



**BROWARD COUNTY, FLORIDA
WATER AND WASTEWATER FUND**
A Major Fund of Broward County, Florida

**Special Purpose Financial Statements
Years Ended September 30, 2012 and 2011**

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND
SPECIAL PURPOSE FINANCIAL STATEMENTS
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MOORE STEPHENS
LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable Board of County Commissioners
Broward County Water and Wastewater Fund
Broward County, Florida

We have audited the accompanying special purpose financial statements of the Broward County Water and Wastewater Fund (the "Water and Wastewater Fund"), an enterprise fund of Broward County, as of and for the years ended September 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Water and Wastewater Fund's management. 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, assessing the accounting principles used and the 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 described in Note 1 to the financial statements, the financial statements present only the Water and Wastewater Fund and do not purport to, and do not, present the financial position of Broward County, Florida (the "County"), as of September 30, 2012 and 2011, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the special purpose financial statements referred to above present fairly, in all material respects, the financial position of the Water and Wastewater Fund, as of September 30, 2012 and 2011, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2013, on our consideration of the Water and Wastewater Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Honorable Board of County Commissioners
Broward County Water and Wastewater Fund

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress – Other Post Employment Benefits, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the special-purpose financial statements taken as a whole. The supplemental information included on page 26 is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the special-purpose financial statements. The information has been subjected to the auditing procedures applied in the audit of the special-purpose financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the special-purpose financial statements or to the special-purpose financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the special-purpose financial statements taken as a whole.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
February 15, 2013

**BROWARD COUNTY, FLORIDA
WATER AND WASTEWATER FUND
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2012 AND 2011**

	2012	2011
ASSETS		
Current Assets		
Unrestricted Assets		
Cash & Cash Equivalents	\$ 14,185,822	\$ 34,511,105
Investments	22,986,022	7,335,222
Accounts Receivable (Net)	12,460,075	12,764,481
Inventory	7,557,040	7,121,114
Prepaid Expense	1,390,511	703,014
Total Current Unrestricted Assets	58,579,470	62,434,936
Restricted Assets:		
Cash & Cash Equivalents	135,867,999	20,054,537
Total Current Assets	194,447,469	82,489,473
Noncurrent Assets		
Restricted Investments	51,819,270	43,978,809
Bond Issuance Costs	3,735,184	2,466,204
Property, Plant and Equipment:		
Land	4,903,960	4,900,960
Buildings and Improvements	211,706,911	209,769,182
Equipment	848,719,198	761,712,512
Property, Plant and Equipment before Depreciation	1,065,330,069	976,382,654
Less Accumulated Depreciation	(418,484,515)	(388,540,864)
Property, Plant and Equipment before Construction In Progress (Net)	646,845,554	587,841,790
Construction in Progress	70,212,181	108,117,265
Property Plant and Equipment (Net)	717,057,735	695,959,055
Total Noncurrent Assets	772,612,189	742,404,068
TOTAL ASSETS	\$ 967,059,658	\$ 824,893,541

The notes to the financial statements are an integral part of this statement.

BROWARD COUNTY, FLORIDA
WATER AND WASTEWATER FUND
STATEMENTS OF NET ASSETS - continued
SEPTEMBER 30, 2012 AND 2011

	2012	2011
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Payable from Unrestricted Assets		
Accounts Payable	\$ 8,688,635	\$ 4,973,465
Accrued Liabilities	4,177,690	4,479,179
Due to Other County Funds	-	21,355,489
Due to Other Governments	2,424,575	2,176,809
Compensated Absences	1,781,000	1,796,000
Total Current Liabilities Payable from Unrestricted Assets	17,071,900	34,780,942
Payable from Restricted Assets		
Accrued Liabilities	55,045	12,288
Accrued Interest Payable	11,913,779	9,984,191
Revenue Bonds Payable	10,440,000	10,110,000
Customer Deposits	8,489,810	8,378,517
Total Current Liabilities Payable from Restricted Assets	30,898,634	28,484,996
Total Current Liabilities	47,970,534	63,265,938
Noncurrent Liabilities		
Revenue Bonds Payable, net of discounts, premiums and deferred amount on refunding	551,054,228	402,623,397
Compensated Absences	2,220,000	2,487,000
Other Post Employment Benefits Liability	538,096	470,182
Total Noncurrent Liabilities	553,812,324	405,580,579
TOTAL LIABILITIES	601,782,858	468,846,517
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	271,136,649	276,709,290
Restricted For:		
Debt Service	37,499,460	40,110,292
Renewal, Replacement and Improvement	5,830,000	5,600,000
Unrestricted	50,810,691	33,627,442
TOTAL NET ASSETS	\$ 365,276,800	\$ 356,047,024

