|  | 2013                    | 2012                 | 2013                     | 2012                 | 2013                 | 2012                 |
| <b>Revenues:</b>                               |                         |                      |                          |                      |                      |                      |
| <b>Program revenues:</b>                       |                         |                      |                          |                      |                      |                      |
| Charges for services                           | \$ 2,250,057            | \$ 3,190,949         | \$189,815,624            | \$192,726,305        | \$192,065,681        | \$195,917,254        |
| Intergovernmental                              | 2,344,356               | 2,119,843            | -                        | -                    | 2,344,356            | 2,119,843            |
| Capital contributions                          | 158,202                 | 1,810,588            | 230,801                  | 36,401               | 389,003              | 1,846,989            |
| <b>General revenues:</b>                       |                         |                      |                          |                      |                      |                      |
| Ad Valorem taxes-net                           | 77,507,628              | 77,538,181           | -                        | -                    | 77,507,628           | 77,538,181           |
| Interest income                                | 38,241                  | 209,859              | -                        | 32,259               | 38,241               | 242,118              |
| Gain on sale of capital assets                 | 628                     | 15,293               | -                        | -                    | 628                  | 15,293               |
| <b>Total revenues</b>                          | <b>82,299,112</b>       | <b>84,884,713</b>    | <b>190,046,425</b>       | <b>192,794,965</b>   | <b>272,345,537</b>   | <b>277,679,678</b>   |
| <b>Expenses:</b>                               |                         |                      |                          |                      |                      |                      |
| General Government                             | 9,339,059               | 7,986,263            | -                        | -                    | 9,339,059            | 7,986,263            |
| Public Safety                                  | 35,177,919              | 33,172,762           | -                        | -                    | 35,177,919           | 33,172,762           |
| Physical Environment                           | 5,009,985               | 4,443,541            | -                        | -                    | 5,009,985            | 4,443,541            |
| Transportation                                 | 8,975,257               | 10,680,768           | -                        | -                    | 8,975,257            | 10,680,768           |
| Utility operations                             | -                       | -                    | 167,030,558              | 166,640,496          | 167,030,558          | 166,640,496          |
| Interest on long-term debt                     | 10,063,125              | 7,897,824            | 12,266,148               | 13,618,735           | 22,329,273           | 21,516,559           |
| <b>Total expenses</b>                          | <b>68,565,345</b>       | <b>64,181,158</b>    | <b>179,296,706</b>       | <b>180,259,231</b>   | <b>247,862,051</b>   | <b>244,440,389</b>   |
| Increases in net position before transfers     | 13,733,767              | 20,703,555           | 10,749,719               | 12,535,734           | 24,483,486           | 33,239,289           |
| Transfers                                      | (3,148,767)             | (2,936,074)          | 3,148,767                | 2,936,074            | -                    | -                    |
| <b>Change in net position</b>                  | <b>10,585,000</b>       | <b>17,767,481</b>    | <b>13,898,486</b>        | <b>15,471,808</b>    | <b>24,483,486</b>    | <b>33,239,289</b>    |
| Net position - beginning                       | 94,880,337              | 77,782,868           | 58,646,930               | 44,221,744           | 153,527,267          | 122,004,612          |
| Prior year adjustment - GASB 65 implementation | -                       | (670,012)            | -                        | (1,046,622)          | -                    | (1,716,634)          |
| <b>Net position - ending</b>                   | <b>\$105,465,337</b>    | <b>\$ 94,880,337</b> | <b>\$ 72,545,416</b>     | <b>\$ 58,646,930</b> | <b>\$178,010,753</b> | <b>\$153,527,267</b> |

*Governmental activities.* Charges for services decreased due to fewer permits being issued in 2013. More permits associated with the Fantasyland expansion were issued in 2012. Capital contributions were higher in 2012 due to a developer contribution toward the Flamingo Crossings infrastructure. Interest on long-term debt increased due to the issuance of additional ad valorem tax bonds in 2013.

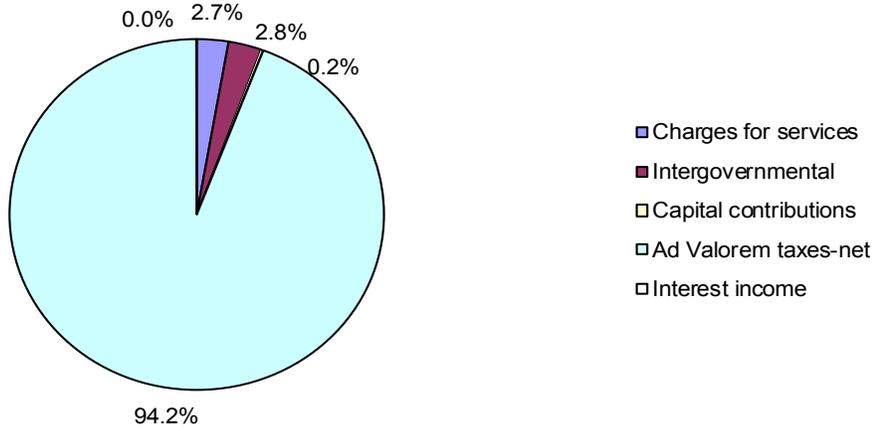
**Expenses and Program Revenues – Governmental Activities**



# REEDY CREEK IMPROVEMENT DISTRICT

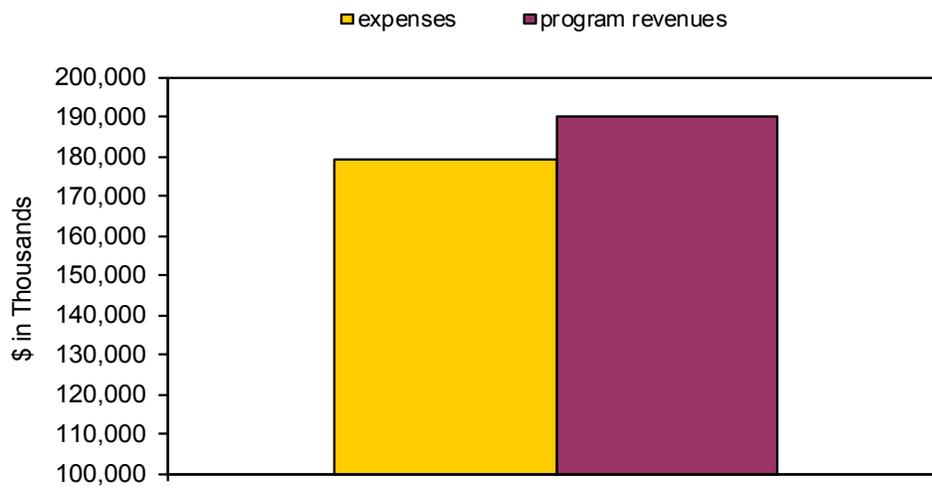
## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

### Total Revenue by Source – Governmental Activities



*Business-type activities.* Interest on long-term debt related to business-type activities decreased due to refinancing initiatives in fiscal year 2013.

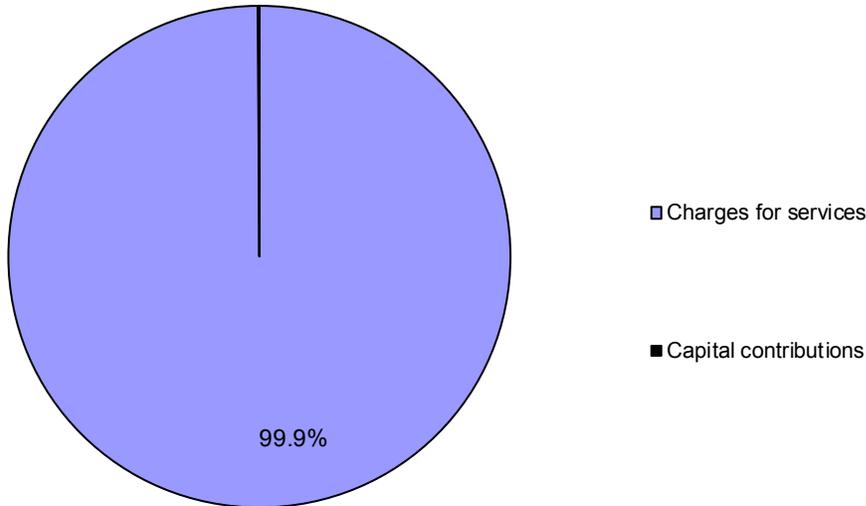
### Expenses and Program Revenues – Business-type Activities



## 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, 2013, the District's governmental funds reported combined fund balances of \$390,240,041. Approximately 3% 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 2014 budget.

The general fund is the chief operating fund of the District. At September 30, 2013, unassigned fund balance of the general fund was \$12,724,961, while total fund balance reached \$24,518,603. 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 22% of the total general fund expenditures (including transfers), while total fund balance represents 43% of that same amount. During fiscal year 2013, the fund balance of the District's general fund decreased by \$399,771. This decrease was a result of lower revenues related to building permits and capital contributions (as compared to 2012) combined with higher interest costs related to long-term debt.

**REEDY CREEK IMPROVEMENT DISTRICT**

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

The debt service fund has a total fund balance of \$10,831,689, an increase of \$9,671,708 from the prior year. The increase was due to the issuance of ad valorem tax bonds and the receipt of bond proceeds (capitalized interest).

*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, 2013 the unrestricted net position of the Utility Fund amounted to \$49,030,569, an increase of \$5,147,637 from prior year. The restricted net position amounted to \$4,519,186.

**General Fund Budgetary Highlights**

There were no amendments to the budget or transfers between activity budgets in 2013.

**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, 2013 amounted to \$517,543,262 (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                 |                       |
|-----------------------------------|-------------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
|                                   | 2013                    | 2012                  | 2013                     | 2012                  | 2013                  | 2012                  |
| Land                              | \$ 2,762,209            | \$ 2,762,209          | \$ 6,907,829             | \$ 6,907,829          | \$ 9,670,038          | \$ 9,670,038          |
| Buildings and system              | 12,312,538              | 12,993,759            | 26,246,880               | 28,996,028            | 38,559,418            | 41,989,787            |
| Improvements other than buildings | -                       | -                     | 76,942,515               | 77,797,419            | 76,942,515            | 77,797,419            |
| Machinery and equipment           | 6,028,553               | 6,768,460             | 127,078,857              | 129,565,470           | 133,107,410           | 136,333,930           |
| Infrastructure                    | 240,507,816             | 240,507,816           | -                        | -                     | 240,507,816           | 240,507,816           |
| Construction in progress          | 7,260,826               | 392,311               | 11,495,239               | 9,121,571             | 18,756,065            | 9,513,882             |
| <b>Total</b>                      | <b>\$ 268,871,942</b>   | <b>\$ 263,424,555</b> | <b>\$ 248,671,320</b>    | <b>\$ 252,388,317</b> | <b>\$ 517,543,262</b> | <b>\$ 515,812,872</b> |

*Long-term debt.* At September 30, 2013, the District had total long-term bonded debt outstanding of \$816,188,999. Of this amount, \$525,509,146 comprised debt backed by the full faith and credit of the District and \$290,679,853 is secured by the revenues generated by the District's Utilities. During the year, the District's total long-term debt increased by \$323,818,208 (64%). A significant amount of ad valorem tax bonds were issued in 2013 to fund major infrastructure projects anticipated to be completed through 2016.

