

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**ORANGE COUNTY, FLORIDA**  
**ANNUAL FINANCIAL REPORT**  
**for the years ended September 30, 2013 and 2012**

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## **Report of Independent Auditor**

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

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

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, 2013 and 2012, and the related notes to the 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 accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 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 opinion.

### **Opinion**

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, 2013 and 2012, 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.

## **Emphasis of Matter**

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, 2013 and 2012, 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.

## **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The Schedule of Budgeted Revenues and Expenses Compared to Actual, Schedule of Bonded Debt and Interest, Bond Coverage Computation and Customer Statistics are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Schedule of Budgeted Revenues and Expenses Compared to Actual, Schedule of Bonded Debt and Interest and Bond Coverage Computation have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Budgeted Revenues and Expenses Compared to Actual, Schedule of Bonded Debt and Interest and Bond Coverage Computation are fairly stated in all material respects in relation to the basic financial statements as a whole. The Customer Statistics have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

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*, a report is issued which includes our consideration of the System's internal control over financial reporting and 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* in considering the System's internal control over financial reporting and compliance.

Handwritten signature of Cheryl Behrman in cursive script.

Orlando, Florida  
January 15, 2014

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**STATEMENTS OF NET POSITION**  
**September 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b><u>ASSETS and DEFERRED OUTFLOWS OF RESOURCES</u></b>		
Current assets:		
Cash and cash equivalents	\$ 45,500,019	\$ 80,311,405
Accrued interest receivable	234,201	279,570
Accounts receivable	16,493,161	16,713,235
Less allowance for doubtful accounts	(144,624)	(196,535)
Due from other governmental agencies	2,299,918	2,228,760
Due from other funds	115	-
Inventories and prepaid costs	2,691,646	2,889,022
Restricted cash and cash equivalents	34,889,349	34,027,422
Total current assets	<u>101,963,785</u>	<u>136,252,879</u>
Noncurrent assets:		
Restricted cash and cash equivalents	8,009,647	8,057,926
Accounts receivable	1,897,004	2,411,791
Prepaid costs	23,960,435	4,036,224
Capital assets:		
Land	98,744,131	96,274,982
Construction in progress	156,191,543	105,366,984
Utility plant	1,737,346,291	1,702,413,007
Intangible	42,192,971	28,427,240
Less accumulated depreciation and amortization	(932,293,626)	(868,358,567)
Total capital assets	<u>1,102,181,310</u>	<u>1,064,123,646</u>
Total noncurrent assets	<u>1,136,048,396</u>	<u>1,078,629,587</u>
Total assets	<u>1,238,012,181</u>	<u>1,214,882,466</u>
Deferred outflows of resources:		
Deferred amount on debt refunding	56,443	154,336
Total assets and deferred outflows of resources	<u>\$ 1,238,068,624</u>	<u>\$ 1,215,036,802</u>
<b><u>LIABILITIES</u></b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 22,811,636	\$ 23,642,040
Due to other governmental agencies	696,105	343,765
Payable from restricted assets:		
Accrued interest payable	227,245	307,090
Loans payable	891,729	604,218
Revenue bonds payable	3,620,000	3,445,000
Customer deposits	7,447,503	7,271,812
Total current liabilities	<u>35,694,218</u>	<u>35,613,925</u>
Noncurrent liabilities:		
Compensated absences payable	1,870,710	1,615,531
Loans payable	13,261,168	10,440,366
Revenue bonds payable (net of unamortized costs)	3,803,019	7,413,389
Total noncurrent liabilities	<u>18,934,897</u>	<u>19,469,286</u>
Total liabilities	<u>54,629,115</u>	<u>55,083,211</u>
<b><u>NET POSITION</u></b>		
Net investment in capital assets	1,069,927,100	1,030,933,714
Restricted for:		
Debt service	4,590,796	4,318,674
Operating reserve	30,633,452	30,187,772
Unrestricted	78,288,161	94,513,431
Total net position	<u>1,183,439,509</u>	<u>1,159,953,591</u>
Total liabilities and net position	<u>\$ 1,238,068,624</u>	<u>\$ 1,215,036,802</u>

See accompanying notes to financial statements.