BROWARD COUNTY, FLORIDA
WATER AND WASTEWATER FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

Operating Revenue:	2012	2011
Retail Services:		
Water	\$ 45,642,125	\$ 44,293,830
Wastewater	33,476,030	32,664,066
Septic Charges	1,545,142	1,518,932
Other Services	4,069,927	4,094,224
	84,733,224	82,571,052
 Wholesale Services:		
Water	700,699	820,138
Wastewater	31,227,856	30,659,726
Total Operating Revenue	116,661,779	114,050,916
 Operating Expense:		
Personal Services	23,108,316	24,664,054
Utilities Services	15,399,775	14,273,462
Chemicals	2,784,134	2,802,623
County Services	3,334,198	3,389,650
Material and Supplies	4,431,528	5,656,117
Motor Pool	1,520,370	1,387,081
Contractual Services	8,419,379	6,196,391
Other	5,075,147	5,573,925
Total Operating Expense (Excluding Depreciation)	64,072,847	63,943,303
 Operating Income Before Depreciation	52,588,932	50,107,613
 Depreciation Expense	31,038,533	30,974,831
 Operating Income	21,550,399	19,132,782
 Non-operating Income (Expense)		
Interest Income	792,626	1,569,706
Interest Expense	(18,646,984)	(17,608,307)
Other Income	1,053,113	852,739
Amortization of Bond Issuance Costs	(297,693)	(283,838)
Other Debt Service	(11,070)	(10,950)
Gain on Disposal of Assets	21,656	25,060
Total Non-Operating Expense	(17,088,352)	(15,455,590)
 Income Before Capital Contributions	4,462,047	3,677,192
 Capital Contributions:		
Capital Recovery Fees	635,862	661,661
Capital Contributed From Other Governments	1,709,311	1,721,245
Assets Contributed by Developers	2,422,556	1,553,058
Total Capital Contributions	4,767,729	3,935,964
 Change in Net Assets	9,229,776	7,613,156
 Total Net Assets - Beginning	356,047,024	348,433,868
 Total Net Assets - Ending	\$ 365,276,800	\$ 356,047,024

The notes to the financial statements are an integral part of this statement.

**BROWARD COUNTY, FLORIDA
WATER AND WASTEWATER FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

	2012	2011
Cash Flows From Operating Activities		
Cash Received from Customers	\$ 117,325,244	\$ 116,497,642
Cash Payments to Suppliers for Goods and Services	(41,486,559)	(38,845,785)
Cash Payments to Employees for Services	(23,409,632)	(24,888,480)
Other Cash Received	1,053,350	853,031
	<u>53,482,403</u>	<u>53,616,408</u>
Net Cash Provided By Operating Activities		
 Cash Flows from Capital and Related Financing Activities		
Acquisition and Construction of Capital Assets	(43,826,736)	(64,244,575)
Proceeds from Sale of Capital Assets	21,656	25,060
Proceeds from Internal Loan	3,513,144	21,355,489
Payments on Internal Loan	(24,868,633)	-
Interest Paid on Internal Loan	(175,418)	-
Proceeds from Revenue Bonds	157,650,730	-
Capital Recovery Fees	701,402	687,586
Capital Recovery Fees Refunded	(65,540)	(25,925)
Capital Surcharges Contributed from Other Governments	1,709,311	1,721,245
Principal Paid on Revenue Bonds	(10,110,000)	(9,705,907)
Interest Paid on Revenue Bonds	(19,723,806)	(17,456,957)
Payment of Bond Issuance Costs	(121,462)	(294,788)
	<u>64,704,648</u>	<u>(67,938,772)</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities		
 Cash Flows From Investing Activities		
Purchase of Investment Securities	(72,358,013)	(102,645,993)
Proceeds from Sale and Maturities of Investment Securities	48,866,752	87,340,635
Interest on Investments	792,389	1,569,414
	<u>(22,698,872)</u>	<u>(13,735,944)</u>
Net Cash Used for Investing Activities		
 Net Increase (Decrease) In Cash and Cash Equivalents	<u>95,488,179</u>	<u>(28,058,308)</u>
Cash and Cash Equivalents, Beginning of Year	<u>54,565,642</u>	<u>82,623,950</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 150,053,821</u></u>	<u><u>\$ 54,565,642</u></u>
 Cash and Cash Equivalents - Unrestricted Assets	\$ 14,185,822	\$ 34,511,105
Cash and Cash Equivalents - Restricted Assets	<u>135,867,999</u>	<u>20,054,537</u>
Total Cash and Cash Equivalents	<u><u>\$ 150,053,821</u></u>	<u><u>\$ 54,565,642</u></u>

The notes to the financial statements are an integral part of this statement.