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          |                       | Business-type         |                       | Total                 |                       |
|--------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                          | activities            |                       | activities            |                       |                       |                       |
|                          | 2013                  | 2012*                 | 2013                  | 2012*                 | 2013                  | 2012*                 |
| General obligation bonds | \$ 525,509,146        | \$ 182,226,031        | \$ -                  | \$ -                  | \$ 525,509,146        | \$ 182,226,031        |
| Revenue bonds            | -                     | -                     | 290,679,853           | 310,144,760           | 290,679,853           | 310,144,760           |
| <b>Total</b>             | <b>\$ 525,509,146</b> | <b>\$ 182,226,031</b> | <b>\$ 290,679,853</b> | <b>\$ 310,144,760</b> | <b>\$ 816,188,999</b> | <b>\$ 492,370,791</b> |

\* as restated due to GASB 65 implementation

*Infrastructure Assets.* As demonstrated in the Required Supplementary Information on pages 48 – 51 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.

**Subsequent Event**

On November 12, 2013, the District entered into a purchase contract with Bank of America to purchase the 2013-2 Utilities Revenue Refunding Bond in the amount of \$111,595,000 at a 1.71% interest rate, which is scheduled to close on July 3, 2014. The proceeds will be used to refund the 2003-2 Utilities Revenue Bonds outstanding on or after October 1, 2014.

**Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate of the Central Florida area is currently averaging 6.0%. This is less than both the state's average unemployment rate of 6.7% and the national average rate of 7.0%.
- Fiscal year 2013 assessed values increased 2.8%.
- 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, 2013

|  | <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activities</b> | <b>Total</b>          |
|--|------------------------------------|-------------------------------------|-----------------------|
| <b>ASSETS</b>  |                                    |                                     |                       |
| Cash and cash equivalents                                    | \$ 9,086,221                       | \$ 10,847,146                       | \$ 19,933,367         |
| Cash and cash equivalents - restricted                       | 349,187,199                        | 34,239,441                          | 383,426,640           |
| Investments  | 16,688,640                         | 26,340                              | 16,714,980            |
| Investments - restricted                                     | 18,401,318                         | 61,040,813                          | 79,442,131            |
| Accounts receivable  | 57,977                             | 20,391,780                          | 20,449,757            |
| Internal balances  | 3,610                              | (3,610)                             | -                     |
| Inventories  | -                                  | 8,796,305                           | 8,796,305             |
| Prepays  | 1,728,208                          | 570,877                             | 2,299,085             |
| Deposits   | 30,000                             | -                                   | 30,000                |
| Other assets   | 135,887                            | 449,593                             | 585,480               |
| Capital assets not being depreciated                         | 250,530,851                        | 18,403,068                          | 268,933,919           |
| Capital assets, net of accumulated depreciation              | 18,341,091                         | 230,268,252                         | 248,609,343           |
| <b>Total Assets</b>  | <b>664,191,002</b>                 | <b>385,030,005</b>                  | <b>1,049,221,007</b>  |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                        |                                    |                                     |                       |
| Accumulated decrease in fair value of derivative instruments | -                                  | 5,038,726                           | 5,038,726             |
| Loss on defeased debt due to refundings                      | 1,800,212                          | 7,459,038                           | 9,259,250             |
| <b>Total Deferred Outflows of Resources</b>                  | <b>1,800,212</b>                   | <b>12,497,764</b>                   | <b>14,297,976</b>     |
| <b>LIABILITIES</b>   |                                    |                                     |                       |
| Accounts payable and accrued liabilities                     | 2,966,225                          | 20,358,418                          | 23,324,643            |
| Accounts payable from restricted assets                      | 1,905,793                          | 475,391                             | 2,381,184             |
| Derivative fuel instruments                                  | -                                  | 5,038,726                           | 5,038,726             |
| Due to other governments                                     | 1,000                              | -                                   | 1,000                 |
| Compensated absences   | 1,245,362                          | -                                   | 1,245,362             |
| Self insurance liability                                     | 629,377                            | -                                   | 629,377               |
| Capital leases   | 306,437                            | -                                   | 306,437               |
| Bonds payable  | 19,250,000                         | 23,235,000                          | 42,485,000            |
| Accrued interest payable                                     | 3,131,577                          | 6,046,483                           | 9,178,060             |
| Noncurrent liabilities:                                      |                                    |                                     |                       |
| Compensated absences   | 1,299,136                          | -                                   | 1,299,136             |
| Self insurance liability                                     | 2,298,868                          | -                                   | 2,298,868             |
| Capital leases   | 984,216                            | -                                   | 984,216               |
| Net OPEB obligation  | 20,248,740                         | -                                   | 20,248,740            |
| Bonds payable  | 506,259,146                        | 267,444,853                         | 773,703,999           |
| <b>Total Liabilities</b>                                     | <b>560,525,877</b>                 | <b>322,598,871</b>                  | <b>883,124,748</b>    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                         |                                    |                                     |                       |
| Deferred fuel  | -                                  | 2,383,482                           | 2,383,482             |
| <b>Total Deferred Inflows of Resources</b>                   | <b>-</b>                           | <b>2,383,482</b>                    | <b>2,383,482</b>      |
| <b>NET POSITION</b>  |                                    |                                     |                       |
| Net investment in capital assets                             | 193,946,369                        | 11,536,623                          | 205,482,992           |
| Restricted   | 15,665,023                         | 4,519,186                           | 20,184,209            |
| Unrestricted (deficit)                                       | (104,146,055)                      | 56,489,607                          | (47,656,448)          |
| <b>Total Net Position</b>                                    | <b>\$ 105,465,337</b>              | <b>\$ 72,545,416</b>                | <b>\$ 178,010,753</b> |

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

**REEDY CREEK IMPROVEMENT DISTRICT**

**STATEMENT OF ACTIVITIES**

For the Period Ended September 30, 2013

|   | <b>Business-type<br/>Activities</b> |                      | <b>Total<br/>Governmental<br/>Activities</b> |
|---|-------------------------------------|----------------------|--|
|   | <b>Total</b>                        | <b>Utility</b>       |  |
| Expenses:   |                                     |                      |  |
| Labor   | \$ 66,647,104                       | \$ 31,382,684        | \$ 35,264,420                                |
| Operating expenses                                    | 133,519,198                         | 113,108,154          | 20,411,044                                   |
| Depreciation  | 23,288,202                          | 20,461,446           | 2,826,756                                    |
| Nonoperating expenses                                 | 2,078,274                           | 2,078,274            | -  |
| Interest on debt                                      | 22,329,273                          | 12,266,148           | 10,063,125                                   |
| Total expenses  | <u>247,862,051</u>                  | <u>179,296,706</u>   | <u>68,565,345</u>                            |
| Program revenues:                                     |                                     |                      |  |
| Charges for services                                  | 192,065,681                         | 189,815,624          | 2,250,057                                    |
| Intergovernmental                                     | 2,344,356                           | -                    | 2,344,356                                    |
| Capital contributions                                 | 389,003                             | 230,801              | 158,202                                      |
| Total program revenues                                | <u>194,799,040</u>                  | <u>190,046,425</u>   | <u>4,752,615</u>                             |
| Net program expense (revenue)                         | <u>53,063,011</u>                   | <u>(10,749,719)</u>  | <u>63,812,730</u>                            |
| General revenues:                                     |                                     |                      |  |
| Ad valorem taxes                                      | 77,507,628                          | -                    | 77,507,628                                   |
| Interest income                                       | 38,241                              | -                    | 38,241                                       |
| Gain on sale of capital assets                        | 628                                 | -                    | 628  |
| Transfers in (out)                                    | -                                   | 3,148,767            | (3,148,767)                                  |
| Total general revenues and transfers                  | <u>77,546,497</u>                   | <u>3,148,767</u>     | <u>74,397,730</u>                            |
| Change in net position                                | 24,483,486                          | 13,898,486           | 10,585,000                                   |
| Total net position - beginning (as previously stated) | 155,243,901                         | 59,693,552           | 95,550,349                                   |
| Prior year adjustment - implementation of GASB 65     | (1,716,634)                         | (1,046,622)          | (670,012)                                    |
| Total net position - ending                           | <u>\$ 178,010,753</u>               | <u>\$ 72,545,416</u> | <u>\$ 105,465,337</u>                        |

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

**Governmental Activities**

| <b>General<br/>Government</b> | <b>Public Safety</b> | <b>Physical<br/>Environment</b> | <b>Transportation</b> | <b>Debt Service</b> |
|-------------------------------|----------------------|---------------------------------|-----------------------|---------------------|
| \$ 3,905,362                  | \$ 29,744,184        | \$ 1,336,706                    | \$ 278,168            | \$ -                |
| 4,877,281                     | 3,328,929            | 3,601,135                       | 8,603,699             | -                   |
| 556,416                       | 2,104,806            | 72,144                          | 93,390                | -                   |
| -                             | -                    | -                               | -                     | -                   |
| -                             | -                    | -                               | -                     | 10,063,125          |
| <u>9,339,059</u>              | <u>35,177,919</u>    | <u>5,009,985</u>                | <u>8,975,257</u>      | <u>10,063,125</u>   |
| 305,133                       | 1,944,924            | -                               | -                     | -                   |
| 1,525,237                     | -                    | -                               | -                     | 819,119             |
| -                             | -                    | 158,202                         | -                     | -                   |
| <u>1,830,370</u>              | <u>1,944,924</u>     | <u>158,202</u>                  | <u>-</u>              | <u>819,119</u>      |
| <u>\$ 7,508,689</u>           | <u>\$ 33,232,995</u> | <u>\$ 4,851,783</u>             | <u>\$ 8,975,257</u>   | <u>\$ 9,244,006</u> |