**ORANGE COUNTY WATER UTILITIES SYSTEM  
STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
for the years ended September 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Wastewater service	\$ 107,326,391	\$ 103,866,106
Water service	45,851,428	46,746,423
Miscellaneous	4,401,008	3,877,375
	<hr/>	<hr/>
Total operating revenues	157,578,827	154,489,904
Operating and maintenance expenses:		
Personal services	41,841,757	42,744,709
Contractual services	27,691,522	26,633,007
Materials and supplies	5,426,721	5,536,453
Utilities	13,141,410	13,695,666
Repairs and maintenance	14,496,825	12,994,561
Other expenses	5,737,458	5,073,053
	<hr/>	<hr/>
Total operating and maintenance expenses	108,335,693	106,677,449
Operating income before depreciation and amortization	49,243,134	47,812,455
Depreciation and amortization	65,439,474	64,525,410
	<hr/>	<hr/>
Operating loss	(16,196,340)	(16,712,955)
Nonoperating revenues (expenses):		
Interest revenue	280,140	773,238
Interest expense and fiscal charges	(702,784)	(286,739)
Gain (loss) on disposal of assets	305,575	(1,968,734)
	<hr/>	<hr/>
Total net nonoperating revenues (expenses)	(117,069)	(1,482,235)
Loss before contributions and transfers	(16,313,409)	(18,195,190)
Capital contributions	47,299,327	28,832,133
Transfer in	-	1,109
Transfer out	(7,500,000)	(6,500,000)
	<hr/>	<hr/>
Change in net position	23,485,918	4,138,052
Total net position, October 1	1,159,953,591	1,155,815,539
	<hr/>	<hr/>
Total net position, September 30	\$ 1,183,439,509	\$ 1,159,953,591

See accompanying notes to financial statements.

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**STATEMENTS OF CASH FLOWS**  
for the years ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 157,763,914	\$ 153,179,054
Cash payments to suppliers for goods and services	(86,206,416)	(61,796,544)
Cash payments to employees for services	(41,180,591)	(42,747,209)
	30,376,907	48,635,301
Cash flows from noncapital financing activities:		
Transfer in	-	1,109
Transfer out	(7,500,000)	(6,500,000)
	(7,500,000)	(6,498,891)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(85,205,553)	(55,428,516)
Principal paid on long-term debt	(4,138,542)	(556,642)
Interest and fees paid on long-term debt	(813,342)	(839,267)
Capital contributions	28,649,146	20,031,162
Proceeds from state revolving fund loan	3,750,246	1,265,060
Proceeds from disposition of assets	557,891	479,049
	(57,200,154)	(35,049,154)
Cash flows from investing activities:		
Interest on investments	325,509	815,849
	325,509	815,849
Net increase (decrease) in cash and cash equivalents	(33,997,738)	7,903,105
Cash and cash equivalents, October 1	122,396,753	114,493,648
Cash and cash equivalents, September 30	\$ 88,399,015	\$ 122,396,753
Classified as:		
Current assets	\$ 45,500,019	\$ 80,311,405
Current assets, restricted	34,889,349	34,027,422
Noncurrent assets, restricted	8,009,647	8,057,926
	88,399,015	122,396,753
Total	\$ 88,399,015	\$ 122,396,753

See accompanying notes to financial statements.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**STATEMENTS OF CASH FLOWS, Continued**  
**for the years ended September 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (16,196,340)	\$ (16,712,955)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	65,439,474	64,525,410
Decrease (increase) in assets:		
Accounts receivable	321,694	(1,168,642)
Allowance for doubtful accounts	(51,911)	26,426
Due from other governmental agencies	(71,158)	(107,765)
Due from other funds	(115)	70,000
Inventories and prepaid costs	(19,726,835)	(359,120)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	134,067	2,198,987
Due to other governmental agencies	352,340	(57,083)
Customer deposits	175,691	220,043
Total adjustments	<u>46,573,247</u>	<u>65,348,256</u>
Net cash provided by operating activities	<u>\$ 30,376,907</u>	<u>\$ 48,635,301</u>
Noncash investing, capital and financing activities:		
Capital assets donated by developers	<u>\$ 18,650,182</u>	<u>\$ 8,800,971</u>

See accompanying notes to financial statements.

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**for the years ended September 30, 2013 and 2012**

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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 Orange County (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.

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 position and expense 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.

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.