BROWARD COUNTY, FLORIDA
WATER AND WASTEWATER FUND
STATEMENTS OF CASH FLOWS - continued
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
Reconciliation of Operating Income to Net Cash Provided By Operating Activities		
Operating Income	\$ 21,550,399	\$ 19,132,782
Adjustments to Reconcile Operating Income to Net Cash Provided by(Used for) Operating Activities:		
Depreciation	31,038,533	30,974,831
Miscellaneous Non-Operating Revenue (Expense)	1,053,350	853,031
Decrease (Increase) in Assets:		
Accounts Receivable	304,406	2,014,095
Inventory	(435,926)	121,170
Prepaid Expense	(687,497)	559,551
Increase (Decrease) in Liabilities:		
Accounts Payable	601,395	(247,257)
Accrued Liabilities	(87,230)	27,594
Due to Other Governments	247,766	227,656
Customer Deposits	111,293	204,975
Compensated Absences	(282,000)	(376,000)
Other Post Employment Benefits Liability	67,914	123,980
Total Adjustments	31,932,004	34,483,626
Net Cash Provided By Operating Activities	\$ 53,482,403	\$ 53,616,408
Non-Cash Capital and Related Financing Activities:		
Amortization of Bond Discounts, Premiums & Deferred Amounts	\$ (193,423)	\$ 59,092
Amortization of Bond Issuance Costs	297,693	283,838
Capital Assets Acquired thru Accounts Payable	2,118,620	-
Change in Fair Value of Investments	(423,383)	386,985
Capital Contributions	2,422,556	1,553,058
Proceeds from Refunding Bonds	179,635,289	-

The notes to the financial statements are an integral part of this statement.

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

Years Ended September 30, 2012 and 2011

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BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

Years Ended September 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

These financial statements present the financial position, changes in net assets and cash flows of the Broward County, Florida Water and Wastewater Fund (the "Fund"), a major enterprise fund of Broward County (the County), and not the county as a whole.

The Board of County Commissioners (the Board) is responsible for legislative and fiscal control of the County. A County Administrator is appointed by the Board and is responsible for administrative and fiscal control of all County departments through the administration of directives and policies established by the Board.

B. Basis of Accounting

The Fund operates as an enterprise fund of the County and uses the enterprise fund type to account for all its operations. The financial statements are presented using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows take place.

Operating revenues and operating expenses are distinguished from non-operating items. Operating revenues and operating expenses generally result from providing services in connection with the Fund's principal ongoing operation. The Fund's principal operating revenues are from water and wastewater customers. The principal operating expenses of the Fund include employee wages and benefits, purchases of services, supplies and materials and other expenses related to operating the Fund and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Net Assets

Net assets represent the residual interest in the Fund's assets after liabilities are deducted and consist of three sections: Invested in capital assets, net of related debt, restricted and unrestricted net assets. Net assets invested in capital assets, net of related debt includes capital assets, net of accumulated depreciation, reduced by outstanding debt expended for capital assets. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. All other net assets are unrestricted.

D. Proprietary Accounting and Financial Reporting

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed by the Fund to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). While the Fund has the option of following subsequent private-sector guidance, the Fund has elected not to follow subsequent private-sector guidance.

E. Deposits and Investments

Cash and cash equivalents consist of amounts in demand deposits, as well as short-term investments, with original maturities at time of purchase of three months or less.

The Fund, in addition to non-pooled investments, participates in the investment pool maintained by the County for all cash and cash equivalents and investments. All investments are stated at fair value, which is based on quoted market price. The Fund's portion of the pool is presented as "cash and cash equivalents", "investments" or "restricted assets", as appropriate. Earnings are allocated to the Fund based on the average daily balances of cash and investments.

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

Years Ended September 30, 2012 and 2011

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Accounts Receivable

The Fund's operating revenues are generally recognized on the basis of cycle billings rendered monthly. Unbilled revenues for services delivered during the last month of the fiscal year are accrued based on meter readings for September consumption. Accrued unbilled receivables at September 30, 2012 and 2011 were \$4,077,178 and \$3,693,356, respectively. An allowance for doubtful accounts is provided for receivables where there is a question as to ultimate collectability. Receivables for the Fund are presented in the accompanying financial statements, net of an allowance for uncollectible accounts of \$5,537,841 and \$4,621,877 at September 30, 2012 and 2011, respectively.

G. Inventories and Prepaid Expenses

Inventories held for use in maintaining the system are stated at average cost.

Prepaid expenses consist primarily of insurance costs that will benefit future accounting periods.

H. Capital Assets

Capital assets, which include property, plant and equipment, are recorded at cost or, if donated, at fair value at the date of donation. The capitalization levels are \$1,000 for equipment and \$5,000 for land and improvements and buildings and facilities. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are depreciated on the straight-line basis over the following estimated useful lives:

Buildings and Facilities	10-45 years
Equipment	3-15 years

I. Capitalized Interest

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Fund during the fiscal years ended September 30, 2012 and 2011, was \$21,635,389 and \$19,987,819, respectively, and of this \$2,988,405 and \$2,379,512 was included as part of the cost of construction-in-progress.

J. Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statements of net assets. Bond premiums and discounts, gains/losses on refundings, as well as issuance costs, are deferred and amortized over the life of the bonds on a straight-line basis. Bonds payable are reported net of the applicable bond premium or discount and gains/losses on refundings. Bond issuance costs are reported as deferred charges.

K. Compensated Absences

The Fund's policy is to permit employees to accumulate vacation and sick leave. The cost of earned but unused vacation is accrued as a liability in the period in which the leave is earned. A liability for earned but unused sick leave is accrued only to the extent that the leave will result in cash payments at termination. At September 30, 2012 and 2011, such amounts aggregated \$4,001,000 and \$4,283,000, respectively, and are included in current and long-term liabilities.

