

**ORANGE COUNTY WATER UTILITIES SYSTEM  
ORANGE COUNTY, FLORIDA  
ANNUAL FINANCIAL REPORT  
for the years ended September 30, 2011 and 2010**

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## **Independent Auditors' Report**

To the Honorable County Mayor and  
Board of County Commissioners of  
Orange County, Florida:

We have audited the accompanying basic financial statements of the Orange County Water Utilities System of Orange County, Florida (the "System") as of and for the years ended September 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the management of Orange County, Florida. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A to the financial statements, the financial statements referred to above present only the System and do not purport to, and do not, present fairly the financial position of Orange County, Florida, as of September 30, 2011 and 2010, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Orange County Water Utilities System of Orange County, Florida as of September 30, 2011 and 2010, and the changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the System's basic financial statements. The supplementary information, listed in the foregoing table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. This information is also the responsibility of the management of Orange County, Florida. The supplementary information on pages 28 through 30 has been subjected to the auditing procedures applied in our audits of the basic financial statements for the years ended September 30, 2011 and 2010 and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The supplementary information on page 31 has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

As discussed in Note A, the System is administered by the Orange County, Florida Board of County Commissioners, for which, in accordance with *Government Auditing Standards*, we have issued a report is on our consideration of the System'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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Chery, Behaert & Holland, L.L.P.*

Orlando, Florida  
March 19, 2012

**ORANGE COUNTY WATER UTILITIES SYSTEM  
BALANCE SHEETS  
September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 75,922,700	\$ 83,110,595
Accrued interest receivable	322,181	364,241
Accounts receivable	15,708,768	15,505,858
Less allowance for doubtful accounts	(170,109)	(199,785)
Due from other governmental agencies	2,120,995	1,161,497
Due from other funds	70,000	70,000
Inventories and prepaid costs	2,843,265	1,642,993
Restricted cash and cash equivalents	<u>30,850,064</u>	<u>30,059,169</u>
Total current assets	<u>127,667,864</u>	<u>131,714,568</u>
Noncurrent assets:		
Restricted cash and cash equivalents	7,720,884	7,437,153
Accounts receivable	2,744,352	3,241,962
Prepaid costs	<u>3,722,861</u>	<u>9,520,863</u>
Capital assets:		
Land	85,954,435	84,840,454
Construction in progress	124,947,762	205,987,701
Utility plant	1,635,281,675	1,487,820,943
Intangible	24,112,315	21,371,425
Less accumulated depreciation and amortization	<u>(806,097,357)</u>	<u>(742,262,947)</u>
Total capital assets	<u>1,064,198,830</u>	<u>1,057,757,576</u>
Total noncurrent assets	<u>1,078,386,927</u>	<u>1,077,957,554</u>
Total assets	<u>\$ 1,206,054,791</u>	<u>\$ 1,209,672,122</u>
<b><u>LIABILITIES</u></b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 19,832,537	\$ 22,075,868
Due to other governmental agencies	400,848	389,008
Payable from restricted assets:		
Accrued interest payable	304,950	307,033
Loans payable	507,477	632,294
Customer deposits	<u>7,051,769</u>	<u>6,553,236</u>
Total current liabilities	<u>28,097,581</u>	<u>29,957,439</u>
Noncurrent liabilities:		
Compensated absences payable	1,748,317	2,060,316
Loans payable	9,826,535	10,264,309
Revenue bonds payable (net of unamortized costs)	<u>10,566,819</u>	<u>10,437,879</u>
Total noncurrent liabilities	<u>22,141,671</u>	<u>22,762,504</u>
Total liabilities	<u>50,239,252</u>	<u>52,719,943</u>
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	1,033,334,434	1,022,641,694
Restricted for:		
Debt service	589,692	889,592
Operating reserve	30,624,537	29,746,461
Unrestricted	<u>91,266,876</u>	<u>103,674,432</u>
Total net assets	<u>1,155,815,539</u>	<u>1,156,952,179</u>
Total liabilities and net assets	<u>\$ 1,206,054,791</u>	<u>\$ 1,209,672,122</u>

See accompanying notes to financial statements.

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**STATEMENTS OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
for the years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Wastewater service	\$ 101,787,104	\$ 97,051,345
Water service	49,856,561	45,640,781
Miscellaneous	3,599,226	3,345,007
	<hr/>	<hr/>
Total operating revenues	155,242,891	146,037,133
Operating and maintenance expenses:		
Personal services	42,584,145	41,909,503
Contractual services	27,379,031	28,007,223
Materials and supplies	5,219,890	5,426,854
Utilities	12,540,592	12,262,136
Repairs and maintenance	11,996,948	10,319,371
Other expenses	4,851,702	5,509,221
	<hr/>	<hr/>
Total operating and maintenance expenses	104,572,308	103,434,308
Operating income before depreciation and amortization	50,670,583	42,602,825
Depreciation and amortization	63,951,185	67,034,479
	<hr/>	<hr/>
Operating loss	(13,280,602)	(24,431,654)
Nonoperating revenues (expenses):		
Interest revenue	1,001,627	3,416,366
Interest expense and fiscal charges	(315,519)	(328,897)
Gain (loss) on disposal of assets	(2,000,762)	240,619
Federal and state grants	537,174	-
	<hr/>	<hr/>
Total net nonoperating revenues (expenses)	(777,480)	3,328,088
Loss before contributions and transfers	(14,058,082)	(21,103,566)
Capital contributions	19,221,442	25,589,466
Transfer out	(6,300,000)	(5,000,000)
	<hr/>	<hr/>
Change in net assets	(1,136,640)	(514,100)
Total net assets, October 1	1,156,952,179	1,125,570,705
Prior period adjustment	-	31,895,574
	<hr/>	<hr/>
Total net assets, October 1, as restated	1,156,952,179	1,157,466,279
Total net assets, September 30	<u>\$ 1,155,815,539</u>	<u>\$ 1,156,952,179</u>

See accompanying notes to financial statements.