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**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the years ended September 30, 2013 and 2012**

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

Amendments to overall appropriations for any other reasons also require a public hearing prior to adoption. There were no amendments during the 2013 or the 2012 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 \$6,691,312 and \$6,305,085 as of September 30, 2013 and 2012, respectively. The System also records receivables for special assessments on certain construction projects. The amount of special assessments receivable included in accounts receivable was \$2,423,280 and \$2,883,244 as of September 30, 2013 and 2012, respectively. Of these amounts, \$526,276 and \$471,453, 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, 2013 and 2012**

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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 statements of net position. 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 position is 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 payments 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.

Deferred Outflows of Resources:

The System presents amounts charged on the refunding of debt as a deferred outflow and amortizes these amounts over the life of the debt.

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**ORANGE COUNTY WATER UTILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended September 30, 2013 and 2012**

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

Accounts Payable and Accrued Liabilities:

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

	2013	2012
Due to vendors	\$ 17,617,788	\$ 18,854,179
Salaries and benefits payable	5,193,848	4,787,861
Total	\$ 22,811,636	\$ 23,642,040

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 \$5,090,430 and \$4,779,191 at September 30, 2013 and 2012, respectively. Of these amounts, \$3,219,720 and \$3,163,660, 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 paid 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:

In accordance with GASB Statement No. 62, the System capitalizes net interest costs on funds borrowed to finance the construction of capital assets. The amount of net interest costs capitalized were \$490,774 and \$692,762 for the fiscal years ended September 30, 2013 and 2012, respectively.

The total interest cost for the System was \$813,768 and \$971,224 for the fiscal years ended September 30, 2013 and 2012, 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

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**ORANGE COUNTY WATER UTILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended September 30, 2013 and 2012**

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

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 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, 2013 and 2012 was as follows:

	<u>2013</u>	<u>2012</u>
Amortization of bond premium	\$ (5,235)	\$ (7,038)
Portion capitalized	(5,235)	(7,038)
Amortization of issuance costs	-	12,675
Portion capitalized	-	12,675
Amortization of deferred amount on refundings	97,893	131,597
Portion capitalized	97,893	131,597

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, 2013 and 2012. 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 \$6,734,210 and \$6,082,588 as of September 30, 2013 and 2012, respectively.

New Accounting Pronouncements:

Effective October 1, 2012, the Board adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and elected to early implement GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result of adopting these statements, the System has reclassified net assets to net position and the deferred loss on debt refunding from liabilities to deferred outflows of resources.

Additionally, GASB Statement No. 65 recognizes the cost of issuance of bonds as an expense in the period incurred rather than amortizing over the life of the debt. As a result, the unamortized balance of \$14,865 as of September 30, 2012 was expensed during Fiscal Year 2013.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the years ended September 30, 2013 and 2012**

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**B. DEPOSIT AND INVESTMENT RISK**

As of September 30, 2013 and 2012, the carrying value of the System's deposits and investments, with their respective Standard & Poor's and Moody's Investors Service credit ratings, was as follows:

<u>Investment Type</u>	<u>2013</u>	<u>2012</u>	<u>Credit Rating</u>
Demand and time deposits	\$ 3,603,553	\$ 2,631,647	NA
County investment pool:			
U.S. Treasury Bills	9,786,208	26,906,743	A-1+/P-1
U.S. Treasury Notes	57,579,953	75,065,016	AA+/Aaa
Federal instrumentalities:			
Discount notes	2,899,362	1,552,776	A-1+/P-1
Notes and bonds	6,168,402	9,333,361	AA+/Aaa
Money market mutual funds	8,361,537	6,907,210	AAAm/Aaa-mf
Total	<u>\$ 88,399,015</u>	<u>\$ 122,396,753</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: obligations issued or explicitly guaranteed by the U.S. Government (Treasuries), obligations of certain U.S. Government-sponsored Federal instrumentalities (Instrumentalities), direct obligations of states and municipalities, repurchase agreements comprised of Treasuries or Instrumentalities, Florida PRIME administered by the Florida State Board of Administration, commercial paper, bankers' acceptances, bank certificates of deposit or savings accounts, 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 Treasuries.