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

Years Ended September 30, 2012 and 2011

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Capital Contributions

Capital contributions consist mainly of capital recovery fees and contributions from developers and other governments. They are recognized as earned, as related project costs are incurred.

M. Reclassifications

Certain amounts presented in the prior-year data have been reclassified to be consistent with the current year's presentation.

N. Use of Estimates

The preparation of the special purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

Years Ended September 30, 2012 and 2011

NOTE 2 - DEPOSITS AND INVESTMENTS

At September 30, 2012 and 2011, the Fund's deposits and investments consisted of the following:

	September 30,	
	2012	2011
Cash Deposits	<u>\$ 150,053,699</u>	<u>\$ 51,814,865</u>
Investments:		
U.S. Treasuries	6,302,117	4,917
U.S. Agencies	67,569,643	54,055,032
Commercial Paper	933,654	1,442
Money Market Funds	-	3,417
Total Investments	<u>74,805,414</u>	<u>54,064,808</u>
Total Cash, Cash Equivalents and Investments	<u>\$ 224,859,113</u>	<u>\$ 105,879,673</u>

Cash and cash equivalents and investments are classified on the statements of net assets as follows:

	September 30,	
	2012	2011
Current Assets		
Cash and cash equivalents, unrestricted	\$ 14,185,822	\$ 34,511,105
Cash and cash equivalents, restricted	135,867,999	20,054,537
Investments, unrestricted	22,986,022	7,335,222
Noncurrent Assets		
Investments, restricted	<u>51,819,270</u>	<u>43,978,809</u>
Total Cash, Cash Equivalents and Investments	<u>\$ 224,859,113</u>	<u>\$ 105,879,673</u>

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

Years Ended September 30, 2012 and 2011

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Deposits

Custodial Credit Risk - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the County will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The County mitigates custodial credit risk by generally requiring public funds to be deposited in a qualified public depository pursuant to State Statutes. Under the Statutes, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits times the depositories' collateral pledging level. The pledging level may range from 25% to 200% depending upon the depositories' financial condition and establishment period. All collateral must be deposited with an approved financial institution. Any potential losses to public depositors are covered by applicable deposit insurance, sale of securities pledged as collateral, and, if necessary, assessments against other qualified public depositories of the same type as the depository in default.

At September 30, 2012, \$125,627,000 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institutions' trust department or agent, for the County.

Investments

The Fund follows the County's formal investment policy that, in the opinion of management, is designed to insure conformity with State Statutes and seeks to limit exposure to investment risks. The investment policy specifies the types, issuer, maturity, and performance measurement of investment securities that are permissible. Securities are held to maturity with limited exceptions outlined in the investment policy. Qualified institutions utilized for investment transactions are also addressed within the policy, as well as diversification requirements for the investment portfolio.

Under State Statutes and County Ordinances, the County is authorized to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, commercial paper, repurchase agreements, certificates of deposit, certain Money Market Funds and the Florida Local Government Investment Trust. County policy requires that securities underlying repurchase agreements must have a market value of at least 101% of the cost of the repurchase agreements. There were no losses during the period due to default by counterparties to investment transactions and, in the opinion of County management, no types of investments during the period other than those permitted, as enumerated above. The County does not have any direct exposure to subprime-backed securities.

Interest Rate Risk - In accordance with its investment policy, the County manages its exposure to interest rate volatility by limiting the weighted average maturity of its investment portfolio within the following maturity categories: overnight 35%; 1-30 days 80%; 31-90 days 80%; 91 days to 1 year 70%; 1-2 years 40%; 2-3 years 20%; 3-4 years 15%; 4-5 years 10%. As of September 30, 2012, the portfolio weighted average maturity was 665 days, and was in accordance with the County's investment policy.

Credit Risk - The County's investment policy contains specific rating criteria for certain investments. The policy states that commercial paper, bonds, notes, or obligations of the State of Florida, any municipality or political subdivision or any agency or authority of the state, if such obligations are rated, must be rated in one of the two highest rating categories by at least two nationally recognized rating agencies. Commercial paper not rated must be backed by a letter of credit or line of credit rated in one of the two highest rating categories. Any investments in World Bank Notes, Bonds and Discount Notes must be rated AAA or equivalent by Moody's Investor Service and/or Standard and Poor's Corporation.

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

Years Ended September 30, 2012 and 2011

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

The County's investments in U.S. Treasuries and U.S. Agencies are rated AA+ by Standard & Poor's, AAA by Fitch Ratings, and Aaa by Moody's Investor Services. The County's investments in commercial paper are rated P-1 by Moody's Investor Services and A-1 or higher by Standard & Poor's.

Concentration of Credit Risk - The County places no limit on the amount that may be invested in securities of the U.S. Government and Agency thereof, or government-sponsored corporation securities. The County requires that all other investments be diversified with no more than 5% of the value of the portfolio invested in the securities of any single issuer. GASB 40 requires disclosure when the percent is 5% of total investments or more in any one issuer. The County's investment in the Federal Home Loan Bank is 19.17%, the Federal Home Loan Mortgage Corporation is 15.21% and the Federal National Mortgage Association is 18.33%.