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

**REEDY CREEK IMPROVEMENT DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**

September 30, 2013

|  | <b>General</b> | <b>Debt Service</b> | <b>Capital Projects</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--|----------------|---------------------|-------------------------|---|
| <b>ASSETS</b>                            |                |                     |                         |   |
| Cash and cash equivalents                | \$ 9,086,221   | \$ -                | \$ -                    | \$ 9,086,221                            |
| Cash and cash equivalents - restricted   |                | 3,483,964           | 345,703,235             | 349,187,199                             |
| Investments                              | 16,688,640     | -                   | -                       | 16,688,640                              |
| Investments - restricted                 |                | 7,373,015           | 11,028,303              | 18,401,318                              |
| Accounts receivable                      | 49,263         | 8,714               | -                       | 57,977                                  |
| Due from other funds                     | 3,610          | -                   | -                       | 3,610                                   |
| Prepays                                  | 1,728,208      | -                   | -                       | 1,728,208                               |
| Deposits                                 | -              | -                   | 30,000                  | 30,000                                  |
| Total assets                             | \$ 27,555,942  | \$ 10,865,693       | \$ 356,761,538          | \$ 395,183,173                          |
| <b>LIABILITIES AND FUND BALANCES</b>     |                |                     |                         |   |
| Accounts payable and accrued liabilities | \$ 3,036,339   | \$ 34,004           | \$ 1,871,789            | \$ 4,942,132                            |
| Due to other governments                 | 1,000          | -                   | -                       | 1,000                                   |
| Total liabilities                        | 3,037,339      | 34,004              | 1,871,789               | 4,943,132                               |
| Fund balances:                           |                |                     |                         |   |
| Nonspendable:                            |                |                     |                         |   |
| Prepays                                  | 1,728,208      | -                   | -                       | 1,728,208                               |
| Restricted:                              |                |                     |                         |   |
| Capital projects                         | 4,833,334      | -                   | 354,889,749             | 359,723,083                             |
| Debt service                             | -              | 10,831,689          | -                       | 10,831,689                              |
| Assigned:                                |                |                     |                         |   |
| 2014 budget shortfall                    | 5,232,100      | -                   | -                       | 5,232,100                               |
| Unassigned                               | 12,724,961     | -                   | -                       | 12,724,961                              |
| Total fund balances                      | 24,518,603     | 10,831,689          | 354,889,749             | 390,240,041                             |
| Total liabilities and fund balances      | \$ 27,555,942  | \$ 10,865,693       | \$ 356,761,538          |   |

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

|  |                |
|--|----------------|
| Bond insurance costs are not financial resources and, therefore, are not reported in the funds.  | 135,887        |
| Accrued interest payable on bonds not currently due is not reported in the funds.  | (3,131,577)    |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.                                  | 268,871,942    |
| 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. | (550,650,956)  |
| Net position of governmental activities  | \$ 105,465,337 |

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

**REEDY CREEK IMPROVEMENT DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the Period Ended September 30, 2013

|  | General              | Debt Service         | Capital Projects      | Total<br>Governmental<br>Funds |
|--|----------------------|----------------------|-----------------------|--------------------------------|
| <b>REVENUES</b>  |                      |                      |                       |                                |
| Ad valorem taxes   | \$ 53,158,063        | \$ 24,349,565        | \$ -                  | \$ 77,507,628                  |
| Intergovernmental  | 1,525,237            | 819,119              | -                     | 2,344,356                      |
| Emergency services   | 279,746              | -                    | -                     | 279,746                        |
| Building permits and fees                                    | 1,665,178            | -                    | -                     | 1,665,178                      |
| Drainage fees  | 158,202              | -                    | -                     | 158,202                        |
| Interest income  | -                    | 15,261               | 22,980                | 38,241                         |
| Other  | 307,533              | -                    | -                     | 307,533                        |
| Total revenues   | <u>57,093,959</u>    | <u>25,183,945</u>    | <u>22,980</u>         | <u>82,300,884</u>              |
| <b>EXPENDITURES</b>  |                      |                      |                       |                                |
| Current:   |                      |                      |                       |                                |
| General government   | 8,351,912            | -                    | -                     | 8,351,912                      |
| Public safety  | 29,998,236           | -                    | -                     | 29,998,236                     |
| Physical environment   | 4,790,737            | -                    | -                     | 4,790,737                      |
| Transportation   | 8,851,432            | -                    | -                     | 8,851,432                      |
| Capital outlay   | 1,408,527            | -                    | 6,868,514             | 8,277,041                      |
| Debt service:  |                      |                      |                       |                                |
| Principal  | 863,697              | 18,020,000           | -                     | 18,883,697                     |
| Interest and other charges                                   | 80,422               | 7,721,711            | 1,943,933             | 9,746,066                      |
| Total expenditures   | <u>54,344,963</u>    | <u>25,741,711</u>    | <u>8,812,447</u>      | <u>88,899,121</u>              |
| Excess (deficiency) of revenues over<br>(under) expenditures | <u>2,748,996</u>     | <u>(557,766)</u>     | <u>(8,789,467)</u>    | <u>(6,598,237)</u>             |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                      |                      |                       |                                |
| Bond proceeds  | -                    | 54,264,567           | 350,064,882           | 404,329,449                    |
| Payments to escrow agents                                    | -                    | (44,035,093)         | -                     | (44,035,093)                   |
| Transfers (out)  | (3,148,767)          | -                    | -                     | (3,148,767)                    |
| Total other financing sources                                | <u>(3,148,767)</u>   | <u>10,229,474</u>    | <u>350,064,882</u>    | <u>357,145,589</u>             |
| Net changes in fund balances                                 | (399,771)            | 9,671,708            | 341,275,415           | 350,547,352                    |
| <b>Fund Balances, beginning of year</b>                      | <u>24,918,374</u>    | <u>1,159,981</u>     | <u>13,614,334</u>     | <u>39,692,689</u>              |
| <b>Fund Balances, end of year</b>                            | <u>\$ 24,518,603</u> | <u>\$ 10,831,689</u> | <u>\$ 354,889,749</u> | <u>\$ 390,240,041</u>          |

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

|   |                      |
|---|----------------------|
| Net changes in fund balances  | \$ 350,547,352       |
| 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.   | 5,450,285            |
| The net effect of various miscellaneous transactions involving capital assets resulted in a decrease in net position.   | (2,898)              |
| Governmental funds report the payment of bond principal and interest when the current financial resources are available and payments are due and they report the payment of issuance costs, premiums, discounts, and similar items when debt is first issued. However, on the statement of activities interest is accrued and prepaid insurance costs are deferred and amortized. | (341,727,718)        |
| Increases in other liabilities reported as expenses in the statement of activities not requiring the use of current financial resources in governmental funds.  | (3,682,021)          |
| Change in net position of governmental activities   | <u>\$ 10,585,000</u> |

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

**REEDY CREEK IMPROVEMENT DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
For the Period Ended September 30, 2013

|                                   | <u>Budgeted Amounts</u> |                   |                   | <b>Variance with<br/>Final Budget</b> |
|-----------------------------------|-------------------------|-------------------|-------------------|---------------------------------------|
|                                   | <u>Original</u>         | <u>Final</u>      | <u>Actual</u>     |                                       |
| <b>REVENUES</b>                   |                         |                   |                   |                                       |
| Ad Valorem Taxes                  | \$ 53,080,918           | \$ 53,080,918     | \$ 53,158,063     | \$ 77,145                             |
| Intergovernmental Revenue         | 1,000,000               | 1,000,000         | 1,525,237         | 525,237                               |
| Emergency Services                | -                       | -                 | 279,746           | 279,746                               |
| Building Permits and Fees         | 1,250,000               | 1,250,000         | 1,665,178         | 415,178                               |
| Drainage Fees                     | -                       | -                 | 158,202           | 158,202                               |
| Interest Income                   | 250,000                 | 250,000           | -                 | (250,000)                             |
| Other                             | 250,000                 | 250,000           | 307,533           | 57,533                                |
| <b>Total Revenues</b>             | <u>55,830,918</u>       | <u>55,830,918</u> | <u>57,093,959</u> | <u>1,263,041</u>                      |
| <b>EXPENDITURES</b>               |                         |                   |                   |                                       |
| GENERAL GOVERNMENT                |                         |                   |                   |                                       |
| Administrative:                   |                         |                   |                   |                                       |
| Labor                             | 1,301,964               | 1,301,964         | 1,340,388         | (38,424)                              |
| Operating                         | 2,508,203               | 2,508,203         | 2,765,121         | (256,918)                             |
|                                   | <u>3,810,167</u>        | <u>3,810,167</u>  | <u>4,105,509</u>  | <u>(295,342)</u>                      |
| Human Resources:                  |                         |                   |                   |                                       |
| Labor                             | 490,953                 | 490,953           | 456,195           | 34,758                                |
| Operating                         | 310,950                 | 310,950           | 300,707           | 10,243                                |
|                                   | <u>801,903</u>          | <u>801,903</u>    | <u>756,902</u>    | <u>45,001</u>                         |
| Information Systems & Technology: |                         |                   |                   |                                       |
| Labor                             | 1,091,361               | 1,091,361         | 1,060,985         | 30,376                                |
| Operating                         | 920,356                 | 852,806           | 878,744           | (25,938)                              |
| Capital outlay                    | 199,925                 | 174,425           | 33,143            | 141,282                               |
|                                   | <u>2,211,642</u>        | <u>2,118,592</u>  | <u>1,972,872</u>  | <u>145,720</u>                        |
| Property Management:              |                         |                   |                   |                                       |
| Labor                             | 184,464                 | 184,464           | 143,193           | 41,271                                |
| Operating                         | 942,487                 | 923,487           | 912,727           | 10,760                                |
| Capital outlay                    | 195,000                 | 45,000            | 44,561            | 439                                   |
|                                   | <u>1,321,951</u>        | <u>1,152,951</u>  | <u>1,100,481</u>  | <u>52,470</u>                         |
| Contracts & Risk Management:      |                         |                   |                   |                                       |
| Labor                             | 494,654                 | 494,654           | 474,996           | 19,658                                |
| Operating                         | 16,600                  | 16,600            | 18,856            | (2,256)                               |
|                                   | <u>511,254</u>          | <u>511,254</u>    | <u>493,852</u>    | <u>17,402</u>                         |
| <b>TOTAL GENERAL GOVERNMENT</b>   | <u>8,656,917</u>        | <u>8,394,867</u>  | <u>8,429,616</u>  | <u>(34,749)</u>                       |
| <b>PUBLIC SAFETY</b>              |                         |                   |                   |                                       |
| Building and Safety:              |                         |                   |                   |                                       |
| Labor                             | 2,848,961               | 2,848,961         | 2,470,454         | 378,507                               |
| Operating                         | 138,148                 | 138,148           | 125,928           | 12,220                                |
| Capital outlay                    | 220,000                 | 254,000           | 212,710           | 41,290                                |
|                                   | <u>3,207,109</u>        | <u>3,241,109</u>  | <u>2,809,092</u>  | <u>432,017</u>                        |