Concentration of Credit Risk:

Except for Treasuries, the Policy establishes limitations on portfolio composition for all permitted investments, both by investment type and by issuer, in order to control concentration of credit risk. The Policy, which pertains to the overall investment pool portfolio of the Board and is not monitored at the individual fund level, provides that a maximum of

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**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the years ended September 30, 2013 and 2012**

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

45% of the portfolio may be invested in any of four specified Instrumentalities, with a limit of 15% of the portfolio invested in any one issuer; and that a maximum of 25% of the portfolio may be invested in Money Markets, with a limit of 10% of the portfolio invested in any one issuer. At September 30, 2013, the System's portion of the Board investment pool portfolio was invested in three authorized Instrumentalities, each of which represented less than five percent of the pool portfolio.

Custodial Credit Risk:

The Policy requires that bank demand and time 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. At September 30, 2013 and 2012, all of the System's bank deposits were in qualified public depositories. Additionally, the System's bank deposits were fully secured by the FDIC under the Dodd-Frank Deposit Insurance provision, which provided unlimited FDIC insurance on non-interest bearing transaction accounts through December 31, 2012.

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, 2013 and 2012, all of the System's investments are held in a bank's trust department in the Board's name.

Interest Rate Risk:

For all investment types, the Policy limits the investment of current operating funds to 13 months. To increase returns and provide diversity, the Policy also provides for the investment of noncurrent (beyond 13 months) operating funds in investments with maturities no longer than 60 months. Noncurrent operating funds are invested in the intermediate term portfolio with a maximum maturity of 36 months, and the noncurrent operating portfolio with a maximum maturity of 60 months. Construction funds and debt service reserve funds may be invested for up to 10 years, subject to debt covenant restrictions and liquidity needs.

The System's investments had weighted average maturities of 18.0 months and 18.1 months at September 30, 2013 and 2012, respectively. The portfolio did not contain any callable securities at September 30, 2013 and 2012. The Money Markets have a weighted average maturity of not more than 60 days.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the years ended September 30, 2013 and 2012**

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**C. RESTRICTED ASSETS**

The bond resolutions authorizing the issuance of the System's bonds and provisions of the loan agreements 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, 2013 and September 30, 2012:

	<u>Cash and Cash Equivalents</u>
<u>September 30, 2013:</u>	
Operation and maintenance reserve	\$ 22,552,463
Net revenues	71,342
Bond principal	3,620,000
Bond interest	180,750
Renewal and replacement	7,755,536
Customer deposits	7,447,503
Rate stabilization	254,111
Loan debt service	257,151
Loan repayment reserve	<u>760,140</u>
Total restricted assets	42,898,996
Less: current portion	<u>34,889,349</u>
Noncurrent portion	<u><u>\$ 8,009,647</u></u>
<u>September 30, 2012:</u>	
Operation and maintenance reserve	\$ 22,103,328
Net revenues	26,518
Bond principal	3,445,000
Bond interest	266,875
Renewal and replacement	7,803,815
Customer deposits	7,271,812
Rate stabilization	254,111
Loan debt service	153,417
Loan repayment reserve	<u>760,472</u>
Total restricted assets	42,085,348
Less: current portion	<u>34,027,422</u>
Noncurrent portion	<u><u>\$ 8,057,926</u></u>

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the years ended September 30, 2013 and 2012**

**D. CAPITAL ASSETS**

Capital asset activity for the years ended September 30, 2013 and 2012 was as follows:

	Balance 10/1/12	Additions	Reductions	Balance 9/30/13
Capital assets, not being depreciated:				
Land	\$ 96,274,982	\$ 2,531,800	\$ (62,651)	\$ 98,744,131
Construction in progress	105,366,984	71,618,826	(20,794,267)	156,191,543
Total capital assets, not being depreciated	<u>201,641,966</u>	<u>74,150,626</u>	<u>(20,856,918)</u>	<u>254,935,674</u>
Capital assets, being depreciated/amortized:				
Buildings	22,656,953	-	-	22,656,953
Improvements other than buildings	1,606,057,000	27,038,575	-	1,633,095,575
Machinery and equipment	73,699,054	9,344,636	(1,449,927)	81,593,763
Intangible	28,427,240	13,821,486	(55,755)	42,192,971
Total capital assets, being depreciated/amortized	<u>1,730,840,247</u>	<u>50,204,697</u>	<u>(1,505,682)</u>	<u>1,779,539,262</u>
Less accumulated depreciation/amortization for:				
Buildings	(7,854,647)	(683,365)	-	(8,538,012)
Improvements other than buildings	(793,354,519)	(58,555,759)	-	(851,910,278)
Machinery and equipment	(56,857,962)	(5,409,040)	1,448,660	(60,818,342)
Intangible	(10,291,439)	(791,310)	55,755	(11,026,994)
Total accumulated depreciation/amortization	<u>(868,358,567)</u>	<u>(65,439,474)</u>	<u>1,504,415</u>	<u>(932,293,626)</u>
Total capital assets, being depreciated/amortized, net	<u>862,481,680</u>	<u>(15,234,777)</u>	<u>(1,267)</u>	<u>847,245,636</u>
Total System capital assets, net	<u>\$ 1,064,123,646</u>	<u>\$ 58,915,849</u>	<u>\$ (20,858,185)</u>	<u>\$ 1,102,181,310</u>
	Balance 10/1/11	Additions	Reductions	Balance 9/30/12
Capital assets, not being depreciated:				
Land	\$ 85,954,435	\$ 10,391,643	\$ (71,096)	\$ 96,274,982
Construction in progress	124,947,762	41,996,537	(61,577,315)	105,366,984
Total capital assets, not being depreciated	<u>210,902,197</u>	<u>52,388,180</u>	<u>(61,648,411)</u>	<u>201,641,966</u>
Capital assets, being depreciated/amortized:				
Buildings	22,656,953	-	-	22,656,953
Improvements other than buildings	1,539,062,006	67,294,994	(300,000)	1,606,057,000
Machinery and equipment	73,562,716	2,095,656	(1,959,318)	73,699,054
Intangible	24,112,315	4,326,719	(11,794)	28,427,240
Total capital assets, being depreciated/amortized	<u>1,659,393,990</u>	<u>73,717,369</u>	<u>(2,271,112)</u>	<u>1,730,840,247</u>
Less accumulated depreciation/amortization for:				
Buildings	(7,170,632)	(684,015)	-	(7,854,647)
Improvements other than buildings	(735,705,811)	(57,948,708)	300,000	(793,354,519)
Machinery and equipment	(53,476,039)	(5,334,329)	1,952,406	(56,857,962)
Intangible	(9,744,875)	(558,358)	11,794	(10,291,439)
Total accumulated depreciation/amortization	<u>(806,097,357)</u>	<u>(64,525,410)</u>	<u>2,264,200</u>	<u>(868,358,567)</u>
Total capital assets, being depreciated/amortized, net	<u>853,296,633</u>	<u>9,191,959</u>	<u>(6,912)</u>	<u>862,481,680</u>
Total System capital assets, net	<u>\$ 1,064,198,830</u>	<u>\$ 61,580,139</u>	<u>\$ (61,655,323)</u>	<u>\$ 1,064,123,646</u>

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the years ended September 30, 2013 and 2012**

**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, 2013 and 2012 is as follows:

	Balance 10/1/12	Additions	Reductions	Balance 9/30/13
Compensated absences payable	\$ 4,779,191	\$ 3,527,919	\$ (3,216,680)	\$ 5,090,430
Revenue bonds payable	10,865,000	-	(3,445,000)	7,420,000
Less unamortized costs:				
Bond premium	8,254	-	(5,235)	3,019
Bond issuance costs	(14,865)	-	14,865	-
Total revenue bonds payable, net of unamortized costs	10,858,389	-	(3,435,370)	7,423,019
Loans payable	11,044,584	3,792,260	(683,947)	14,152,897
System long-term liabilities, including current portion	\$ 26,682,164	\$ 7,320,179	\$ (7,335,997)	\$ 26,666,346
	Balance 10/1/11	Additions	Reductions	Balance 9/30/12
Compensated absences payable	\$ 4,791,567	\$ 3,321,133	\$ (3,333,509)	\$ 4,779,191
Revenue bonds payable	10,865,000	-	-	10,865,000
Less unamortized costs:				
Bond premium	15,292	-	(7,038)	8,254
Bond issuance costs	(27,540)	-	12,675	(14,865)
Total revenue bonds payable, net of unamortized costs	10,852,752	-	5,637	10,858,389
Loans payable	10,334,012	1,265,060	(554,488)	11,044,584
System long-term liabilities, including current portion	\$ 25,978,331	\$ 4,586,193	\$ (3,882,360)	\$ 26,682,164

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended September 30, 2013 and 2012**

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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.