NOTE 3 - RESTRICTED ASSETS

Restricted assets of the Fund at September 30, 2012 represent amounts designated for construction and restricted for debt service, maintenance and improvements under the terms of outstanding bond agreements and regulatory requirements. The bond reserve accounts contain the maximum amount of required principal and interest payments on all outstanding bonds in the next fiscal year. The debt service accounts contain the principal and interest amounts required for payment due on October 1. The bond construction funds include bond proceeds available for the design and construction of major capital projects.

Composition of restricted accounts is as follows:

	September 30,	
	2012	2011
Bond construction funds	\$113,514,220	\$ -
Bond reserve accounts	37,499,460	30,000,292
Debt service accounts	22,353,779	20,054,537
Other restricted accounts	14,319,810	13,978,517
	<u>\$187,687,269</u>	<u>\$ 64,033,346</u>

Restricted assets are classified on the statements of net assets as follows:

	September 30,	
	2012	2011
Current Restricted Assets		
Cash and cash equivalents	\$135,867,999	\$ 20,054,537
Noncurrent Assets		
Restricted investments	51,819,270	43,978,809
	<u>\$187,687,269</u>	<u>\$ 64,033,346</u>

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

Years Ended September 30, 2012 and 2011

NOTE 4 - CAPITAL ASSETS

Changes in capital assets for the years ended September 30, 2012 and 2011 are as follows:

	Balance October 1, 2011	Additions	Deletions	Balance September 30, 2012
Capital Assets, Not Being Depreciated:				
Land	\$ 4,900,960	\$ 3,000	\$ -	\$ 4,903,960
Construction In Progress	108,117,265	50,981,696	(88,886,780)	70,212,181
Total Capital Assets, Not Being Depreciated	<u>113,018,225</u>	<u>50,984,696</u>	<u>(88,886,780)</u>	<u>75,116,141</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	209,769,182	1,937,729	-	211,706,911
Equipment	761,712,512	92,627,712	(5,621,026)	848,719,198
Total Capital Assets Being Depreciated	<u>971,481,694</u>	<u>94,565,441</u>	<u>(5,621,026)</u>	<u>1,060,426,109</u>
Less Accumulated Depreciation For:				
Buildings and Improvements	(125,861,977)	(7,348,929)	-	(133,210,906)
Equipment	(262,678,887)	(23,689,604)	1,094,882	(285,273,609)
Total Accumulated Depreciation	<u>(388,540,864)</u>	<u>(31,038,533)</u>	<u>1,094,882</u>	<u>(418,484,515)</u>
Total Capital Assets Being Depreciated, Net	<u>582,940,830</u>	<u>63,526,908</u>	<u>(4,526,144)</u>	<u>641,941,594</u>
Total Capital Assets, Net	<u>\$ 695,959,055</u>	<u>\$ 114,511,604</u>	<u>\$ (93,412,924)</u>	<u>\$ 717,057,735</u>
	Balance October 1, 2010	Additions	Deletions	Balance September 30, 2011
Capital Assets, Not Being Depreciated:				
Land	\$ 4,896,059	\$ 4,901	\$ -	\$ 4,900,960
Construction In Progress	65,978,177	64,797,767	(22,658,679)	108,117,265
Total Capital Assets, Not Being Depreciated	<u>70,874,236</u>	<u>64,802,668</u>	<u>(22,658,679)</u>	<u>113,018,225</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	209,769,182	-	-	209,769,182
Equipment	739,769,678	22,661,409	(718,575)	761,712,512
Total Capital Assets Being Depreciated	<u>949,538,860</u>	<u>22,661,409</u>	<u>(718,575)</u>	<u>971,481,694</u>
Less Accumulated Depreciation For:				
Buildings and Improvements	(118,152,468)	(7,709,509)	-	(125,861,977)
Equipment	(240,129,220)	(23,265,322)	715,655	(262,678,887)
Total Accumulated Depreciation	<u>(358,281,688)</u>	<u>(30,974,831)</u>	<u>715,655</u>	<u>(388,540,864)</u>
Total Capital Assets Being Depreciated, Net	<u>591,257,172</u>	<u>(8,313,422)</u>	<u>(2,920)</u>	<u>582,940,830</u>
Total Capital Assets, Net	<u>\$ 662,131,408</u>	<u>\$ 56,489,246</u>	<u>\$ (22,661,599)</u>	<u>\$ 695,959,055</u>

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

Years Ended September 30, 2012 and 2011

NOTE 5 - LONG-TERM LIABILITIES

Changes in long-term obligations for the years ended September 30, 2012 and 2011 are as follows:

	Balance October 1, 2011	Additions	Deductions	Balance September 1, 2012	Amount Due Within One Year	Amount Due After One Year
Revenue bonds payable	\$ 414,935,000	\$ 299,200,000	\$(176,195,000)	\$ 537,940,000	\$ 10,440,000	\$ 527,500,000
Unamortized bond premiums and discounts	1,780,483	41,034,228	(2,935,502)	39,879,209	-	39,879,209
Unamortized deferred amount on refunding	(3,982,086)	(13,430,564)	1,087,669	(16,324,981)	-	(16,324,981)
Other post employment benefits	470,182	143,552	(75,638)	538,096	-	538,096
Compensated absences	4,283,000	1,239,670	(1,521,670)	4,001,000	1,781,000	2,220,000
	<u>\$ 417,486,579</u>	<u>\$ 328,186,886</u>	<u>\$(179,640,141)</u>	<u>\$ 566,033,324</u>	<u>\$ 12,221,000</u>	<u>\$ 553,812,324</u>

	Balance October 1, 2010	Additions	Deductions	Balance September 1, 2011	Amount Due Within One Year	Amount Due After One Year
Revenue bonds payable	\$ 424,700,000	\$ -	\$ (9,765,000)	\$ 414,935,000	\$ 10,110,000	\$ 404,825,000
Unamortized bond premiums and discounts	2,229,829	-	(449,346)	1,780,483	-	1,780,483
Unamortized deferred amount on refunding	(4,490,525)	-	508,439	(3,982,086)	-	(3,982,086)
Other post employment benefits	346,202	183,435	(59,455)	470,182	-	470,182
Compensated absences	4,659,000	1,240,162	(1,616,162)	4,283,000	1,796,000	2,487,000
	<u>\$ 427,444,506</u>	<u>\$ 1,423,597</u>	<u>\$ (11,381,524)</u>	<u>\$ 417,486,579</u>	<u>\$ 11,906,000</u>	<u>\$ 405,580,579</u>

The following is a summary of the major provisions and significant debt service requirements for the outstanding bonds at September 30, 2012:

Revenue Bonds	Primary Purpose	Type	Interest Payment		Optional (O) or Mandatory (M) Redemption Year	Maturity Date	Amount Issued	Retired/Refunded	Outstanding September 30, 2012
			Rate %	Date					
2003 Series	Improv / Refund	Serial	2.0-5.0	04/01 & 10/01	O	2014 10/1/2025	\$ 84,415,000	\$ 82,425,000	\$ 1,990,000
2003 Series	Improv / Refund	Term	4.625	04/01 & 10/01	M	2027 10/1/2027	20,215,000	20,215,000	-
2003 Series B	Refunding	Serial	2.0-5.0	04/01 & 10/01	O	2014 10/1/2018	99,370,000	83,740,000	15,630,000
2005 Series A	Improvements	Serial	5.0	04/01 & 10/01	O	2016 10/1/2026	23,065,000	-	23,065,000
2005 Series A	Improvements	Term	5.0	04/01 & 10/01	M	2028 10/1/2030	53,675,000	27,610,000	26,065,000
2009 Series A	Improvements	Serial	2.1-5.2	04/01 & 10/01	O	2019 10/1/2029	63,555,000	3,390,000	60,165,000
2009 Series A	Improvements	Term	5.25-5.30	04/01 & 10/01	M	2031 10/1/2034	111,825,000	-	111,825,000
2012 Series A	Improvements	Serial	1.0-5.0	04/01 & 10/01	O	2023 10/1/2033	51,295,000	-	51,295,000
2012 Series A	Improvements	Term	5.0	04/01 & 10/01	M	2035 10/1/2037	89,330,000	-	89,330,000
2012 Series B	Refunding	Serial	4.0-5.0	04/01 & 10/01	O	2023 10/1/2027	110,920,000	-	110,920,000
2012 Series C	Refunding	Serial	0.44-1.9	04/01 & 10/01	N/A	N/A 10/1/2018	47,655,000	-	47,655,000
									<u>\$ 537,940,000</u>

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

Years Ended September 30, 2012 and 2011

NOTE 5 - LONG-TERM LIABILITIES (Continued)

A schedule of future debt service is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 10,440,000	\$ 23,982,102	\$ 34,422,102
2014	13,360,000	23,964,919	37,324,919
2015	13,705,000	23,708,097	37,413,097
2016	13,875,000	23,520,859	37,395,859
2017	14,080,000	23,289,021	37,369,021
2018-2022	76,810,000	109,124,620	185,934,620
2023-2027	96,385,000	88,697,456	185,082,456
2028-2032	123,000,000	61,376,588	184,376,588
2033-2037	146,105,000	26,013,870	172,118,870
2038	30,180,000	754,500	30,934,500
	<u>\$ 537,940,000</u>	<u>\$ 404,432,032</u>	<u>\$ 942,372,032</u>

Water and Sewer Utility Revenue Bonds are issued to finance the construction or improvement of the County's Water and Wastewater Utility and are payable solely from and are secured by a pledge of net revenues, as defined in the Bond Resolution. In accordance with Section 502 of the Bond Resolution, the debt service coverage for the fiscal year ended September 30, 2012 is as follows:

	<u>2012</u>
Revenues	\$ 118,529,174
Current expenses	<u>64,072,847</u>
Amount available for debt service	<u>\$ 54,456,327</u>
 Debt Service	
Deposit to Principal Account	\$ 10,440,000
Deposit to Interest Account	<u>21,693,048</u>
Total debt service	<u>\$ 32,133,048</u>
 Debt Service Coverage Available for Debt Service	<u>169%</u>
Required Debt Service Coverage	<u>120%</u>

Total pledged revenues to repay the principal and interest of the Water and Sewer Utility Revenue Bonds as of September 30, 2012 were as follows:

Current revenue pledged	\$ 54,456,327
Current year debt service	\$ 32,133,048
 Total future revenues pledged	\$ 942,372,032

Total future pledged revenues are to repay principal and interest on a cash basis through fiscal year 2038.