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

**REEDY CREEK IMPROVEMENT DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
For the Period Ended September 30, 2013

|  | <u>Budgeted Amounts</u> |                    | <u>Actual</u>     | <u>Variance with<br/>Final Budget</u> |
|--|-------------------------|--------------------|-------------------|---------------------------------------|
|  | <u>Original</u>         | <u>Final</u>       |                   |                                       |
| Emergency Services:  |                         |                    |                   |                                       |
| Labor  | 25,549,595              | 25,549,595         | 23,941,963        | 1,607,632                             |
| Operating  | 1,719,526               | 1,840,336          | 1,779,228         | 61,108                                |
| Capital outlay   | 918,580                 | 808,965            | 786,849           | 22,116                                |
|  | <u>28,187,701</u>       | <u>28,198,896</u>  | <u>26,508,040</u> | <u>1,690,856</u>                      |
| Property Management:   |                         |                    |                   |                                       |
| Labor  | 265,936                 | 265,936            | 256,890           | 9,046                                 |
| Operating  | 1,409,124               | 1,432,124          | 1,423,773         | 8,351                                 |
| Capital outlay   | 195,000                 | 319,805            | 259,872           | 59,933                                |
|  | <u>1,870,060</u>        | <u>2,017,865</u>   | <u>1,940,535</u>  | <u>77,330</u>                         |
| <b>TOTAL PUBLIC SAFETY</b>                                   | <u>33,264,870</u>       | <u>33,457,870</u>  | <u>31,257,667</u> | <u>2,200,203</u>                      |
| <b>PHYSICAL ENVIRONMENT</b>                                  |                         |                    |                   |                                       |
| Water Control:   |                         |                    |                   |                                       |
| Operating  | 3,220,000               | 3,220,000          | 2,629,048         | 590,952                               |
| Capital outlay   | 26,500                  | 26,500             | 16,644            | 9,856                                 |
|  | <u>3,246,500</u>        | <u>3,246,500</u>   | <u>2,645,692</u>  | <u>600,808</u>                        |
| Groves:  |                         |                    |                   |                                       |
| Operating  | 16,000                  | 16,000             | -                 | 16,000                                |
|  | <u>16,000</u>           | <u>16,000</u>      | <u>-</u>          | <u>16,000</u>                         |
| Planning & Engineering:                                      |                         |                    |                   |                                       |
| Labor  | 1,276,922               | 1,276,922          | 1,189,602         | 87,320                                |
| Operating  | 960,030                 | 960,030            | 729,836           | 230,194                               |
| Capital outlay   | 43,100                  | 38,500             | 14,052            | 24,448                                |
|  | <u>2,280,052</u>        | <u>2,275,452</u>   | <u>1,933,490</u>  | <u>341,962</u>                        |
| Property Management:   |                         |                    |                   |                                       |
| Operating  | 286,440                 | 320,090            | 242,251           | 77,839                                |
| Capital outlay   | -                       | 26,000             | 25,269            | 731                                   |
|  | <u>286,440</u>          | <u>346,090</u>     | <u>267,520</u>    | <u>78,570</u>                         |
| <b>TOTAL PHYSICAL ENVIRONMENT</b>                            | <u>5,828,992</u>        | <u>5,884,042</u>   | <u>4,846,702</u>  | <u>1,037,340</u>                      |
| <b>TRANSPORTATION</b>  |                         |                    |                   |                                       |
| Roadway maintenance:   |                         |                    |                   |                                       |
| Labor  | 304,249                 | 304,249            | 247,733           | 56,516                                |
| Operating  | 10,548,982              | 10,547,482         | 8,603,699         | 1,943,783                             |
| Capital outlay   | -                       | 15,500             | 15,427            | 73                                    |
| <b>TOTAL TRANSPORTATION</b>                                  | <u>10,853,231</u>       | <u>10,867,231</u>  | <u>8,866,859</u>  | <u>2,000,372</u>                      |
| <b>DEBT SERVICE</b>  |                         |                    |                   |                                       |
| Lease payments   | 863,697                 | 863,697            | 863,697           | -                                     |
| Interest and other charges                                   | 80,422                  | 80,422             | 80,422            | -                                     |
| <b>TOTAL DEBT SERVICE</b>                                    | <u>944,119</u>          | <u>944,119</u>     | <u>944,119</u>    | <u>-</u>                              |
| <b>Total Expenditures</b>                                    | <u>59,548,129</u>       | <u>59,548,129</u>  | <u>54,344,963</u> | <u>5,203,166</u>                      |
| Excess (Deficiency) of Revenues Over<br>(Under) Expenditures | <u>(3,717,211)</u>      | <u>(3,717,211)</u> | <u>2,748,996</u>  | <u>6,466,207</u>                      |

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

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

**GENERAL FUND**

For the Period Ended September 30, 2013

|  | <u>Budgeted Amounts</u> |                       |                      |                                       |
|--|-------------------------|-----------------------|----------------------|---------------------------------------|
|  | <u>Original</u>         | <u>Final</u>          | <u>Actual</u>        | <u>Variance with<br/>Final Budget</u> |
| <b>OTHER FINANCING SOURCES &amp; USES</b>  |                         |                       |                      |                                       |
| Transfers out  | (3,787,398)             | (3,787,398)           | (3,148,767)          | 638,631                               |
| <b>Total other financing uses</b>  | <u>(3,787,398)</u>      | <u>(3,787,398)</u>    | <u>(3,148,767)</u>   | <u>638,631</u>                        |
| Excess (Deficiency) of Revenues Over<br>(Under) Expenditures and Other<br>Financing Uses | <u>\$ (7,504,609)</u>   | <u>\$ (7,504,609)</u> | (399,771)            | <u>\$ 7,104,838</u>                   |
| <b>Fund Balance, beginning of year</b>   |                         |                       | <u>24,918,374</u>    |                                       |
| <b>Fund Balance, end of year</b>   |                         |                       | <u>\$ 24,518,603</u> |                                       |

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

**REEDY CREEK IMPROVEMENT DISTRICT**  
**STATEMENT OF NET POSITION - UTILITY FUND**  
September 30, 2013

**ASSETS**

Current assets:

|                           |    |            |
|---------------------------|----|------------|
| Cash and cash equivalents | \$ | 10,847,146 |
| Accounts receivable       |    | 20,391,780 |
| Inventories               |    | 8,796,305  |
| Prepays                   |    | 570,877    |

Restricted Assets:

|                           |  |            |
|---------------------------|--|------------|
| Cash and cash equivalents |  | 34,239,441 |
| Investments               |  | 19,999,500 |

Total current assets

94,845,049

Noncurrent assets:

|                        |  |            |
|------------------------|--|------------|
| Investments            |  | 26,340     |
| Restricted investments |  | 41,041,313 |

Capital assets:

|                                   |  |               |
|-----------------------------------|--|---------------|
| Land                              |  | 6,907,829     |
| Buildings                         |  | 65,627,630    |
| Improvements other than buildings |  | 200,088,781   |
| Machinery and equipment           |  | 386,979,460   |
| Less accumulated depreciation     |  | (422,427,619) |
| Construction in progress          |  | 11,495,239    |

Total capital assets

248,671,320

Other assets

449,593

Total noncurrent assets

290,188,566

**Total Assets**

385,033,615

**DEFERRED OUTFLOWS OF RESOURCES**

|  |  |           |
|--|--|-----------|
| Accumulated decrease in the fair value of derivative instruments |  | 5,038,726 |
|--|--|-----------|

Loss on defeased debt due to refundings

7,459,038

**Total Deferred Outflows of Resources**

12,497,764

**LIABILITIES**

Current liabilities:

|  |  |            |
|--|--|------------|
| Accounts payable and accrued liabilities |  | 20,358,418 |
| Derivative fuel instruments              |  | 5,038,726  |
| Due to other funds                       |  | 3,610      |
| Total current liabilities                |  | 25,400,754 |

Current liabilities payable from restricted assets:

|                                 |  |            |
|---------------------------------|--|------------|
| Bonds payable                   |  | 23,235,000 |
| Accrued interest payable        |  | 6,046,483  |
| Contracts and retainage payable |  | 475,391    |

Total current liabilities payable from restricted assets

29,756,874

Long-term liabilities:

|               |  |             |
|---------------|--|-------------|
| Bonds payable |  | 267,444,853 |
|---------------|--|-------------|

**Total Liabilities**

322,602,481

**DEFERRED INFLOWS OF RESOURCES**

|               |  |           |
|---------------|--|-----------|
| Deferred fuel |  | 2,383,482 |
|---------------|--|-----------|

**NET POSITION**

|  |  |            |
|--|--|------------|
| Net investment in capital assets       |  | 11,536,623 |
| Restricted for renewal and replacement |  | 4,019,186  |
| Restricted for emergency repairs       |  | 500,000    |
| Unrestricted                           |  | 56,489,607 |

**Total Net Position**

\$ 72,545,416

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

**REEDY CREEK IMPROVEMENT DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**UTILITY FUND**  
For the Period Ended September 30, 2013

**OPERATING REVENUES**

|                          |                |
|--------------------------|----------------|
| Utility sales            | \$ 189,815,624 |
| Total operating revenues | 189,815,624    |

**OPERATING EXPENSES**

|                          |             |
|--------------------------|-------------|
| Purchased power and fuel | 91,028,663  |
| Labor support            | 31,382,684  |
| Operating costs          | 9,433,153   |
| Taxes                    | 3,328,820   |
| Repairs and maintenance  | 8,228,577   |
| Insurance                | 1,088,941   |
| Depreciation             | 20,461,446  |
| Total operating expenses | 164,952,284 |

|                  |            |
|------------------|------------|
| Operating income | 24,863,340 |
|------------------|------------|

**NONOPERATING REVENUES (EXPENSES)**

|                                     |              |
|-------------------------------------|--------------|
| Interest expense                    | (12,266,148) |
| Amortization of bond issue costs    | (626,981)    |
| Loss on abandonment of plant assets | (1,451,293)  |
| Total nonoperating expenses         | (14,344,422) |

|   |            |
|---|------------|
| Income before contributions and transfers | 10,518,918 |
|---|------------|

|                       |           |
|-----------------------|-----------|
| Capital contributions | 230,801   |
| Transfers in          | 3,148,767 |
|                       | 3,148,767 |

|                          |            |
|--------------------------|------------|
| Increase in net position | 13,898,486 |
|--------------------------|------------|

|   |               |
|---|---------------|
| Total net position - beginning (as previously stated) | 59,693,552    |
| Prior year adjustment - implementation of GASB 65     | (1,046,622)   |
| Total net position - ending                           | \$ 72,545,416 |

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, 2013

**CASH FLOWS FROM OPERATING ACTIVITIES**

|  |                |
|--|----------------|
| Receipts from customers                                      | \$ 188,262,975 |
| Payments to suppliers  | (114,906,431)  |
| Payments for labor contract and management service agreement | (29,107,176)   |
| Payments to employees  | (2,480,253)    |
| Net cash provided by operating activities                    | 41,769,115     |

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

|                        |           |
|------------------------|-----------|
| Operating transfers in | 3,148,767 |
|------------------------|-----------|