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, 2013 and 2012**

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**F. REVENUE BONDS PAYABLE, Continued**

The following is a summary of revenue bonds payable as of September 30, 2013 and 2012:

	September 30	
	2013	2012
<u>\$50,675,000 Water Utilities System Refunding Revenue Bonds, Series 1998:</u>		
Current interest serial bonds, due October 1, from 2012 to 2014, with interest due semi-annually on April 1 and October 1, at 4.75% to 5.00%	\$ 7,420,000	\$ 10,865,000
Less: Unamortized bond premium	3,019	8,254
Unamortized bond issuance costs	-	(14,865)
Deferred amount on refundings	(56,443)	(154,336)
Total revenue bonds payable net of unamortized costs	\$ 7,366,576	\$ 10,704,053
Classified as:		
Amounts displayed as liabilities:		
Revenue bonds payable, current portion (payable from restricted assets)	\$ 3,620,000	\$ 3,445,000
Revenue bonds payable, noncurrent portion	3,803,019	7,413,389
Amounts displayed as deferred outflows of resources:		
Deferred amount on refunding	(56,443)	(154,336)
Total	\$ 7,366,576	\$ 10,704,053

The total principal and interest remaining to be paid on this series was \$7,781,250 and \$11,673,875 as of September 30, 2013 and 2012, respectively. Principal and interest paid or defeased was \$3,892,625 and \$533,750 and total pledged revenue was \$49,084,469 and \$48,557,632, respectively, for the fiscal years ended September 30, 2013 and 2012.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended September 30, 2013 and 2012**

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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, 2013 and 2012**

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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, 2013 and 2012**

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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, 2013 and 2012**

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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, 2013:

<u>Bond Year Ending October 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 3,620	\$ 181	\$ 3,801
2014	<u>3,800</u>	<u>180</u>	<u>3,980</u>
Totals	<u>\$ 7,420</u>	<u>\$ 361</u>	<u>\$ 7,781</u>

The amount of defeased debt still outstanding and not reported on the balance sheets is as follows as of September 30, 2013 and 2012:

	<u>Original Defeased Amount</u>	<u>September 30</u>	
		<u>2013</u>	<u>2012</u>
Water and Sewer Revenue Bonds, Series 1982	\$ 27,915,000	\$ 2,455,000	\$ 7,070,000

**G. LOANS PAYABLE**

In June 2002, the County began participating in the Clean Water State Revolving Fund Construction Loan Program with the State of Florida Department of Environmental Protection. Loan proceeds are being utilized by the System to finance various construction projects of the water and wastewater system. Following is a description of each of the loans outstanding as of September 30, 2013.

Loan #69214S, was for construction of a central wastewater collection system in the Holden Heights area. The initial loan approved in June 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. The principal balance outstanding was \$3,993,237 and \$4,251,395 as of September 30, 2013 and 2012, 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.

In August 2006, loan #692150 was approved for a subsequent phase of the Holden Heights project, in the total available 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

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the years ended September 30, 2013 and 2012**

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**G. LOANS PAYABLE, Continued**

project. The principal balance outstanding was \$5,311,218 and \$5,575,140 as of September 30, 2013 and 2012, respectively. For this loan, semiannual payments of \$204,412, including interest at 2.63%, are due on January 15 and July 15 of each year, through July 15, 2029.

In March 2011, loan #480360 was approved for the Lake Lawne Gravity Sewer Rehabilitation Project in the initial amount of \$1,756,255. This was reduced in Fiscal Year 2013 to the actual amount drawn of \$1,734,755 to reflect the final cost of the construction project. The principal balance outstanding was \$1,610,192 and \$1,218,048 as of September 30, 2013 and 2012, respectively. For this loan, semiannual payments of \$56,219, including interest of 2.53%, were due on February 15 and August 15 of each year, from August 15, 2012 through February 15, 2013. Semiannual payments for the period August 15, 2013 through February 15, 2032 were reduced to \$54,765 to reflect the reduction in loan amount.

In January 2012, loan #480310 was approved for the South and Eastern Area Reclaimed Water Main Project in the initial amount of \$5,064,998. This was reduced in Fiscal Year 2013 to \$3,405,560 to reflect the approved cost of the construction project. No draws on this loan have been made as of September 30, 2013, thus the principal balance is zero. For this loan, semiannual payments of \$107,500, including interest of 2.38% are due on March 15 and September 15 of each year, for a 20-year period beginning March 2014.