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

Years Ended September 30, 2012 and 2011

NOTE 6 - BOND REFUNDING

On March 9, 2012, the Fund Water and Sewer Utility Revenue Refunding Bonds, Series 2012B (Non Taxable) and Water and Sewer Utility Revenue Refunding Bonds, Series 2012C (Taxable) in the principal amounts of \$110,920,000 and \$47,655,000, respectively, with interest rates ranging from 4%-5% (2012B) and .44%-1.91% (2012C) (the true interest rate on the Series 2012B & C Bonds is 2.93% and 1.46%, respectively). The proceeds were used to advance refund \$99,675,000 of the Series 2003A Bonds, \$38,800,000 of Series 2003B Bonds and \$27,610,000 of Series 2005A Bonds, which had interest rates ranging from 3.75% - 5%.

The net proceeds of \$179,635,289 (consisting of the par amount of \$158,575,000, plus original issue premium of \$22,244,027 and after the payment of underwriting fees and other issuance costs of \$1,183,738), were deposited in an irrevocable trust with an escrow to provide funds for the debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased, and the liability for those bonds has been removed from the statements of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by \$13,430,564. This amount is being netted against the new debt and amortized over the remaining life of the refunding bonds using the straight-line method. The Fund completed the advance refunding to reduce its total debt service payment over the next 16 years by \$18,051,026, which represents an economic gain (the difference between the present values of the old and new debt service payments) of \$14,649,536.

NOTE 7 - BOND ISSUANCE (OTHER THAN REFUNDING ISSUES)

On March 9, 2012, the Fund issued \$140,625,000 in Water and Sewer Utility Revenue Bonds, Series 2012A (Non-Taxable) with interest rates ranging from 1% - 5%, with a premium of \$17,994,300, and a true interest rate of 4.0%. The Series 2012A Bonds were issued to provide funding for the improvement to the Water Treatment Plant 1A and Water Treatment Plant 2A, the construction of water mains and wastewater mains and lift stations, the construction of water storage and re-pumping facilities and the expansion and improvement of the North Regional Wastewater Treatment Plant and other Improvement Projects, reimburse certain 2012A project costs, fund the Reserve Account to satisfy the Reserve Requirement, and pay the underwriters' discount and certain costs of issuance.

NOTE 8 - CAPITAL CONTRIBUTIONS

Contributions and fees used to acquire capital assets are classified as capital contributions in the statements of revenues, expenses and changes in net assets. Capital contributions consist of the following:

	<u>2012</u>	<u>2011</u>
Capital Recovery Fees	\$ 635,862	\$ 661,661
Capital Contributed from Other Governments	1,709,311	1,721,245
Capital Contributed by Developers	<u>2,422,556</u>	<u>1,553,058</u>
	<u>\$ 4,767,729</u>	<u>\$ 3,935,964</u>

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

Years Ended September 30, 2012 and 2011

NOTE 9 - RISK MANAGEMENT

The Fund is exposed to various risks and losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Fund participated in the County's Self-Insurance Program, which provides coverage for up to a maximum of \$2,000,000 (Self-Insured Retention Limit) for each workers' compensation occurrence. In addition, the County has purchased excess coverage for losses above the self-insured retention limit. Mass transit liability, auto liability, medical malpractice, and general liability are entirely self-insured, with the County providing coverage up to the statutory limits of \$200,000 per person and \$300,000 per occurrence. The County (through the Risk Management Fund) purchases commercial insurance for life, disability, airport liability, property damage, and numerous smaller policies that are required by lease agreements, union contracts, State Statutes, etc. Settled claims have not exceeded this commercial coverage in the past three years.

The Fund makes payments for the Self-Insurance Program to the Risk Management Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish reserves for all losses. The actuarial estimates include the effects of specific, incremental claims adjustment expenses, salvage, subrogation and other allocated claims adjustments. The reserves for the Self-Insurance Program are reported as a liability of the County's Self-Insurance Fund. The Fund is indemnified against losses in a given year in excess of the fees charged.

NOTE 10 - PENSION PLAN

The Fund, as an agency of the County, participates in the Florida Retirement System (FRS), a cost-sharing, multiple-employer Public Employment Retirement System, which covers substantially all permanent, full- and part-time employees. The FRS provides retirement, death and disability benefits to plan members and beneficiaries. Benefits for both Plans are established by Florida Statutes and may only be amended by the Florida Legislature. FRS offers a defined benefit plan (the "Pension Plan") or a defined contribution plan (the "Investment Plan").