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**STATEMENTS OF CASH FLOWS**  
for the years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from customers	\$ 154,460,717	\$ 145,490,028
Cash payments to suppliers for goods and services	(55,741,535)	(56,920,989)
Cash payments to employees for services	(42,798,841)	(41,546,901)
	55,920,341	47,022,138
Cash flows from noncapital financing activities:		
Transfer out	(6,300,000)	(5,000,000)
	(6,300,000)	(5,000,000)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(68,047,662)	(71,696,023)
Principal paid on long-term debt	(564,649)	(3,609,346)
Interest and fees paid on long-term debt	(850,656)	(927,944)
Capital contributions	11,961,025	11,574,626
Proceeds from state revolving fund loan	-	500,052
Proceeds from capital grant	537,174	-
Proceeds from disposition of assets	187,471	799,251
	(56,777,297)	(63,359,384)
Cash flows from investing activities:		
Interest on investments	1,043,687	3,596,508
	1,043,687	3,596,508
Net decrease in cash and cash equivalents	(6,113,269)	(17,740,738)
Cash and cash equivalents, October 1	120,606,917	138,347,655
Cash and cash equivalents, September 30	\$ 114,493,648	\$ 120,606,917
Classified as:		
Current assets	\$ 75,922,700	\$ 83,110,595
Current assets, restricted	30,850,064	30,059,169
Noncurrent assets, restricted	7,720,884	7,437,153
	\$ 114,493,648	\$ 120,606,917

See accompanying notes to financial statements.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**STATEMENTS OF CASH FLOWS, Continued**  
**for the years ended September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (13,280,602)	\$ (24,431,654)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	63,951,185	67,034,479
Decrease (increase) in assets:		
Accounts receivable	(131,678)	(698,856)
Allowance for doubtful accounts	(29,676)	(49,215)
Due from other governmental agencies	(959,498)	-
Inventories and prepaid costs	4,597,730	6,990,805
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	1,262,507	(2,262,782)
Due to other governmental agencies	11,840	46,662
Customer deposits	498,533	392,699
Total adjustments	<u>69,200,943</u>	<u>71,453,792</u>
Net cash provided by operating activities	<u>\$ 55,920,341</u>	<u>\$ 47,022,138</u>
Noncash investing, capital and financing activities:		
Capital assets donated by developers	<u>\$ 7,260,415</u>	<u>\$ 14,014,841</u>

See accompanying notes to financial statements.



**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**for the years ended September 30, 2011 and 2010**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and Purpose:

The Orange County Water Utilities System (the System) is owned and operated by the Orange County Board of County Commissioners, Orange County, Florida, an elected body (the Board). The System provides water and wastewater treatment service for areas within the County. The Orange County Comptroller, an elected official, provides the accounting and financial reporting functions for the System. The System is operated as a self-supporting governmental operation and is accounted for as an enterprise fund of the Board.

Basis of Presentation:

The System uses the enterprise fund concept of accounting. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that expenses of services provided to customers, as well as depreciation, amortization, and interest, be recovered primarily through user charges.

Basis of Accounting:

The financial statements have been prepared on an accrual basis. Revenues are recognized when earned and expenses are recognized when incurred. In addition, the financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Pursuant to the election option made available by Governmental Accounting Standards Board (GASB) Statement No. 20, pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements.

Budgetary Data:

Florida Statutes require the Board to adopt an annual budget for the System on an accrual basis. Revenues and expenses are budgeted on a basis consistent with generally accepted accounting principles except that depreciation, amortization, noncash capital contributions, and gains/losses on the disposal of assets are not budgeted, capitalized net interest costs on funds borrowed to finance the construction of capital assets are budgeted as interest income and interest expense, capital outlays are budgeted as expense, and debt proceeds and principal payments are respectively budgeted as revenue and expense. Beginning net assets and expenditure reserves are also included in the adopted budget. Encumbrance accounting, under which purchase orders are recorded as a reservation of available budget, is practiced during the year. At year end, outstanding encumbrances lapse and are not presented in the financial statements.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the years ended September 30, 2011 and 2010**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

The annual budget is subject to amendment during the year. The County Administrator is authorized to approve transfers of appropriations between individual expense accounts. The Board, by motion, may approve transfers of appropriations between a reserve account and an expense account. The Board, by resolution recorded in the minutes, may add to the overall appropriations of the System due to a financing source unanticipated when the original budget was adopted or due to increased revenues above the level contemplated in the original budget. Amendments to overall appropriations for any other reasons also require a public hearing prior to adoption. There were no amendments during the 2011 or the 2010 fiscal years which were extraordinary or unusual in cause or effect.

Cash and Cash Equivalents and Investments:

The System's cash and cash equivalents consist of cash on hand, demand and time deposits, and highly liquid investments (including restricted assets) with a maturity of 90 days or less when purchased. With the exception of cash balances held for debt service requirements, the System's cash balances are pooled with other funds of the County for investment purposes. The County investment pool allows all participating funds the ability to deposit and withdraw cash daily as needed, and therefore all balances representing participants' equity in the investments pool are classified as cash equivalents for purposes of these statements. Earnings from the pooled investments are allocated to the System based on cash participation in the pool. All investments are stated at fair value. Investment fair values are based on quoted market prices, except for bankers' acceptances and commercial paper, which are based on accreted value. Mutual funds, which are SEC 2a-7 investment pools, are stated at share price which is substantially the same as fair value.

Accounts Receivable and Revenue Recognition:

Water and wastewater service fee revenues are recognized when earned, with an allowance for accounts considered uncollectible. The System records the amount of earned, but unbilled, service revenues. The amount of unbilled revenues included in accounts receivable was \$6,393,552 and \$6,364,854 as of September 30, 2011 and 2010, respectively. The System also records receivables for special assessments on certain construction projects. The amount of special assessments receivable included in accounts receivable was \$3,428,503 and \$3,933,338 as of September 30, 2011 and 2010, respectively. Of these amounts, \$684,151 and \$691,376, respectively, are expected to be collected within one year and thus is included in current accounts receivable; the remainder is reported as noncurrent.

Inventories and Prepaid Costs:

Inventories and prepaid costs consist of the following: inventory of parts and materials, valued at lower of cost (determined using the moving average method) or market; deposits paid for future construction projects; and the portion of operating permit fees which is applicable to future periods. Prepaid permit fees are allocated to operating periods over the life of the permit, using the straight-line method.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended September 30, 2011 and 2010**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Restricted Assets:

The use of certain System assets is restricted by specific provisions of bond resolutions and agreements with various parties. Assets so designated are identified as restricted assets on the balance sheets. It is the System's policy to first apply restricted assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Restricted assets classified as noncurrent are those which are for acquisition or construction of capital assets, for liquidation of long-term debts, or for other than current operations.

Capital Assets:

Utility Plant is stated at cost when purchased or constructed, or at fair market value at the time of acquisition when constructed by others and donated to the System. The System capitalizes expenditures for plant additions and improvements. The thresholds for capitalization of assets range from \$500 to \$25,000, depending on the asset class. Expenses for plant maintenance and repairs are charged as operating expense. Projects under construction are retained in Construction in Progress and are transferred into Utility Plant when placed in service.