In January 2012, loan #480320 was approved for the East Southwood Gravity Sewer and Water System Project in the initial amount of \$4,360,690. This was reduced in Fiscal Year 2013 to \$3,329,372 to reflect the approved cost of the construction project. The first draw on this loan was received in June 2013. The principal balance outstanding was \$329,440 as of September 30, 2013. For this loan, semiannual payments of \$105,094, including interest of 2.38% are due on March 15 and September 15 of each year, for a 20-year period beginning March 2014.

In January 2012, loan #480330 was approved for the West Southwood Gravity Sewer and Water System Project in the initial amount of \$2,655,957. This was reduced in Fiscal Year 2013 to the actual amount drawn of \$2,068,169 to reflect the final cost of the construction contract. The principal balance outstanding was \$1,940,305 as of September 30, 2013. For this loan, a semiannual payment of \$83,838, including interest of 2.38%, was due March 15, 2013. Semiannual payments for the period September 15, 2013 through September 15, 2032 were reduced to \$63,771 to reflect the reduction in loan amount.

In January 2012, loan #480380 was approved for the Huggins Street Pump Station Project in the initial amount of \$3,981,328. The first draw on this loan was received in May 2013. The principal balance outstanding was \$968,505 as of September 30, 2013. For this loan, semiannual payments of \$125,674, including interest of 2.38% are due on March 15 and September 15 of each year, for a 20-year period beginning September 2013.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended September 30, 2013 and 2012**

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**G. LOANS PAYABLE, Continued**

In December 2012, loan #DW4803A0 was approved for South and Eastern Area Water Main Project in the initial amount of \$10,807,569. No draws on this loan have been made as of September 30, 2013, thus the principal balance is zero. For this loan, semiannual payments of \$328,839 including interest of 1.99% are due on March 15 and September 15 of each year, for a 20-year period beginning March 2014.

In December 2012, loan #DW4803B0 was approved for Hidden Springs Water Facility Improvements Project in the initial amount of \$4,196,246. No draws on this loan have been made as of September 30, 2013, thus the principal balance is zero. For this loan, semiannual payments of \$127,678 including interest of 1.99% are due on January 15 and July 15 of each year, for a 20-year period beginning January 2015.

In September 2013, loan #WW4803D0 was approved for I-Drive Forcemain and Reclaimed Water Main Improvements Project in the initial amount of \$7,571,449. No draws on this loan have been made as of September 30, 2013, thus the principal balance is zero. For this loan, semiannual payments of \$228,846 including interest of 1.92% are due on April 15 and October 15 of each year, for a 20-year period beginning April 2016.

The total principal and interest remaining to be paid on these loans was \$17,194,889 and \$13,614,491 as of September 30, 2013 and 2012, respectively. Principal and interest paid was \$1,054,964 and \$852,590 and total pledged revenue was \$45,102,969 and \$44,578,882, respectively, for the fiscal years ended September 30, 2013 and 2012.

Future principal and interest payments (in thousands) required on the State Revolving Loans are as follows as of September 30, 2013:

Fiscal Year	<u>Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>		
2014	\$	892	\$	352	\$	1,244
2015		947		340		1,287
2016		960		325		1,285
2017		985		299		1,284
2018		1,012		273		1,285
2019-2023		4,315		994		5,309
2024-2028		3,792		406		4,198
2029-2032		1,250		53		1,303
Totals	\$	<u>14,153</u>	\$	<u>3,042</u>	\$	<u>17,195</u>

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the years ended September 30, 2013 and 2012**

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**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 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) for Pension Plan members. 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.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended September 30, 2013 and 2012**

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**H. RETIREMENT SYSTEM, Continued**

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 Web site [www.dms.myflorida.com/retirement](http://www.dms.myflorida.com/retirement).

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, 2013 were as follows: regular--6.95%; senior management--18.31%; and DROP participants--12.84%. The employer contribution rates by job class at September 30, 2012 were as follows: regular--5.18%; senior management--6.30%; and DROP participants--5.44%.

The System contributed to the plan an amount equal to 5.93% and 5.00% of covered payroll during fiscal years ended September 30, 2013 and 2012. System contributions to the FRS for the fiscal years ending September 30, 2011 through 2013 were \$3,228,772, \$1,747,405 and \$2,086,515, 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.