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

|   |              |
|---|--------------|
| Proceeds from bonds                                       | 63,707,093   |
| Payment of bond issue costs                               | (83,774)     |
| Purchases of capital assets                               | (17,287,586) |
| Proceeds from sale of capital assets                      | (39,217)     |
| Principal paid on bonds                                   | (86,865,000) |
| Interest paid on bonds                                    | (19,218,230) |
| Capital contributions                                     | 230,801      |
| Net cash used by capital and related financing activities | (59,555,913) |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|   |               |
|---|---------------|
| Purchase of investments                           | (46,571,134)  |
| Proceeds from sales and maturities of investments | 38,886,480    |
| Investment income                                 | 9,535         |
| Net cash used in investing activities             | (7,675,119)   |
| Net increase in cash and cash equivalents         | (22,313,150)  |
| Balances - beginning of the year                  | 67,399,737    |
| Balances - end of the year                        | \$ 45,086,587 |

|              |               |
|--------------|---------------|
| Unrestricted | \$ 10,847,146 |
| Restricted   | 34,239,441    |
|              | \$ 45,086,587 |

**Reconciliation of operating income to net cash provided by operating activities**

|   |               |
|---|---------------|
| Operating income  | \$ 24,863,340 |
| Adjustments to reconcile operating income to net cash provided by operating activities: |               |
| Depreciation expense  | 20,461,446    |
| Change in assets and liabilities:   |               |
| Accounts receivable   | (1,552,649)   |
| Inventories   | (341,579)     |
| Prepaid items   | 849,115       |
| Accounts payable and accrued liabilities  | 66,897        |
| Due to other funds  | (69,385)      |
| Unearned revenue  | (2,508,070)   |
| Net cash provided by operating activities   | \$ 41,769,115 |

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

## REEDY CREEK IMPROVEMENT DISTRICT

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

#### 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, 2013

**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, 2013

#### 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, 2013 were 7.6000 for General Operating and 3.4813 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, 2013

**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 \$5,000. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

|  |             |
|--|-------------|
| Buildings and land improvements  | 30-50 years |
| Improvements, including utility<br>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, 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**I. Unamortized Bond Issuance Costs**

In accordance with GASB No. 65, *Items Previously Reported as Assets and Liabilities* (GASB No. 65), bond issuance costs, other than prepaid insurance, are expensed in the period incurred. Prepaid insurance costs are amortized over the life of the bonds using the effective interest method and are presented as other assets.

**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. In accordance with GASB No. 65, deferred amounts are presented as a deferred outflow of resources.

**K. Compensated Absences**

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

**L. Fund Balances**

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

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

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

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

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

Unassigned – All amounts not included in other spendable classifications.

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

## REEDY CREEK IMPROVEMENT DISTRICT

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

#### 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 Pronouncement

Effective October 1, 2012, the District early implemented GASB No. 65, *Items Previously reported as Assets and Liabilities*. GASB No. 65 established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Refer to Note 1(Q) "Impact of the Adoption of GASB No. 65" for further information.

**REEDY CREEK IMPROVEMENT DISTRICT**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Q. Impact of the Adoption of GASB No. 65**

The implementation of this new standard resulted in the modification of the method previously used to account for the cost of issuance associated with the Districts bond issuances, the expenses and costs incurred on bond refunding, and regulatory liabilities consisting of deferred fuel. Unamortized bond issuance costs were classified as “Other Assets”, and underwriters’ discounts and unamortized deferred losses on refundings were a component of bonds payable in the Statement of Net Position. Subsequent to implementation of GASB No. 65, only unamortized bond insurance premiums remain in “Other Assets” and any remaining unamortized deferred losses on refundings are now classified as “Deferred Outflows”. In accordance with GASB No. 65, the District’s Net Position as of September 30, 2012 and the District’s Statement of Revenues, Expenses and Changes in Net Position were restated to reflect the required adjustments. The following restatements have been made to the District’s financial statements:

|                                 | As Previously<br>Reported | Adjustment     | Restated      |
|---------------------------------|---------------------------|----------------|---------------|
| <b>Governmental Activities</b>  |                           |                |               |
| <u>As of September 30, 2012</u> |                           |                |               |
| Other Assets                    | \$ 1,754,803              | \$ (1,099,992) | \$ 654,811    |
| Bonds Payable (noncurrent)      | 164,636,011               | (429,980)      | 164,206,031   |
| Deferred Outflow                | -                         | 2,096,466      | 2,096,466     |
| Net Position                    | \$ 95,550,349             | \$ (670,012)   | \$ 94,880,337 |
| <b>Business-Type Activities</b> |                           |                |               |
| <u>As of September 30, 2012</u> |                           |                |               |
| Other Assets                    | \$ 1,419,236              | \$ (426,436)   | \$ 992,800    |
| Bonds Payable (noncurrent)      | 285,689,726               | 620,186        | 286,309,912   |
| Deferred Outflow                | 8,150,804                 | 9,601,910      | 17,752,714    |
| Net Position                    | \$ 59,693,552             | \$ (1,046,622) | \$ 58,646,930 |

**R. Rates and Regulations**

The District follows the accounting practices set forth in GASB No. 62, paragraphs 476-500, Regulated Operations. This standard allows utilities to capitalize or defer certain costs or revenues based on management’s ongoing assessment that it is probable these items will be recovered through the rate-making process. Regulatory liabilities consist of deferred fuel.

If the District no longer applied GASB No. 62 due to competition, regulatory changes, or other reasons, the District would make certain adjustments that would include the write-off of all or a portion of its regulatory assets and liabilities, the evaluation of utility plant, contracts and commitments, and the recognition, if necessary, of any losses to reflect market condition. Management believes that the District currently meets the criteria for continued application of GASB No. 62, but will continue to evaluate significant changes in the regulatory and competitive environment to assess the ability to continue to apply GASB No. 62.

**REEDY CREEK IMPROVEMENT DISTRICT**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**S. Use of Estimates**

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

**2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

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

1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. This amount represents the total capital assets of governmental activities of \$301,508,963 net of accumulated depreciation of \$32,637,021, or \$268,871,942.
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   | \$ 2,474,384          |
| Self insurance liability   | 2,928,245             |
| Capital leases   | 1,290,653             |
| Net OPEB obligation  | 20,248,740            |
| Bonds payable  | 525,509,146           |
| Deferred outflow - losses on defeased debt   | <u>(1,800,212)</u>    |
| Net adjustment to reduce total fund balances - total governmental funds to arrive at net position of governmental activities | <u>\$ 550,650,956</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:

**REEDY CREEK IMPROVEMENT DISTRICT**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

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

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

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

Capital outlay expenditures:

|  |                            |
|--|----------------------------|
| General fund   |                            |
| General government   | \$ 77,704                  |
| Public safety  | 1,259,431                  |
| Physical environment   | 55,965                     |
| Transportation   | 15,427                     |
| Capital projects   | 6,868,514                  |
| Depreciation expense   | <u>(2,826,756)</u>         |
| Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities | <u><u>\$ 5,450,285</u></u> |

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

|  |                                |
|--|--------------------------------|
| Net changes of deferred loss, bond costs, discount, and premium  | \$ 272,529                     |
| Principal payments on bonds outstanding  | 18,883,697                     |
| Accrued interest payable   | (589,588)                      |
| Bond Proceeds  | (404,329,449)                  |
| Payments to escrow agent on bond refunding   | <u>44,035,093</u>              |
| Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities | <u><u>\$ (341,727,718)</u></u> |

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

|  |                              |
|--|------------------------------|
| Compensated absences   | \$ (329,046)                 |
| Workers compensation   | 219,934                      |
| Net OPEB obligation  | <u>(3,572,909)</u>           |
| Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities | <u><u>\$ (3,682,021)</u></u> |

**REEDY CREEK IMPROVEMENT DISTRICT**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

**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, 2013, 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 | \$ 954,519            | \$ 850,964                       | \$ 103,555           | \$ -                | \$ -              |
| US Treasury Securities             | 65,189,009            | -                                | 64,763,516           | -                   | 425,493           |
| US Government Agency Securities    | 30,720,803            | -                                | 22,830,731           | 7,890,072           | -                 |
| Florida Prime, Money Market Fund   | 1,239,651             | 1,239,651                        | -                    | -                   | -                 |
| SBA Fund B                         | 143,744               | -                                | -                    | -                   | 143,744           |
| Money market mutual funds          | 401,269,392           | 401,269,392                      | -                    | -                   | -                 |
| <b>Totals</b>                      | <b>\$ 499,517,118</b> | <b>\$ 403,360,007</b>            | <b>\$ 87,697,802</b> | <b>\$ 7,890,072</b> | <b>\$ 569,237</b> |

*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. 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.

REEDY CREEK IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

**3. DEPOSITS AND INVESTMENTS – Continued**

The District's investments held in the portfolio are currently rated in the highest credit category by two rating services.

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

The District's investment policy requires that all investments be held by a third party custodian and held in the District's name. As of September 30, 2013, 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, 2013, there were no issuers with which the District held investments exceeding 5% of the total investment portfolio.

Statement of Net Position Classifications - In addition to demand accounts, the District classifies repurchase agreements, Florida Prime, money market mutual funds and investments with maturities of three months or less from the date of purchase as cash and cash equivalents on the statement of net position. As of September 30, 2013 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                  | \$ 19,933,367        | \$ 383,426,640        | \$ 403,360,007        |
| Investments                                | <u>16,714,980</u>    | <u>79,442,131</u>     | <u>96,157,111</u>     |
|  | <u>\$ 36,648,347</u> | <u>\$ 462,868,771</u> | <u>\$ 499,517,118</u> |