Provisions for depreciation are made using the straight-line method, based upon the following estimated useful lives of the assets:

Plant	40 years
Pump stations	30 years
Transmission and distribution lines	10-20 years
Machinery and equipment	3-10 years

The System capitalizes costs associated with various intangible assets. These include initial payments under agreements with nearby utilities for the right to dispose of wastewater flows and payments to other utilities for the right to use certain water and wastewater lines. These capitalized costs are being amortized using the straight-line method over the expected lives of the assets, which is 3 to 40 years for the wastewater disposal agreements and 5 to 15 years for the rights to use lines. Additionally, the System capitalizes the value of purchased and donated permanent land easements.

Accounts Payable and Accrued Liabilities:

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

	<u>2011</u>	<u>2010</u>
Due to vendors	\$ 15,174,962	\$ 17,515,596
Salaries and benefits payable	<u>4,657,575</u>	<u>4,560,272</u>
Total	<u>\$ 19,832,537</u>	<u>\$ 22,075,868</u>

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended September 30, 2011 and 2010**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Developer Agreements Payable:

The Board has entered into a number of agreements with developers whereby land, easements, treatment plants, distribution systems, etc., are conveyed to the System. In return, the System either reserves water/wastewater treatment capacity for future drawdowns by the developer or makes cash payments to the developer over current and future periods based upon provisions of the particular agreement. Assets acquired under these agreements are recorded at fair market value at the time of acquisition. The System fulfilled its obligations under these agreements during fiscal year 2010. Future arrangements of this kind are not expected.

Compensated Absences:

The System accrues a liability, with a corresponding charge to current operations, for employees' rights to receive compensation for future absences to be subsequently taken or paid at point of employment termination in accordance with GASB Statement No. 16. The liability for compensated absences was \$4,791,567 and \$5,008,566 at September 30, 2011 and 2010, respectively. Of these amounts, \$3,043,250 and \$2,948,250, respectively, is expected to be paid out within one year and thus is included in current liabilities; the remainder is reported as noncurrent. The current portion is based on the average annual amount of leave charged over the preceding three years.

Operating and Nonoperating Revenues:

The System reports as operating revenues all user fees generated through water and wastewater treatment services. Other revenues, such as non-capital grants and interest revenue, are classified as nonoperating.

Capitalization of Interest:

As required by the interest topic of the FASB Accounting Standards Codification, the System capitalizes net interest costs on funds borrowed to finance the construction of capital assets. The amount of net interest costs capitalized for the fiscal years ended September 30, 2011 and 2010 was as follows:

	<u>2011</u>	<u>2010</u>
Interest expense	\$ 650,781	\$ 643,708
Amortization of bond issuance costs	<u>11,909</u>	<u>11,189</u>
Increase in construction in progress	<u>\$ 662,690</u>	<u>\$ 654,897</u>

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended September 30, 2011 and 2010**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

The total interest cost for the System was \$964,604 and \$968,000 for the fiscal years ended September 30, 2011 and 2010, respectively.

Bond Amortization Costs:

Bond premium, discount, and costs associated with issuance of long-term debt are being amortized over the life of the debt using the interest method. Some of these costs are capitalized as noted above. Also, in accordance with GASB Statement No. 23, the difference between the reacquisition price and the net carrying amount of defeased debt in refunding transactions is being amortized over the shorter of the life of the old debt or the life of the new debt using the interest method. Amortization of bond issuance costs which is not capitalized is recorded as a non-operating expense, and amortization of bond premium and the deferred amount on refunding which are not capitalized are recorded as components of interest expense. Amortization of these bond costs for the fiscal years ended September 30, 2011 and 2010 was as follows:

	<u>2011</u>	<u>2010</u>
Amortization of bond premium	\$ (6,613)	\$ (6,213)
Portion capitalized	(6,613)	(6,213)
Amortization of issuance costs	11,909	11,189
Portion capitalized	11,909	11,189
Amortization of deferred amounts on refundings	123,644	116,170
Portion capitalized	123,644	116,170

Capital Contributions:

Capital contributions revenue represents amounts received for connection fees charged to customers for initial hook-up to the System's water and wastewater lines, or fixed assets donated by developers. Pursuant to County Ordinance No. 92-10, connection fees are discounted for eligible affordable housing projects. Total cumulative affordable housing discounts given on connection fees were \$10,510,933 as of September 30, 2011 and 2010. Additionally, pursuant to County Ordinance No. 94-21, water and wastewater connection fees are discounted for each residential lot that receives service from a Reclaimed Water Distribution System. Total cumulative discounts related to this ordinance were \$5,615,981 and \$5,360,560 as of September 30, 2011 and 2010, respectively.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended September 30, 2011 and 2010**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Reclassifications:

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation.

**B. DEPOSIT AND INVESTMENT RISK**

As of September 30, 2011 and 2010, the carrying value of the System's deposits and investments, with their respective Standard & Poor's credit ratings, was as follows:

<u>Investment Type</u>	<u>2011</u>	<u>2010</u>	<u>Credit Rating</u>
Demand and time deposits	\$ 95,559	\$ 5,433	NA
Money market mutual funds	-	266,881	AAAm
County investment pool:			
Money market mutual funds	16,732,394	10,365,100	AAAm
U.S. Treasury Bills	34,017,208	44,426,284	NA
U.S. Treasury Notes	63,648,487	65,543,219	NA
	<u>\$ 114,493,648</u>	<u>\$ 120,606,917</u>	

The System deposits all cash and investments, with the exception of cash balances for debt service, in the County's investment pool portfolio. Funds required to be provided for debt service are maintained by the System separately from the pooled investments. Investment balances by type, included in the County's investment pool, are presented above based on the System's proportionate share of the investment pool portfolio.

Credit Risk:

The Board's Investment Policy (Policy) limits credit risk by restricting authorized investments to the following: direct obligations of the U.S. Government or its agencies and instrumentalities, direct obligations of states and municipalities, repurchase agreements comprised of direct obligations of the U.S. Government or its instrumentalities, Florida PRIME administered by the Florida State Board of Administration, commercial paper, bankers' acceptances, and money market mutual funds (Money Markets). The Policy requires that investments in instrumentality debt be guaranteed by the full faith and credit of the U.S. Government sponsored agency, and that investments in Money Markets have a Standard & Poor's rating of AAAm or AAAG. Eligible Money Markets are limited to those comprised of direct obligations of the U.S. Government. For arbitrage compliance only, Money Markets may be comprised of state and local government taxable and tax-exempt debt.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the years ended September 30, 2011 and 2010**

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**B. DEPOSIT AND INVESTMENT RISK, Continued**

Concentration of Credit Risk:

The Policy establishes limitations on portfolio composition, both by investment type and by issuer, in order to control concentration of credit risk. The Policy, which pertains to the overall portfolio of the Board and is not monitored at the individual fund level, provides that a maximum of 45% of the portfolio may be invested in instrumentalities, with a limit of 15% of the portfolio invested in any one issuer; and that a maximum of 15% of the portfolio may be invested in prime commercial paper, with a limit of 2.5% of the portfolio invested in any one issuer. As of September 30, 2011 and 2010, there are no concentrations of credit risk beyond the stated policy.