Continued

**ORANGE COUNTY WATER UTILITIES SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the years ended September 30, 2013 and 2012**

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

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 2013, the System's AOC payment was \$351,340 representing 1.0% of the System's covered payroll amount of \$35,188,276. For Fiscal Year 2012, the System's AOC payment was \$330,628, representing 0.95% of the System's covered payroll amount of \$34,967,528. 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 commercial carriers 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 2013 and 2012 at an annual cost of \$2,363,221 and \$1,897,614, respectively. There have been no claim settlements in excess of insurance coverage during the three fiscal years ended September 30, 2013.

**K. COMMITMENTS AND CONTINGENCIES**

Outstanding commitments under operating and construction contracts for various projects totaled approximately \$128.0 million and \$133.2 million at September 30, 2013 and 2012, 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. TRANSFERS IN AND OUT**

The System recognized a transfer in from Grants Special Revenue Funds of \$1,109 during Fiscal Year 2012 for administrative costs incurred for grant administration.

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 \$7,500,000 and \$6,500,000 in Fiscal Years 2013 and 2012, respectively, to the Board's General Fund.

**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, 2013**

	Budget	Actual
Operating revenues:		
Wastewater service	\$ 106,051,681	\$ 107,326,391
Water service	49,304,591	45,851,428
Miscellaneous	3,125,188	4,401,008
Total operating revenues	158,481,460	157,578,827
Operating and maintenance expenses:		
Personal services	44,322,976	41,841,757
Contractual services	44,080,603	27,691,522
Materials and supplies	7,496,020	5,426,721
Utilities	14,706,964	13,141,410
Repairs and maintenance	14,536,350	14,496,825
Other expenses	6,320,014	5,737,458
Total operating and maintenance expenses	131,462,927	108,335,693
Operating income, budgetary basis*	27,018,533	49,243,134
Nonoperating revenues (expenses):		
Interest revenue	429,525	280,140
Interest expense and fiscal charges	(1,224,662)	(1,064,284)
Total net nonoperating revenues (expenses)	(795,137)	(784,144)
Income before contributions and transfer, budgetary basis*	26,223,396	48,458,990
Capital contributions	15,075,588	28,649,146
Transfer out	(7,500,000)	(7,500,000)
Change in net position, budgetary basis*	\$ 33,798,984	\$ 69,608,136

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

**ORANGE COUNTY WATER UTILITIES SYSTEM  
SCHEDULE OF BONDED DEBT AND INTEREST  
September 30, 2013**

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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>
2013	\$ 3,620,000	\$ 180,750 (a)	\$ 3,800,750
2014	<u>3,800,000</u>	<u>180,500</u>	<u>3,980,500 (b)</u>
Totals	<u>\$ 7,420,000</u>	<u>\$ 361,250</u>	<u>\$ 7,781,250</u>

(a) Represents semi-annual requirement only.  
(b) Maximum annual debt service.

**ORANGE COUNTY WATER UTILITIES SYSTEM  
BOND COVERAGE COMPUTATION  
September 30, 2013**

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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, 2013:

Gross operating revenues	\$ 157,578,827
Interest income, excluding interest on connection fees	268,131
Less operating and maintenance expenses	<u>(108,335,693)</u>
Net operating revenues	49,511,265
Less required deposits to specified accounts	<u>(426,796)</u>
Net operating revenues available for debt service	<u>\$ 49,084,469</u>
Annual debt service requirement	<u>\$ 3,981,500</u>
Actual debt coverage (net operating revenues available for debt service divided by annual debt service)	12.33
Required debt coverage	1.10

**ORANGE COUNTY WATER UTILITIES SYSTEM  
CUSTOMER STATISTICS, September 30, 2013 and 2012  
(Unaudited)**

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	2013	2012
Number of water accounts:		
Residential	161,201	157,136
Commercial	6,925	6,783
Number of wastewater accounts:		
Residential	100,416	99,030
Commercial	2,828	2,785
OUC billing (2)	40,538	39,577
Water consumption: (1)		
Residential	11,948,708	12,566,221
Commercial	7,575,163	7,607,422
Wastewater consumption: (1)		
Residential	6,481,559	6,503,001
Commercial	6,357,006	6,295,982
OUC billing (2)	6,674,816	6,750,663

(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).