**REEDY CREEK IMPROVEMENT DISTRICT**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

**4. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2013 was as follows:

|  | Beginning<br>Balance<br>October 1, | Increases            | Decreases              | Ending Balance<br>September 30,<br>2013 |
|--|------------------------------------|----------------------|------------------------|---|
| <b>Governmental Activities:</b>              |                                    |                      |                        |   |
| Capital assets, not being depreciated:       |                                    |                      |                        |   |
| Land   | \$ 2,762,209                       | \$ -                 | \$ -                   | \$ 2,762,209                            |
| Construction in progress                     | 392,311                            | 6,868,515            | -                      | 7,260,826                               |
| Infrastructure                               | 240,507,816                        | -                    | -                      | 240,507,816                             |
| Total capital assets, not being depreciated  | <u>243,662,336</u>                 | <u>6,868,515</u>     | <u>-</u>               | <u>250,530,851</u>                      |
| Capital assets, being depreciated            |                                    |                      |                        |   |
| Buildings                                    | 22,492,460                         | -                    | -                      | 22,492,460                              |
| Machinery and equipment                      | 28,241,620                         | 1,470,576            | (1,226,544)            | 28,485,652                              |
| Total capital assets, being depreciated      | <u>50,734,080</u>                  | <u>1,470,576</u>     | <u>(1,226,544)</u>     | <u>50,978,112</u>                       |
| Less accumulated depreciation for:           |                                    |                      |                        |   |
| Buildings                                    | 9,498,701                          | 681,221              | -                      | 10,179,922                              |
| Machinery and equipment                      | 21,473,160                         | 2,207,585            | (1,223,646)            | 22,457,099                              |
| Total accumulated depreciation               | <u>30,971,861</u>                  | <u>2,888,806</u>     | <u>(1,223,646)</u>     | <u>32,637,021</u>                       |
| Total capital assets, being depreciated, net | <u>19,762,219</u>                  | <u>(1,418,230)</u>   | <u>(2,898)</u>         | <u>18,341,091</u>                       |
| Governmental activities capital assets, net  | <u>\$ 263,424,555</u>              | <u>\$ 5,450,285</u>  | <u>\$ (2,898)</u>      | <u>\$ 268,871,942</u>                   |
| <b>Business-type Activities:</b>             |                                    |                      |                        |   |
| Capital assets, not being depreciated:       |                                    |                      |                        |   |
| Land   | \$ 6,907,829                       | \$ -                 | \$ -                   | \$ 6,907,829                            |
| Construction in progress                     | 9,121,571                          | 15,809,261           | (13,435,593)           | 11,495,239                              |
| Total capital assets, not being depreciated  | <u>16,029,400</u>                  | <u>15,809,261</u>    | <u>(13,435,593)</u>    | <u>18,403,068</u>                       |
| Capital assets, being depreciated            |                                    |                      |                        |   |
| Buildings                                    | 67,406,021                         | 494,980              | (2,273,371)            | 65,627,630                              |
| Improvements other than buildings            | 195,944,983                        | 4,224,824            | (81,026)               | 200,088,781                             |
| Machinery and equipment                      | 377,041,178                        | 11,063,052           | (1,124,770)            | 386,979,460                             |
| Total capital assets, being depreciated      | <u>640,392,182</u>                 | <u>15,782,856</u>    | <u>(3,479,167)</u>     | <u>652,695,871</u>                      |
| Less accumulated depreciation for:           |                                    |                      |                        |   |
| Buildings                                    | 38,409,993                         | 1,999,505            | (1,028,748)            | 39,380,750                              |
| Improvements other than buildings            | 118,147,564                        | 5,010,486            | (11,784)               | 123,146,266                             |
| Machinery and equipment                      | 247,475,708                        | 13,451,455           | (1,026,560)            | 259,900,603                             |
| Total accumulated depreciation               | <u>404,033,265</u>                 | <u>20,461,446</u>    | <u>(2,067,092)</u>     | <u>422,427,619</u>                      |
| Total capital assets, being depreciated, net | <u>236,358,917</u>                 | <u>(4,678,590)</u>   | <u>(1,412,075)</u>     | <u>230,268,252</u>                      |
| Business-type activities capital assets, net | <u>\$ 252,388,317</u>              | <u>\$ 11,130,671</u> | <u>\$ (14,847,668)</u> | <u>\$ 248,671,320</u>                   |

During the year, the Enterprise Fund incurred interest costs totaling \$12,266,148. 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 \$1,034,009 was capitalized during the year.

**REEDY CREEK IMPROVEMENT DISTRICT**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

**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 the leases are such that the District capitalized them under the provisions of GASB No. 62. This year, \$307,143 and \$42,319 were included in depreciation expense for 911 equipment and computer equipment, respectively. The computer equipment was paid off in 2013.

The following is a schedule of future minimum lease payments of \$1,403,860 for 911 equipment assets capitalized under lease agreements, and the present value of the minimum lease payments as of September 30, 2013:

| Fiscal Year Ending September 30             | Total                          |
|---|--------------------------------|
| 2014  | \$ 350,965                     |
| 2015  | 350,965                        |
| 2016  | 350,965                        |
| 2017  | <u>350,965</u>                 |
| Total Minimum Lease Payments                | 1,403,860                      |
| Less Amount Representing Interest           | <u>113,207</u>                 |
| <br>Present Value of Minimum Lease Payments | <br><u><u>\$ 1,290,653</u></u> |

**6. INTERFUND RECEIVABLE AND PAYABLE BALANCES AND TRANSFERS**

Interfund receivable and payable balances as of September 30, 2013 are as follows:

|              | Interfund<br>Receivables<br>(Due from) | Interfund<br>Payables<br>(Due to) |
|--------------|--|-----------------------------------|
| General      | \$ 3,610                               | \$ -                              |
| Utility Fund | -                                      | 3,610                             |
|              | <u>\$ 3,610</u>                        | <u>\$ 3,610</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<br>Transfers In | Interfund<br>Transfers Out |
|------------|---------------------------|----------------------------|
| General    | \$ -                      | \$ 3,148,767               |
| Enterprise | 3,148,767                 | -                          |
|            | <u>\$ 3,148,767</u>       | <u>\$ 3,148,767</u>        |

**REEDY CREEK IMPROVEMENT DISTRICT**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Year Ended September 30, 2013

**7. LONG – TERM DEBT**

**A. Changes in long-term liabilities**

Long-term liability activity for the year ended September 30, 2013, was as follows:

|                                  | Beginning Balance<br>October 1, 2012<br>(as restated) | Additions             | Reductions             | Ending Balance<br>September 30,<br>2013 | Due Within<br>One Year |
|----------------------------------|---|-----------------------|------------------------|---|------------------------|
| <b>Governmental activities:</b>  |   |                       |                        |   |                        |
| General Obligation Bonds:        |   |                       |                        |   |                        |
| 2004A Ad Valorem                 | \$ 41,805,000   | \$ -                  | \$ (39,020,000)        | \$ 2,785,000                            | \$ 2,785,000           |
| 2004B Ad Valorem                 | 6,960,000   | -                     | (6,475,000)            | 485,000                                 | 485,000                |
| 2005A Ad Valorem                 | 18,925,000  | -                     | -                      | 18,925,000                              | -                      |
| 2005B Ad Valorem Refunding       | 59,560,000  | -                     | (6,910,000)            | 52,650,000                              | 7,240,000              |
| 2010A Ad Valorem Refunding       | 9,800,000   | -                     | (2,390,000)            | 7,410,000                               | 2,430,000              |
| 2011A Ad Valorem Refunding       | 42,425,000  | -                     | (5,560,000)            | 36,865,000                              | 5,740,000              |
| 2013A Ad Valorem                 | -   | 344,960,000           | -                      | 344,960,000                             | -                      |
| 2013B Ad Valorem Refunding       | -   | 40,950,000            | -                      | 40,950,000                              | 570,000                |
| Deferred amounts:                |   |                       |                        |   |                        |
| Discount/Premium                 | 4,847,497   | 18,419,449            | (2,787,800)            | 20,479,146                              | -                      |
| Total long-term bonds payable    | 184,322,497   | 404,329,449           | (63,142,800)           | 525,509,146                             | 19,250,000             |
| Compensated absences             | 2,209,901   | 334,597               | -                      | 2,544,498                               | 1,245,362              |
| Capital leases                   | 2,154,350   | -                     | (863,697)              | 1,290,653                               | 306,437                |
| Self insurance liability         | 3,148,179   | -                     | (219,934)              | 2,928,245                               | 629,377                |
| Net OPEB obligation              | 16,675,831  | 3,572,909             | -                      | 20,248,740                              | -                      |
| Long-term liabilities            | <u>\$ 208,510,758</u>                                 | <u>\$ 408,236,955</u> | <u>\$ (64,226,431)</u> | <u>\$ 552,521,282</u>                   | <u>\$ 21,431,176</u>   |
| <b>Business-type activities:</b> |   |                       |                        |   |                        |
| Revenue Bonds:                   |   |                       |                        |   |                        |
| 2003-1 Utility                   | \$ 38,870,000   | \$ -                  | \$ (38,870,000)        | \$ -                                    | \$ -                   |
| 2003-2 Utility Refunding         | 158,360,000   | -                     | (15,375,000)           | 142,985,000                             | 16,180,000             |
| 2005-1 Utility                   | 26,930,000  | -                     | (26,930,000)           | -                                       | -                      |
| 2005-2 Utility Refunding         | 52,065,000  | -                     | (5,690,000)            | 46,375,000                              | 6,190,000              |
| 2011-1 Utility Refunding         | 1,200,000   | -                     | -                      | 1,200,000                               | -                      |
| 2011-2 Utility                   | 30,000,000  | -                     | -                      | 30,000,000                              | -                      |
| 2013-1 Utility Refunding         | -   | 54,915,000            | -                      | 54,915,000                              | 865,000                |
| Deferred amounts:                |   |                       |                        |   |                        |
| Discount/Premium                 | 12,866,823  | 8,728,854             | (6,390,824)            | 15,204,853                              | -                      |
| Long-term liabilities            | <u>\$ 320,291,823</u>                                 | <u>\$ 63,643,854</u>  | <u>\$ (93,255,824)</u> | <u>\$ 290,679,853</u>                   | <u>\$ 23,235,000</u>   |

**REEDY CREEK IMPROVEMENT DISTRICT**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Year Ended September 30, 2013

**7. LONG – TERM DEBT – Continued**

**A. Changes in long-term liabilities – Continued**

General Obligation Bonds Payable

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

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

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

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

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

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

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

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

**REEDY CREEK IMPROVEMENT DISTRICT**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Year Ended September 30, 2013

**7. LONG - TERM DEBT – Continued**

**A. Changes in long-term liabilities – Continued**

Revenue Bonds Payable

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.

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

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

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

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

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, 2013

**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<br>September 30, | General Obligation Bonds |                |
|-----------------------------|--------------------------|----------------|
|                             | Principal                | Interest       |
| 2014                        | \$ 19,250,000            | \$ 18,886,170  |
| 2015                        | 19,400,000               | 23,188,552     |
| 2016                        | 20,065,000               | 22,515,868     |
| 2017                        | 21,075,000               | 21,805,398     |
| 2018                        | 21,910,000               | 20,964,498     |
| 2019-2023                   | 91,685,000               | 92,403,688     |
| 2024-2028                   | 90,730,000               | 69,076,220     |
| 2029-2033                   | 96,695,000               | 46,768,638     |
| 2034-2038                   | 124,220,000              | 19,238,500     |
| Total                       | 505,030,000              | \$ 334,847,532 |
| Current portion             | (19,250,000)             |                |
| Deferred amounts:           |                          |                |
| Discount/Premium            | 20,479,146               |                |
| Long-term bonds payable     | \$ 506,259,146           |                |

**REEDY CREEK IMPROVEMENT DISTRICT**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

**7. LONG - TERM DEBT – Continued**

**B. Annual Debt Service Requirements – Continued**

| Year Ended<br>September 30, | Revenue Bonds         |                      |
|-----------------------------|-----------------------|----------------------|
|                             | Principal             | Interest             |
| 2014                        | \$ 23,235,000         | \$ 12,251,813        |
| 2015                        | 26,810,000            | 11,730,379           |
| 2016                        | 28,370,000            | 10,315,329           |
| 2017                        | 29,850,000            | 8,806,648            |
| 2018                        | 31,225,000            | 7,222,966            |
| 2019-2023                   | 98,795,000            | 16,340,146           |
| 2024-2028                   | 37,190,000            | 2,507,825            |
| Total                       | 275,475,000           | <u>\$ 69,175,106</u> |
| Current portion             | (23,235,000)          |                      |
| Deferred amounts:           |                       |                      |
| Discount/Premium            | 15,204,853            |                      |
| Long-term bonds payable     | <u>\$ 267,444,853</u> |                      |

**C. Refunded Debt**

In July 2013, the District issued \$54,915,000 Utilities Revenue Refunding Bonds Series 2013-1 at interest rates of 2.5% to 5.0%. Proceeds were used to refund the 2003-1 and 2005-1 Utilities Revenue Bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$63,238. This difference, reported in the accompanying financial statements as an addition to bonds payable, is being charged to operations through the fiscal year 2025 using the effective-interest method. This refunding was undertaken to reduce total debt service payments over the next 13 years by \$7.4 million and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$6.2 million.