Custodial Credit Risk:

The Policy requires that bank deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida. The System's bank deposits were fully secured by the FDIC under the Dodd-Frank Deposit Insurance provision, which provides unlimited FDIC insurance on non-interest bearing transaction accounts through December 31, 2012. At September 30, 2011 and 2010, all of the System's bank deposits were in qualified public depositories.

The Policy requires execution of a third-party custodial safekeeping agreement for all purchased securities, and requires that securities be held in the Board's name. As of September 30, 2011 and 2010, all of the System's investments are held in a bank's trust department in the Board's name.

Interest Rate Risk:

The Policy limits the investment of current operating funds to 13 months, and the investment of noncurrent operating funds to 60 months. Bond reserves, construction funds, and other nonoperating funds may be invested for up to 10 years, subject to bond covenants and liquidity needs.

The System's investments had weighted average maturities of 12.5 months and 10.8 months at September 30, 2011 and 2010, respectively. The portfolio did not contain any callable securities as of September 2011. The Money Markets have a weighted average maturity of not more than 60 days.

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**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the years ended September 30, 2011 and 2010**

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**C. RESTRICTED ASSETS**

The bond resolutions authorizing the issuance of the System's bonds and provisions of the loan agreement with the State of Florida Department of Environmental Protection require segregation of certain assets into restricted accounts. In addition, the System restricts funds available for repayment of customer deposits. These restricted assets were as follows at September 30, 2011 and September 30, 2010:

	<u>Cash and Cash Equivalents</u>
<u>September 30, 2011:</u>	
Operation and maintenance reserve	\$ 22,569,678
Net revenues	67,100
Bond interest	266,875
Renewal and replacement	7,466,884
Customer deposits	7,051,769
Rate stabilization	254,000
Loan debt service	134,502
Loan repayment reserve	<u>760,140</u>
Total restricted assets	38,570,948
Less: current portion	<u>30,850,064</u>
Noncurrent portion	<u>\$ 7,720,884</u>
 <u>September 30, 2010:</u>	
Operation and maintenance reserve	\$ 22,238,734
Net revenues	70,574
Bond interest	266,875
Renewal and replacement	7,183,153
Customer deposits	6,553,236
Rate stabilization	254,000
Loan debt service	169,610
Loan repayment reserve	<u>760,140</u>
Total restricted assets	37,496,322
Less: current portion	<u>30,059,169</u>
Noncurrent portion	<u>\$ 7,437,153</u>

Continued



**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the years ended September 30, 2011 and 2010**

**D. CAPITAL ASSETS**

Capital asset activity for the years ended September 30, 2011 and 2010 was as follows:

	Balance 10/1/10	Additions	Reductions	Balance 9/30/11
Capital assets, not being depreciated:				
Land	\$ 84,840,454	\$ 1,143,411	\$ (29,430)	\$ 85,954,435
Construction in progress	205,987,701	61,718,490	(142,758,429)	124,947,762
Total capital assets, not being depreciated	<u>290,828,155</u>	<u>62,861,901</u>	<u>(142,787,859)</u>	<u>210,902,197</u>
Capital assets, being depreciated/amortized:				
Buildings	22,652,513	4,440	-	22,656,953
Improvements other than buildings	1,394,902,748	144,159,258	-	1,539,062,006
Machinery and equipment	70,265,682	3,418,308	(121,274)	73,562,716
Intangible	21,371,425	2,740,890	-	24,112,315
Total capital assets, being depreciated/amortized	<u>1,509,192,368</u>	<u>150,322,896</u>	<u>(121,274)</u>	<u>1,659,393,990</u>
Less accumulated depreciation/amortization for:				
Buildings	(6,486,789)	(683,843)	-	(7,170,632)
Improvements other than buildings	(678,937,602)	(56,793,516)	25,307	(735,705,811)
Machinery and equipment	(47,608,079)	(5,959,428)	91,468	(53,476,039)
Intangible	(9,230,477)	(514,398)	-	(9,744,875)
Total accumulated depreciation/amortization	<u>(742,262,947)</u>	<u>(63,951,185)</u>	<u>116,775</u>	<u>(806,097,357)</u>
Total capital assets, being depreciated/amortized, net	<u>766,929,421</u>	<u>86,371,711</u>	<u>(4,499)</u>	<u>853,296,633</u>
Total System capital assets, net	<u>\$ 1,057,757,576</u>	<u>\$ 149,233,612</u>	<u>\$ (142,792,358)</u>	<u>\$ 1,064,198,830</u>
	Balance 10/1/09	Additions	Reductions	Balance 9/30/10
Capital assets, not being depreciated:				
Land	\$ 84,883,712	\$ 60,986	\$ (104,244)	\$ 84,840,454
Construction in progress	213,305,486	52,920,913	(60,238,698)	205,987,701
Total capital assets, not being depreciated	<u>298,189,198</u>	<u>52,981,899</u>	<u>(60,342,942)</u>	<u>290,828,155</u>
Capital assets, being depreciated/amortized:				
Buildings	21,831,505	821,008	-	22,652,513
Improvements other than buildings	1,322,778,718	72,135,705	(11,675)	1,394,902,748
Machinery and equipment	54,336,141	17,805,785	(1,876,244)	70,265,682
Intangible	19,519,646	1,851,779	-	21,371,425
Total capital assets, being depreciated/amortized	<u>1,418,466,010</u>	<u>92,614,277</u>	<u>(1,887,919)</u>	<u>1,509,192,368</u>
Less accumulated depreciation/amortization for:				
Buildings	(5,801,023)	(685,766)	-	(6,486,789)
Improvements other than buildings	(623,829,631)	(55,119,646)	11,675	(678,937,602)
Machinery and equipment	(38,312,825)	(10,726,464)	1,431,210	(47,608,079)
Intangible	(8,727,874)	(502,603)	-	(9,230,477)
Total accumulated depreciation/amortization	<u>(676,671,353)</u>	<u>(67,034,479)</u>	<u>1,442,885</u>	<u>(742,262,947)</u>
Total capital assets, being depreciated/amortized, net	<u>741,794,657</u>	<u>25,579,798</u>	<u>(445,034)</u>	<u>766,929,421</u>
Total System capital assets, net	<u>\$ 1,039,983,855</u>	<u>\$ 78,561,697</u>	<u>\$ (60,787,976)</u>	<u>\$ 1,057,757,576</u>

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the years ended September 30, 2011 and 2010**

**E. CHANGES IN LONG-TERM LIABILITIES**

A summary of the changes in long-term liabilities (current and noncurrent portions) of the System for the years ended September 30, 2011 and 2010 is as follows:

	Balance 10/1/10	Additions	Reductions	Balance 9/30/11
Compensated absences payable	\$ 5,008,566	\$ 2,891,978	\$ (3,108,977)	\$ 4,791,567
Revenue bonds payable	10,865,000	-	-	10,865,000
Less unamortized costs:				
Bond premium	21,905	-	(6,613)	15,292
Bond issuance costs	(39,449)	-	11,909	(27,540)
Deferred amount on refunding	(409,577)	-	123,644	(285,933)
Total revenue bonds payable, net of unamortized costs	10,437,879	-	128,940	10,566,819
Loans payable	10,896,603	-	(562,591)	10,334,012
System long-term liabilities, including current portion	<u>\$ 26,343,048</u>	<u>\$ 2,891,978</u>	<u>\$ (3,542,628)</u>	<u>\$ 25,692,398</u>
	Balance 10/1/09	Additions	Reductions	Balance 9/30/10
Compensated absences payable	\$ 4,826,216	\$ 3,230,833	\$ (3,048,483)	\$ 5,008,566
Developer agreements payable	15,480	-	(15,480)	-
Revenue bonds payable	13,850,000	-	(2,985,000)	10,865,000
Less unamortized costs:				
Bond premium	28,118	-	(6,213)	21,905
Bond issuance costs	(50,638)	-	11,189	(39,449)
Deferred amount on refunding	(525,747)	-	116,170	(409,577)
Total revenue bonds payable, net of unamortized costs	13,301,733	-	(2,863,854)	10,437,879
Loans payable	11,020,897	500,052	(624,346)	10,896,603
System long-term liabilities, including current portion	<u>\$ 29,164,326</u>	<u>\$ 3,730,885</u>	<u>\$ (6,552,163)</u>	<u>\$ 26,343,048</u>

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended September 30, 2011 and 2010**

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**F. REVENUE BONDS PAYABLE**

On February 19, 1998, the Board issued Water Utilities System Refunding Revenue Bonds, Series 1998 in the amount of \$50,675,000 for the purpose of advance refunding a portion of the Water Utilities System Revenue Bonds, Series 1992 maturing in the years October 1, 2002 through October 1, 2017, and financing certain costs of issuance of the Series 1998 Bonds.

Series 1998 Bonds maturing on or after October 1, 2009 are subject to redemption prior to their stated date of maturity, at the option of the Board, in whole or in part on any date, by lot within maturities, on and after October 1, 2008, at the redemption price of 100% plus accrued interest to the redemption date:

<u>Period of Optional Redemption</u>	<u>Redemption Price</u>
October 1, 2008 to September 30, 2009	101%
October 1, 2009 and thereafter	100

On October 1, 2008, the System used \$19,144,550 of cash on hand to currently refund bonds maturing in 2010, 2011 and 2017, including amounts subject to mandatory redemption for a total amount of \$18,955,000 of outstanding Water Utilities System Refunding Revenue Bonds, Series 1998 and a call premium in the amount of \$189,550. The amount of debt refunded, net of associated unamortized costs, was \$17,532,990.

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**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the years ended September 30, 2011 and 2010**

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**F. REVENUE BONDS PAYABLE, Continued**

The following is a summary of revenue bonds payable as of September 30, 2011 and 2010:

	September 30	
	2011	2010
<u>\$50,675,000 Water Utilities System Refunding Revenue Bonds, Series 1998:</u>		
Current interest serial bonds, due October 1, from 2010 to 2014, with interest due semi-annually on April 1 and October 1, at 4.75% to 5.00%	\$ 10,865,000	\$ 10,865,000
Less: Unamortized bond premium	15,292	21,905
Unamortized bond issuance costs	(27,540)	(39,449)
Deferred amount on refundings	(285,933)	(409,577)
Total revenue bonds payable net of unamortized costs	10,566,819	10,437,879
Less: Current portion (payable from restricted assets)	-	-
Revenue bonds payable, noncurrent portion	\$ 10,566,819	\$ 10,437,879

The total principal and interest remaining to be paid on this series was \$12,207,625 and \$12,741,375 as of September 30, 2011 and 2010, respectively. Principal and interest paid or defeased was \$533,750 and \$3,584,047 and total available pledged revenue was \$50,982,197 and \$45,135,281, respectively, for the fiscal years ended September 30, 2011 and 2010.

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**ORANGE COUNTY WATER UTILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended September 30, 2011 and 2010**

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**F. REVENUE BONDS PAYABLE, Continued**

Currently, the Series 1998 Bonds are payable solely from, and secured by, a lien on and pledge of all of the net operating revenues and investment earnings deposited in the Net Revenues Account. The Board reserves the right to additionally pledge connection fees, special assessments and stormwater revenues as security for the bonds. The Board is not obligated to pay the Series 1998 Bonds or the interest thereon except from the sources mentioned above. Neither the full faith and credit, the taxing power, nor any physical properties of the Board are pledged to the payment of the Series 1998 Bonds or the interest thereon.

The Board has covenanted to establish, fix, maintain and collect rates, fees and other charges for services fully sufficient at all times to provide for 100% of the expenses of operation and maintenance of the System, as well as remedy all deficits from prior fiscal years, and either

- (a) produce net operating revenues (excluding connection fees, special assessments and stormwater revenues) in each fiscal year which equal at least 110% of the annual debt service requirement and at least 100% of any required deposits to certain accounts, or
- (b) produce net operating revenues in each fiscal year which will equal at least 120% of the annual debt service requirement and, excluding connection fees, will equal at least 105% of the annual debt service requirement, and at least 100% of any required deposits to certain accounts.

The bond resolution establishes certain accounts and specifies the order in which revenues are to be deposited into these accounts. The purposes of the various accounts, in order of priority of weekly or monthly revenue transfers, are as follows:

Revenue Account - Deposit all operating revenues of the System, including special assessments and stormwater revenues when and if pledged to the payment of the bonds.

Connection Fee Account - Deposit all connection fees charged and collected by the System and interest earnings thereon, when and if pledged to the payment of the bonds.

Operation and Maintenance Account - Deposit weekly from the Revenue Account amounts sufficient to provide one week's expenses of operation and maintenance plus the maintenance of a reserve equal to 60 days' anticipated expenses of operation and maintenance. Moneys shall be used solely for the payment of the expenses of operation and maintenance plus any other extraordinary expenditures which must be made on an emergency basis to keep the System operating when funds are not available for such in the Renewal and Replacement Account or the Reserve Revenue Account.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the years ended September 30, 2011 and 2010**

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**F. REVENUE BONDS PAYABLE, Continued**

Net Revenues Account - Deposit monthly from the Revenue Account all net operating revenues and investment earnings of the System excluding earnings on the Connection Fee Account and Bond Construction Account.