In September 2013, the District issued \$40,950,000 Ad Valorem Refunding Bonds Series 2013B at interest rates of 4.0% to 5.0%. Proceeds were used for the advance refunding of the 2004A and 2004B Ad Valorem Tax Bonds maturing on and after June 1, 2015. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$243,567. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the fiscal year 2024 using the effective-interest method. This refunding was undertaken to reduce total debt service payments over the next 11 years by \$3.8 million and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$3.2 million.

Balances outstanding of the refunded debt at September 30, 2013 are as follows:

| <u>Issue</u>                 | <u>Date Refunded</u> | <u>Outstanding</u> |
|------------------------------|----------------------|--------------------|
| 2003-1 Utility Revenue Bonds | July 10, 2013        | \$ 35,555,000      |
| 2005-1 Utility Revenue Bonds | July 10, 2013        | 26,930,000         |
| 2004A Ad Valorem Tax Bonds   | September 5, 2013    | 36,325,000         |
| 2004B Ad Valorem Tax Bonds   | September 5, 2013    | 6,010,000          |

## REEDY CREEK IMPROVEMENT DISTRICT

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

#### 8. TRANSACTIONS WITH PRINCIPAL LANDOWNERS

During fiscal 2013, 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 \$939,832.
- (2) The operation and maintenance of various District water control facilities amounted to \$617,098.
- (3) The maintenance of certain right of ways and District property within the District amounted to \$80,886.

At September 30, 2013, accounts payable of the General Fund included \$306,528 to Walt Disney World Co. and other wholly owned subsidiaries of the Walt Disney Company.

The District's primary source of revenue is ad valorem taxes. Walt Disney Co. comprised 89% of the total taxable assessed value within the District for the year ended September 30, 2013.

##### Enterprise Fund

- (1) Financial and other administrative services amounted to \$74,969.
- (2) The management and construction of various capital improvements amounted to \$277,267.
- (3) The operation and maintenance of the utility systems for which the District has a labor agreement. The District incurred \$28,581,457 of labor support fees under this agreement.

At September 30, 2013 the Enterprise Fund had accounts receivable of \$14,055,130 and accounts payable of \$6,883,763 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, 2013.

#### 9. RETIREMENT SYSTEM

Plan description - All full-time employees of the District participate in the Florida Retirement System (FRS), administered by the State of Florida (State). Employees elect participation in either the defined benefit plan ("Pension Plan"), a multiple-employer cost-sharing defined benefit retirement plan, or the defined contribution plan ("Investment Plan") under the FRS. The FRS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefits are established by Chapter 121, Florida Statutes. Amendments to the law can be made only by an act of the Florida Legislature. The State of Florida issues a publicly available report that includes financial statements and required supplementary information for FRS. That report may be obtained by writing to State of Florida Division of Retirement, Department of Management Services, Tallahassee, Florida, 32299-1560.

**REEDY CREEK IMPROVEMENT DISTRICT**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

**9. RETIREMENT SYSTEM – Continued**

Pension plan members are eligible for retirement as follows:

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

Early retirement may be taken anytime; however, there is a five percent benefit reduction for each year prior to normal retirement age. Members are also eligible for in-line-of-duty or regular disability benefits if permanently disabled and unable to work. Pension Plan Members eligible for retirement are given the option to enter the DROP (Deferred Retirement Option Program), which effectively allows them to work for a FRS employer for up to 60 months beyond their eligible retirement date and receive, at termination, a lump sum payment of their benefits accumulated over that time period. Benefits are computed on the basis of age, average final compensation and service credit.

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

Funding Policy - The FRS has numerous classes of membership (of which District employees qualify in five classes) with descriptions and employer contribution rates in effect at September 30, 2013 as follows:

Regular Class - Members not qualifying for other classes (6.95% rate).

Special Risk Class - Members employed as law enforcement officers, firefighters, correctional officers or community-based correctional probation officers, and paramedics and EMTs who meet the criteria set to qualify for this class (19.06% rate).

Special Risk Administrative Support Class – Special risk employees who are transferred or reassigned to a non-special risk position (35.96%).

Senior Management Service Class - Qualifying member of senior management (18.31% rate).

Deferred Retirement Option Program (DROP) – Participating members of the program, not to exceed 60 months (12.84% rate).

**REEDY CREEK IMPROVEMENT DISTRICT**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

**9. RETIREMENT SYSTEM – Continued**

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 11.72% of covered payroll during the year. The District's contributions to FRS for the years ended September 30, 2011, 2012 and 2013, respectively, were \$3,376,966, \$2,236,110 and \$2,744,991. Employee contributions to FRS for the 3 months ended September 30, 2011 and for the years ended September 30, 2012 and 2013, respectively, were \$146,132, \$607,586 and \$659,502. Contributions made and accrued were equal to the required contributions for each year.

**10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

Plan description - The District provides postemployment healthcare benefits. State Statute requires the District to continue offering healthcare coverage to retirees at the District's cost; however, for employees hired prior to March 1, 2013, the District elected by policy to provide this coverage at no cost to retirees that have met certain requirements during employment with the District. To qualify for this benefit non-union employees must have 20 years of service with the District and be age 62 to obtain paid coverage for themselves and their eligible dependent, and union employees must have 20 years of service with the District and be age 55 to obtain paid coverage for themselves. For employees hired after March 1, 2013, retirees may elect to continue coverage for themselves and their eligible dependents at the full, unsubsidized cost to the District for the elected coverage.

Annual OPEB cost and net OPEB obligation - The actuary's estimate of the District's *accrued OPEB liability*, also known as the *actuarial accrued liability*, which approximates the present value of all future expected postemployment medical premiums, associated administrative costs and stipend payments (which are attributable to the past service of active and retired employees) was \$54.8 million at September 30, 2013 as valued on October 1, 2012. 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)          | \$ 4,895,681       |
| Interest on net OPEB Obligation             | 500,275            |
| Adjustment to Annual Required Contribution  | 826,008            |
| Annual OPEB Cost                            | 4,569,948          |
| Projected Pay-as-you-go Expense             | 997,039            |
| Net OPEB Obligation - Beginning of Year     | 16,675,831         |
| Prefunding                                  | -                  |
| Net OPEB Obligation - Projected End of Year | 20,248,740         |

**REEDY CREEK IMPROVEMENT DISTRICT**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

**10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – Continued**

The District's estimated annual OPEB cost and ARC for fiscal year 2013 were approximately \$4.6 and \$4.9 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, 2013 was approximately \$20.2 million.

| <u>Fiscal<br/>Year</u> | <u>Annual OPEB<br/>Costs</u> | <u>% Costs<br/>Contributed</u> | <u>Net OPEB<br/>Obligation</u> |
|------------------------|------------------------------|--------------------------------|--------------------------------|
| 2011                   | 4,438,894                    | 16%                            | 12,954,308                     |
| 2012                   | 4,733,896                    | 21%                            | 16,675,831                     |
| 2013                   | 4,569,948                    | 22%                            | 20,248,740                     |

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 each year in fiscal years 2012 and 2013. The Actuarial Accrued Liability (AAL) and the Unfunded Actuarial Accrued Liability (UAAL) as of October 1, 2012 was \$54,761,549.

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, 2013 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 2023. 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.

**REEDY CREEK IMPROVEMENT DISTRICT**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

**11. RISK MANAGEMENT**

The District is exposed to various risks of loss related to theft, damage to and destruction of assets, torts, injuries to employees and natural disasters for which the District is self-insured and carries excess commercial insurance. The District retains risk up to a maximum of \$1,000,000 for each worker's compensation claim, \$250,000 for each liability claim, \$100,000 for most property damage claims, and \$50,000 for criminal acts. The District purchases commercial insurance for claims in excess of risk retained. There have been no claim settlements in excess of insurance coverage during the three fiscal years ended September 30, 2011, 2012 and 2013.

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 \$2,928,245 at September 30, 2013 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 2012 and 2013 are as follows:

|  | Year ended September 30 |              |
|--|-------------------------|--------------|
|  | 2013                    | 2012         |
| Self insurance liability beginning balance | \$ 3,148,179            | \$ 3,058,374 |
| Claims and changes in estimates            | 282,161                 | 734,077      |
| Claims payments                            | (502,095)               | (644,272)    |
| Self insurance liability ending balance    | \$ 2,928,245            | \$ 3,148,179 |

**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 \$6,990,406 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, 2013 which have been deemed effective and are recorded as deferred outflows.

| Classification    | Fair Value at September 30, |                      | 2013         | Notional          | Maturity       |
|-------------------|-----------------------------|----------------------|--------------|-------------------|----------------|
|                   | 2012                        | Change in fair value |              |                   |                |
| Deferred outflows | \$ 8,150,804                | \$ (3,112,078)       | \$ 5,038,726 | 13,633,005 MMBTUs | FY 2014 - 2017 |

*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.

## REEDY CREEK IMPROVEMENT DISTRICT

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

#### 12. DERIVATIVE FUEL INSTRUMENTS – Continued

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

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

#### 13. NET POSITION AND FUND BALANCE REPORTING

The Statement of Net Position for Governmental activities reflects a negative unrestricted net position of \$104,146,055 due to the financing, with long-term bonds of the District, certain roadways that were subsequently donated to the State of Florida; and long-term bonds that were issued in order to contribute to Osceola County's refinancing of their Transportation Improvement Bonds (Osceola Parkway). The roadways are not assets of the District, however the remaining debt, amounting to \$97,494,035 at September 30, 2013, associated with the roadways is a liability of the District. All of the bonds are Ad Valorem Tax bonds secured by an irrevocable lien on the ad valorem taxes collected by the District.