Interest Account - Deposit monthly from the Net Revenues Account an amount which is equal to one-sixth of the interest falling due on the next succeeding interest payment date.

Principal Account - Deposit monthly from the Net Revenues Account an amount which is equal to one-twelfth of the principal falling due on the next succeeding principal payment date.

Redemption Account - Deposit monthly from the Net Revenues Account an amount sufficient to redeem term bonds prior to their maturity, including any premiums that would be payable.

Bond Reserve Account - Deposit monthly from the Net Revenues Account an amount sufficient to reimburse the provider of the Reserve Account surety bond for any amounts paid. The Reserve Account will be used to prevent default in the payment of principal and interest payments that the System is unable to make for any reason.

Stormwater Operation and Maintenance Account - Deposit monthly from the Net Revenues Account an amount to fund the operations of the Stormwater Management System, as may be established by the Board and adopted by resolution at some future point.

Rate Stabilization Account - Deposit monthly from the Net Revenues Account an amount to be accumulated and used for operating expenses which would otherwise be paid from increased rates. The amount to be deposited is based on the recommendation of the Director of Utilities, and is submitted as a line item in the County annual budget.

Renewal and Replacement Account - Deposit monthly from the Net Revenues Account an amount which is at least equal to one-twelfth of five percent of the operating revenues and investment earnings of the System excluding earnings on the Connection Fee Account and Bond Construction Account received by the System in the preceding fiscal year whenever necessary to increase the amount therein to a sum not less than five percent of the operating revenues received by the System in said preceding fiscal year. Moneys shall be used to supplement any insufficiency in the Reserve Revenue Account to meet an emergency caused by some extraordinary occurrence or to supplement any insufficiency in the Interest Account, the Redemption Account, or the Principal Account which still exists after the Bond Reserve Account has been drawn down. Otherwise, money shall be used only for the costs of unusual or extraordinary maintenance, renewals and replacements, acquiring and installing new or replacement equipment, or providing a local match required to participate in Federal or State grants or assistance programs related to the System.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended September 30, 2011 and 2010**

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**F. REVENUE BONDS PAYABLE, Continued**

Reserve Revenue Account - Any moneys remaining in the Net Revenues Account after all payments hereinabove required have been made are to be transferred to the Reserve Revenue Account. Moneys in this account are to be used for the following purposes and in the following order of priority:

- (a) To make necessary payments required by arbitrage rebate requirements;
- (b) To restore the Interest Account, the Principal Account, the Redemption Account, the Bond Reserve Account, the Rate Stabilization Account, and the Renewal and Replacement Account to the respective amounts required at that time to be therein;
- (c) To the payment of any required monthly state loan requirement pursuant to any State Pollution Control Loan Agreement;
- (d) To the payment of any and all governmental charges and assessments which may then be due and owing;
- (e) To the payment of costs for acquisitions, betterments, extensions, repairs or replacements or other capital improvements to the System deemed necessary;
- (f) To the purchase of bonds or other obligations payable from pledged revenues of the System, at the option of the Board;
- (g) To the redemption of bonds or other obligations payable from pledged revenues prior to maturity, at the option of the Board;
- (h) To the payment of debt service on subordinated debt;
- (i) To the payment of excess payments under an Interest Rate Swap Agreement;
- (j) To any lawful purpose of the System;
- (k) To any lawful purpose of the County as determined by resolution and adopted by a majority plus one member of the Board.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended September 30, 2011 and 2010**

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**F. REVENUE BONDS PAYABLE, Continued**

Future principal and interest payments (in thousands) required on the Series 1998 Bonds are as follows as of September 30, 2011:

<u>Bond Year</u> <u>Ending October 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ -	\$ 267	\$ 267
2012	3,445	534	3,979
2013	3,620	362	3,982
2014	<u>3,800</u>	<u>180</u>	<u>3,980</u>
Totals	<u>\$ 10,865</u>	<u>\$ 1,343</u>	<u>\$ 12,208</u>

The amount of defeased debt still outstanding and not reported on the balance sheets is as follows as of September 30, 2011 and 2010:

	<u>Original</u> <u>Defeased</u> <u>Amount</u>	<u>September 30</u>	
		<u>2011</u>	<u>2010</u>
Water and Sewer Revenue Bonds, Series 1982	\$ 27,915,000	\$ 11,275,000	\$ 14,455,000
Water and Sewer Refunding Revenue Bonds, Series 1977	<u>33,940,000</u>	<u>-</u>	<u>660,000</u>
Totals	<u>\$ 61,855,000</u>	<u>\$ 11,275,000</u>	<u>\$ 15,115,000</u>

**G. LOANS PAYABLE**

In June 2002, the County entered into a Clean Water State Revolving Fund Construction Loan Agreement with the State of Florida Department of Environmental Protection. Funds are being utilized by the System to finance Phases 2 and 3 of construction of a central wastewater collection system in an area of the County currently served by septic tanks. The initial loan approved in 2002 was for a total available amount of \$8,457,900. This was reduced in fiscal year 2008 to the actual amount drawn of \$6,241,215 to reflect the final cost of Phase 2 of the construction project. In August 2006, a second loan was approved for

Continued



**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the years ended September 30, 2011 and 2010**

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**G. LOANS PAYABLE, Continued**

Phase 3 of the project, in the additional amount of \$8,339,312. This was reduced in fiscal year 2011 to the actual amount drawn of \$6,540,920 to reflect the final cost of Phase 3 of the construction project. In February 2011, a new loan was approved for the Lake Lawne Gravity Sewer Rehabilitation Project in the amount of \$1,722,240.

For the 2002 loan, the principal balance outstanding was \$4,501,757 and \$4,744,560 as of September 30, 2011 and 2010, respectively. Semiannual payments of \$193,774, including interest at 3.09%, are due on March 15 and September 15 of each year, through March 15, 2026.

For the 2006 loan, the first draw was received in March 2007. Through fiscal year 2010, additional draws totaling \$1,585,847 were made for Phase 3 of the project. The principal balance outstanding was \$5,832,255 and \$6,152,043 as of September 30, 2011 and 2010, respectively. For this loan, semiannual payments of \$274,628, including interest at 2.63%, are due on January 15 and July 15 of each year, through January 15, 2011. Semiannual payments for the period July 15, 2011 through July 15, 2029 have been reduced to \$204,412 to reflect the reduction in loan amount.

The total principal and interest remaining to be paid on these loans was \$12,978,270 and \$13,347,523 as of September 30, 2011 and 2010, respectively. Principal and interest paid was \$866,587 and \$936,804 and total available pledged revenue was \$50,448,447 and \$44,601,531, respectively, for the fiscal years ended September 30, 2011 and 2010.

For the 2011 loan, no draw activity had been initiated as of September 30, 2011, and thus the principal balance due was zero. For this loan, semiannual payments of \$56,219, including interest of 2.53%, will be due on February 15<sup>th</sup> and August 15<sup>th</sup> of each year, for a 20-year period beginning August 2012. Future principal and interest payments related to this loan are not included in the schedule below.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the years ended September 30, 2011 and 2010**

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**G. LOANS PAYABLE, Continued**

Future principal and interest payments (in thousands) required on the State Revolving Loans are as follows as of September 30, 2011:

Fiscal Year Ending September 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 507	\$ 289	\$ 796
2013	522	274	796
2014	537	259	796
2015	553	244	797
2016	568	228	796
2017-2021	3,098	884	3,982
2022-2026	3,377	411	3,788
2027-2029	<u>1,172</u>	<u>55</u>	<u>1,227</u>
Totals	<u>\$ 10,334</u>	<u>\$ 2,644</u>	<u>\$ 12,978</u>

**H. RETIREMENT SYSTEM**

Plan Description:

The System's employees participate in the Florida Retirement System (FRS), administered by the Florida Department of Management Services. 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. As a general rule, membership in the FRS is compulsory for all employees working in a regularly established position for a state agency, county government, district school board, state university, community college, or a participating city or special district within the State of Florida. The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 121, Florida Statutes, and Chapter 60S, Florida Administrative Code. Amendments to the law can be made only by an act of the Florida Legislature.

Benefits under the Pension Plan are computed on the basis of age, average final compensation, and service credit. For Pension Plan members enrolled before July 1, 2011, Regular class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary for each year of credited service. Vested members with less than 30 years of service may retire before age 62 and receive reduced retirement benefits. Senior Management

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**ORANGE COUNTY WATER UTILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended September 30, 2011 and 2010**

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**H. RETIREMENT SYSTEM, Continued**

Service class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 2.0% of their final average compensation based on the five highest years of salary for each year of credited service. Substantial changes were made to the Pension Plan during fiscal year 2011 affecting new members enrolled on or after July 1, 2011 by extending the vesting requirement to eight years of credited service, and increasing normal retirement to age 65 or 33 years of service regardless of age. Also, the final average compensation for these members will be based on the eight highest years of salary. A post-employment health insurance subsidy is also provided to eligible retired members through the FRS in accordance with Florida Statutes.

In addition to the above benefits, the FRS administers a Deferred Retirement Option Program (DROP). This program allows eligible members to defer receipt of monthly retirement benefit payments while continuing employment with a FRS employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

For those members who elect participation in the Investment Plan rather than the Pension Plan, vesting occurs at one year of service. These participants receive a contribution for self-direction in an investment product with a third party administrator selected by the State Board of Administration.

The State of Florida annually issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The latest available report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the website [www.frs.state.fl.us](http://www.frs.state.fl.us).

Funding Policy:

Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute 3.0% of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates. These rates are updated as of July 1 of each year. The contribution rates by job class at September 30, 2011 were as follows: regular--4.91%; senior management--6.27%; and DROP participants--4.42%. The employer contribution rates by job class at September 30, 2010 were as follows: regular--10.77%; senior management--14.57%; and DROP participants--12.25%.

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**ORANGE COUNTY WATER UTILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended September 30, 2011 and 2010**

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**H. RETIREMENT SYSTEM, Continued**

The System contributed to the plan an amount equal to 9.59% and 10.26% of covered payroll during fiscal years ended September 30, 2011 and 2010. System contributions to the FRS for the fiscal years ending September 30, 2009 through 2011 were \$3,320,441, \$3,403,507 and \$3,228,772, respectively, which were equal to the required contributions for each fiscal year. The System has historically contributed amounts equal to required contributions and, therefore, does not have a pension asset or liability as determined in accordance with GASB Statement No. 27.

**I. OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN**

In addition to the pension benefits described in Note H, the System offers an OPEB Plan that subsidizes the cost of health care for its retirees and eligible dependents. The OPEB Plan is reported in accordance with GASB Statement No's. 43 and 45. Employees of the System with at least 10 years of combined service under the System and/or any other Board department or any of five county officers (County Comptroller, Property Appraiser, Sheriff, Supervisor of Elections, Tax Collector) who retire and immediately begin receiving benefits from the Florida Retirement System (FRS) are eligible to receive a monthly benefit of three dollars per year of service up to a maximum of \$90 per month. If combined service is at least 20 years and receipt of FRS benefits is deferred to a later date, the monthly benefit may be vested for commencement at such deferral date. Additionally, employees of the System who retire and immediately begin receiving benefits from the FRS have the option of continuing in the Board's health insurance plan at the same group rate as for active employees.

The Board has established the Orange County Retiree Health Care Benefit Trust (Trust) for the Board and the five county officers noted above and engages an actuarial firm to determine each participant's actuarially determined annual OPEB cost (AOC) and unfunded obligation. Through its ownership of the System, the Board's total AOC payment to the Trust includes an allocated contribution from the System. For fiscal year 2011, the System's AOC payment was \$314,819 representing 0.94% of the System's covered payroll amount of \$33,658,740. For fiscal year 2010, the System's AOC payment was \$431,398, representing 1.30% of the System's covered payroll amount of \$33,182,380. A full presentation of the Trust and OPEB Plan assets, liabilities, funding status, and actuarial methods and assumptions is included in the Orange County, Florida Comprehensive Annual Financial Report.

**J. INSURANCE COVERAGE**

The Board maintains a self-insurance program that provides for coverage of substantially all risks. Various excess catastrophe insurance policies with a commercial carrier are also in force for claims exceeding the amount chargeable against the loss fund. The System participated in the self-insurance program during fiscal years 2011 and 2010 at an annual cost of \$1,987,844 and \$2,795,121, respectively. There has been no claim settlements in excess of insurance coverage during the three fiscal years ended September 30, 2011.

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**ORANGE COUNTY WATER UTILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended September 30, 2011 and 2010**

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**K. COMMITMENTS AND CONTINGENCIES**

Outstanding commitments under construction contracts for various projects totaled approximately \$71.1 million and \$74.9 million at September 30, 2011 and 2010, respectively.

The System is a party in various lawsuits and other claims incidental to the ordinary course of its operation, some of which are covered by the Board's self-insurance program. While the results of litigation cannot be predicted with certainty, management believes the final outcome of such litigation will not have a material adverse effect on the System's financial position.