##### **Governmental Fund Balances**

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

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

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

#### 14. COMMITMENTS AND CONTINGENCIES

##### Construction

The District had outstanding construction commitments totaling approximately \$56.6 million for various projects at September 30, 2013. A total of approximately \$6.9 million has been spent on these projects to date.

## REEDY CREEK IMPROVEMENT DISTRICT

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

#### 14. COMMITMENTS AND CONTINGENCIES – Continued

##### Purchased Power and Gas

The District has entered into Purchase Power Agreements (PPA) with public and private entities throughout Florida for the purchase and sale of power at wholesale rates, and associated transmission service. Some of the PPAs require the District to pay reservation charges for capacity. The District's minimum commitment for fiscal year 2013 reservation charges under the agreements is approximately \$32,000,000. There are no requirements for the District to sell wholesale power or reserve capacity for wholesale sales. Initial terms of the agreements expire in fiscal years 2013 through 2016, with various provisions for renewal or cancellation by both parties.

On 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 FPC for the period January 1, 2013 through December 31, 2015.

Similarly, the District is obligated to purchase minimum pipeline capacity to transport natural gas under two agreements with Florida Gas Transmission Company ("FGTC"), and a gas transportation and supply agreement dated January 25, 2012 with Peoples Gas System (PGS). Minimum payments for natural gas under these agreements will total approximately \$3,400,000 for fiscal year 2013. The terms of the FGTC agreements expire in the years 2015 and 2017, and the term of the PGS agreement expires in the year 2028.

The District has entered into forward contracts for specified periods of time to purchase natural gas at either specified prices in the future or prices that fluctuate within ceiling and floor amounts. The District enters into these contracts to help plan its natural gas costs for the year and to protect itself against an increase in the market price of the commodity. It is possible that the market price before or at the specified time to purchase natural gas may be lower or higher than the price at which the District is committed to buy. This would reduce or increase the value of the contracts. The District would have options with respect to holding the forward contracts. The District is also exposed to the failure of the counterparty to fulfill the contracts. The terms of the contracts included provisions for recovering the cost in excess of the guaranteed price from the counterparty should the District have to procure natural gas on the open market.

##### Concurrency Management Agreement

On December 7, 1995, pursuant to a Concurrency Management Agreement dated February 28, 1994, between the District and Osceola County, the District issued the 1995C Ad Valorem Tax Bonds, in order to fund certain road improvements and interchanges in the vicinity of U.S. Route 192, World Drive and Interstate 4. 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

## REEDY CREEK IMPROVEMENT DISTRICT

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

#### 14. COMMITMENTS AND CONTINGENCIES – Continued

Intergovernmental Revenue when received from the County. Osceola County paid to the District \$819,119 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.

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 \$1,525,237 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, 2013, the District has paid \$509,883 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

## REEDY CREEK IMPROVEMENT DISTRICT

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2013

#### 14. COMMITMENTS AND CONTINGENCIES – Continued

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, 2013, the District has paid \$274,108.

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, 2013, the District has paid \$255,493.

#### Harvest Power Agreements

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

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

The facility became fully operational in December, 2013 and will be accounted for as a purchased power agreement.

#### 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.

#### 15. SUBSEQUENT EVENT

#### Issuance of Utilities Revenue Refunding Bonds, Series 2013-2

On November 12, 2013, the District entered into a purchase contract with Bank of America to purchase the 2013-2 Utilities Revenue Refunding Bond in the amount of \$111,595,000 at a 1.71% interest rate, which is scheduled to close on July 3, 2014. The proceeds will be used to refund the 2003-2 Utilities Revenue Bonds outstanding on or after October 1, 2014.

**REEDY CREEK IMPROVEMENT DISTRICT**

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

Year Ended September 30, 2013

|                     | <b>% of Roadways</b> |             |             |             |             |
|---------------------|----------------------|-------------|-------------|-------------|-------------|
|                     | <u>2013</u>          | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
| Roads (Note 2. A.): |                      |             |             |             |             |
| Excellent           | 96%                  | 92%         | 93%         | 96%         | 99%         |
| Acceptable          | 4%                   | 8%          | 7%          | 4%          | 1%          |
| Poor                | 0%                   | 0%          | 0%          | 0%          | 0%          |

|                       | <b>Bridges by Category</b> |             |             |             |             |
|-----------------------|----------------------------|-------------|-------------|-------------|-------------|
|                       | <u>2013</u>                | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
| Bridges (Note 2. B.): |                            |             |             |             |             |
| Excellent             | 27                         | 26          | 24          | 41          | 41          |
| Good                  | 16                         | 17          | 19          | 2           | 2           |
| Poor                  | -                          | -           | -           | -           | -           |
|                       | <u>43</u>                  | <u>43</u>   | <u>43</u>   | <u>43</u>   | <u>43</u>   |

|                                       | <b>Structures by Category</b> |             |             |             |             |
|---------------------------------------|-------------------------------|-------------|-------------|-------------|-------------|
|                                       | <u>2013</u>                   | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
| Water Control Structures (Note 2. C.) |                               |             |             |             |             |
| Excellent                             | 17                            | 17          | 19          | 20          | 19          |
| Good                                  | 5                             | 5           | 3           | 4           | 5           |
| Poor                                  | -                             | -           | -           | -           | -           |
|                                       | <u>22</u>                     | <u>22</u>   | <u>22</u>   | <u>24</u>   | <u>24</u>   |

**Maintenance and Preservation Costs - Budget and Actual**

|                          | <u>2014</u>  | <u>2013</u>  | <u>2012</u>  | <u>2011</u>  | <u>2010</u>  | <u>2009</u>  |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Budgeted Costs:          |              |              |              |              |              |              |
| Roads                    | \$ 1,435,000 | \$ 2,972,000 | \$ 4,435,500 | \$ 1,550,000 | \$ 2,569,804 | \$ 4,179,834 |
| Bridges                  | 384,500      | 1,034,500    | 365,000      | 55,000       | 300,000      | 127,000      |
| Water Control Structures | 1,656,000    | 2,850,000    | 2,139,000    | 1,935,000    | 2,403,100    | 2,967,100    |
| Actual Costs:            |              |              |              |              |              |              |
| Roads                    |              | \$ 2,637,745 | \$ 4,173,108 | \$ 1,088,718 | \$ 920,767   | \$ 2,710,368 |
| Bridges                  |              | 398,963      | 62,881       | 43,724       | 371,784      | 68,610       |
| Water Control Structures |              | 2,187,645    | 1,877,020    | 988,684      | 789,363      | 415,199      |

## REEDY CREEK IMPROVEMENT DISTRICT

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

Year Ended September 30, 2013

#### 1. Election to use Modified Approach

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

#### 2. Basis for Condition Assessments and Targeted Condition Level

##### A. Roads

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 13.1 lane miles of roadway and the total replacement of structural course for 3.6 lane miles of roadway during fiscal year 2013. The cost of this major rehabilitation was estimated and budgeted at \$2,772,000, and this work was completed prior to the end of fiscal year 2013 at a cost of \$2,593,933. Based on the work completed, at the conclusion of fiscal year 2013, 96% of the District roadways remain within the “Excellent” ranking and 4% 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, 2013

#### 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 2013 encompassed routine repair of asphalt, shoulder protection, as well as repair and replacement of guardrail and totaled \$43,812.

##### 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, it was an ongoing and costly maintenance issue. In an attempt to reduce these costs, a test program was implemented to find a better alternative for protecting these bridge joints. In 2008, where feasible, the District began replacing failing armor joints with a new expansion joint system, which was better suited to withstand the types of traffic experienced within the District's roadway system. The program has greatly reduced maintenance efforts, decreased maintenance costs, and is expected to extend the useful life of the bridge joints.

The oldest bridges within the District were constructed during the late 1970's and early 1980's utilizing a method of construction that is now obsolete. This construction method results in excessive cracking and spalling of the bridge deck. Although temporary repairs can be made to decelerate the damage, the only effective and permanent repair method for this condition is to replace the bridge deck. Ten (10) bridges within the roadway system were constructed in this manner. Of the 10, one has been replaced and two will be replaced during the Buena Vista Drive Reconstruction project currently under way and scheduled for completion in 2016. Only five (5) of the remaining seven (7) bridges have begun to show this spalling and cracking. Future bridge maintenance projects will include replacing the remaining 7 bridges/bridge decks constructed in this manner.

In fiscal year 2013, major bridge repairs completed were encapsulating the concrete piles on bridges 756005 and 756006 and the replacement of armor joints on bridge 756004. Encapsulation of the piles protects the bridge supports from future deterioration due to high levels of acidity in the water and is accomplished by installing epoxy filled jackets around the piles. The pile repairs performed on bridges 756005 & 756006 were performed at a total cost of \$383,063. The results of the most recent bi-annual inspection revealed deterioration of the armored joints on bridge 756004. Replacement of the armored joints, rather than installation of the expansion joint system, was warranted due to the type of joint construction on this bridge. The repairs on bridge 756004 were completed during fiscal year 2013 at a cost of \$15,900.

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

Year Ended September 30, 2013

**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.

It is important to note the District reported 24 water control structures in previous years. Although there are 24 structures within the Drainage System, two of the 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. Structures are classified by their overall condition and are listed as Excellent, Good or Poor condition.

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

During fiscal year 2013, several Priority 1 repairs were completed. The repairs involved refurbishment of gate leaves for Structures S-13, S-46, S-405A, S-410 and S-411 as well as crack sealing, coating of all the walls and pressure grouting of the structure aprons. Pile jackets were installed on some structures, as needed, to accomplish the complete refurbishment of the energy dissipaters. All structural support members were either replaced or sanded, weld repaired and coated. Structure S-11, a 66-foot long sharp crested weir, was also refurbished by replacing the deteriorated portions of the steel structural supports, blast cleaning the exposed steel, and applying a durable coating. Structure S-101A was repaired and a new adjustable weir gate installed. The existing sluice gate on this structure was deteriorated and not functioning. A new weir gate was installed to allow additional water to flow into Village Lake when needed. The major rehabilitative costs for these water control structures totaled \$1,893,906. Routine maintenance on levees, canals and structures totaled \$293,739.

**REEDY CREEK IMPROVEMENT DISTRICT**

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

Year Ended September 30, 2013

| <u>Actuarial<br/>Valuation<br/>Date</u> | <u>Actuarial<br/>Accrued<br/>Liability (AAL)</u> | <u>Actuarial<br/>Value of<br/>Assets</u> | <u>Unfunded AAL<br/>(UAAL)</u> | <u>Percentage<br/>Funded</u> | <u>Annual<br/>Covered<br/>Payroll</u> | <u>UAAL as<br/>Percentage<br/>of Payroll</u> |
|---|--|--|--------------------------------|------------------------------|---------------------------------------|--|
| 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%                                      |
| 10/1/2012                               | 54,761,549                                       | -  | 54,761,549                     | 0.00%                        | 23,420,014                            | 233.82%                                      |