**L. TRANSFER OUT**

As permitted under covenants of the Water Utilities System Refunding Revenue Bonds, Series 1998, the Board has adopted resolutions authorizing the System to make an annual transfer of surplus funds to the Board's General Fund, to be used for any lawful County purpose. Under these authorizations, the System transferred \$6,300,000 and \$5,000,000 in fiscal years 2011 and 2010, respectively, to the Board's General Fund.

**M. PRIOR PERIOD ADJUSTMENT**

The October 1, 2009 and September 30, 2010 net assets have been adjusted upward by \$31,895,574 and \$36,881,640, respectively. During fiscal year 2011, it was determined that certain donated assets were not recognized as contributed revenue and capital assets in the years of donation for the periods beginning fiscal year 1995 through fiscal year 2010. Additionally, one System construction project was not closed out when completed in fiscal year 2010, thus delaying the start of depreciation expense on that project. October 1, 2009 increases are the result of additional capital contributions, net of depreciation expense, in the amount of \$31,895,574. Accordingly, the September 30, 2010 financial statements and notes have been restated to include \$7,936,417 in additional capital contributions and \$2,950,351 in additional depreciation expense. The effect of the adjustment on fiscal 2011 was to decrease the change in net assets by \$2,969,690 for depreciation expense associated with prior capital asset additions.

**N. SUBSEQUENT EVENT**

On January 20, 2012, the Board executed four additional Clean Water State Revolving Fund Loan Agreements with the State of Florida Department of Environmental Protection. The total estimated principal amount of these loans is \$15,753,661 at an interest rate of 2.38%. Each loan is to be repaid over a 20-year period.

## **SUPPLEMENTARY INFORMATION**

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED TO ACTUAL**  
**(NON-GAAP BUDGETARY BASIS\*)**  
**for the year ended September 30, 2011**

	Budget	Actual
Operating revenues:		
Wastewater service	\$ 95,580,117	\$ 101,787,104
Water service	46,345,900	49,856,561
Miscellaneous	3,286,204	3,599,226
Total operating revenues	145,212,221	155,242,891
Operating and maintenance expenses:		
Personal services	44,475,053	42,584,145
Contractual services	40,199,950	27,379,031
Materials and supplies	8,155,794	5,219,890
Utilities	13,845,991	12,540,592
Repairs and maintenance	13,771,544	11,996,948
Other expenses	5,908,322	4,851,702
Total operating and maintenance expenses	126,356,654	104,572,308
Operating income, budgetary basis*	18,855,567	50,670,583
Nonoperating revenues (expenses):		
Interest revenue	2,122,761	1,001,627
Interest expense and fiscal charges	(1,772,489)	(849,269)
Federal and state grants	713,000	537,174
Total net nonoperating revenues (expenses)	1,063,272	689,532
Income before contributions and transfer, budgetary basis*	19,918,839	51,360,115
Capital contributions	7,297,466	11,961,025
Transfer out	(6,300,000)	(6,300,000)
Change in net assets, budgetary basis*	\$ 20,916,305	\$ 57,021,140

\*Budgetary basis, for purposes of this schedule, includes all budgeted items except for capital outlay, debt principal transactions, beginning net assets, non-cash developer donations and expenditure reserves.

**ORANGE COUNTY WATER UTILITIES SYSTEM  
SCHEDULE OF BONDED DEBT AND INTEREST  
September 30, 2011**

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**WATER UTILITIES SYSTEM  
REFUNDING REVENUE BONDS  
SERIES 1998**

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<u>BOND YEAR ENDING OCTOBER 1</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL DEBT SERVICE</u>
2011	\$ -	\$ 266,875 (a)	\$ 266,875
2012	3,445,000	533,750	3,978,750
2013	3,620,000	361,500	3,981,500 (b)
2014	<u>3,800,000</u>	<u>180,500</u>	<u>3,980,500</u>
Totals	<u>\$ 10,865,000</u>	<u>\$ 1,342,625</u>	<u>\$ 12,207,625</u>

(a) Represents semi-annual requirement only.

(b) Maximum annual debt service.



**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**BOND COVERAGE COMPUTATION**  
**September 30, 2011**

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The Board covenants in the bond resolution to own, control, operate and maintain the Water Utilities System in an efficient and economical manner, and to the extent possible, on a revenue-producing basis. The Board further covenants to fix, establish, maintain and collect rates, fees and other charges for the services of the Water Utilities System fully sufficient at all times:

- (a) to produce 100% of the expenses of operation and maintenance of the System, to produce net operating revenues in each fiscal year which will provide 100% of any required deposits into the Rate Stabilization Account, the Bond Reserve Account, the Stormwater Operation and Maintenance Account, and the Renewal and Replacement Account, and to remedy all deficits from prior fiscal years, and
- (b) to produce net operating revenues (excluding connection fees, special assessments and stormwater revenues) in each fiscal year which will equal at least 110% of the annual debt service requirement on all outstanding bonds, or
- (c) to produce net operating revenues in each fiscal year which will equal at least 120% of the annual debt service requirement on all outstanding bonds, and at the same time produce net operating revenues (excluding connection fees) in each fiscal year which will equal at least 105% of the annual debt service requirement on all outstanding bonds.

The following represents the coverage computation for the year ending September 30, 2011:

Gross operating revenues	\$ 155,242,891
Interest income, excluding interest on connection fees	922,533
Less operating and maintenance expenses	<u>(104,572,308)</u>
Net operating revenues	51,593,116
Less required deposits to specified accounts	<u>(610,919)</u>
Net operating revenues available for debt service	<u>\$ 50,982,197</u>
Annual debt service requirement	<u>\$ 533,750</u>
Actual debt coverage (net operating revenues available for debt service divided by annual debt service)	95.52
Required debt coverage	1.10

**ORANGE COUNTY WATER UTILITIES SYSTEM  
CUSTOMER STATISTICS, September 30, 2011 and 2010  
(Unaudited)**

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	2011	2010
Number of water accounts:		
Residential	151,470	139,040
Commercial	6,600	6,508
Number of wastewater accounts:		
Residential	98,352	95,592
Commercial	2,732	2,709
OUC billing (2)	38,922	39,180
Water consumption: (1)		
Residential	13,049,516	12,357,352
Commercial	7,789,087	7,421,099
Wastewater consumption: (1)		
Residential	6,460,098	6,285,072
Commercial	6,265,130	6,328,035
OUC billing (2)	6,559,081	6,366,460

(1) Water and wastewater consumption stated in thousands of gallons.

(2) OUC billing represents accounts billed for the System pursuant to an agreement with the Orlando Utilities Commission (OUC).