The FRS issues an annual financial report. A copy can be obtained by sending a written request to the Division of Retirement, P.O. Box 9000, Tallahassee, FL 32315-9000 or by visiting their website at <http://dms.myflorida.com>.

Pension Plan benefits are computed on the basis of age, average final compensation and service credit. For employees initially enrolling in the Pension Plan on or after July 1, 2011, average final compensation is the average of the eight highest fiscal years of earnings, compared with the average of the five highest years of earnings for those already enrolled prior July 1, 2011. The Pension Plan provides vesting of benefits after eight years of creditable service for employees initially enrolled in the Pension Plan on or after July 1, 2011, compared with a vesting period of six years for those enrolled prior July 1, 2011. Members initially enrolled in the Pension Plan on or after July 1, 2011 are eligible for normal retirement if they are vested and age 65 or if they have 33 years of service, regardless of age. Members initially enrolled in the Pension Plan prior to July 1, 2011 are eligible for normal retirement if they are vested and age 62 or have 30 years of creditable service, regardless of age. Early retirement may be taken any time after vesting; however, there is a 5% benefit reduction for each year prior to normal retirement age or date.

The Investment Plan is a participant-directed program selected by employees in lieu of participation in the defined benefit option of the Pension Plan. Benefits are accrued in individual accounts that are participant directed, portable and funded by employer/employee contributions. The Investment Plan offers a diversified mix of investment options that span the risk-return spectrum and give participants opportunity to accumulate retirement

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

Years Ended September 30, 2012 and 2011

NOTE 10 - PENSION PLAN (Continued)

benefits. The members are vested after one year of service. Benefits are based on the total value of the account at distribution. This amount is based on contributions, earnings or losses on those contributions, less expenses.

The Fund's required contribution rate to the Investment Plan is established by State statute, and, as of September 30, 2012, ranged from 3.55% - 12.33% of covered payroll based on employee risk groups. Effective July 1, 2011, the State legislature mandated a 3% employee contribution for all employees participating in the Investment Plan. For the year ended September 30, 2012, the Fund contributed \$113,662 and employees contributed \$69,589 to the Investment Plan.

The Fund's required contribution rate to the Pension Plan is established by State Statute, and ranged from 4.13% - 14.05% of covered payroll, based on employee risk groups. Effective July 1, 2011, the State Legislature mandated a 3% employee contribution for all FRS-covered employees. Employees who were enrolled in the Deferred Retirement Option Program (DROP) before July 1, 2011 are not subject to the contribution. The Fund's contribution to the Pension Plan for the fiscal year ended September 30, 2012 was \$871,239, compared to \$1,828,767 for the fiscal year ended September 30, 2011 and \$1,951,661 for the fiscal year ended September 30, 2010. This represents an average contribution as a percentage of covered payroll of 4.9% in fiscal year 2012, 9.2% in fiscal year 2011, and 10.3% in fiscal year 2010. The Fund has met all contribution requirements for the Pension Plan for the current year and the two preceding years.

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

The Fund, as an agency of the County, participates in the County's single-employer, defined-benefit healthcare plan. The plan allows its employees and their beneficiaries to continue obtaining health, dental and other insurance benefits upon retirement. The benefits of the Fund's plan conform to Florida Statutes, which are the legal authority for the plan. The plan has no assets and does not issue separate financial reports.

Funding Policy and Annual OPEB Cost

The Fund makes no direct contribution to the defined-benefit healthcare plan. Retirees and their beneficiaries pay the same group rates as are charged to the Fund for active employees. However, the County's actuaries, in their actuarial valuation, calculate an offset to the cost of these benefits, which is described below, that is called the Employer Contribution.

The Fund's annual OPEB cost for the plan is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The annual OPEB cost for the Fund for the 2012 and 2011 fiscal years, and the related information for the plan, is as follows:

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

Years Ended September 30, 2012 and 2011

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Required contribution rates:	<u>2012</u>	<u>2011</u>
Employer	Pay as you go	Pay as you go
Plan members	N/A	N/A
Annual required contribution	\$ 144,250	\$ 182,252
Interest on net OPEB obligation	27,224	15,982
Adjustment to annual required contribution	<u>(27,922)</u>	<u>(14,799)</u>
Annual OPEB cost	143,552	183,435
Contributions made	<u>(75,638)</u>	<u>(59,455)</u>
Increase in net OPEB obligation	67,914	123,980
Net OPEB obligation, beginning of year	<u>470,182</u>	<u>346,202</u>
Net OPEB obligation, end of year	<u>\$ 538,096</u>	<u>\$ 470,182</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2012, 2011 and 2010 for the Fund, were as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual OPEB cost	\$143,552	\$183,435	\$ 176,490
Percentage of Annual OPEB cost contributed	52.76%	32.41%	28.60%
Net OPEB obligation	\$538,096	\$470,182	\$346,202

Funded Status and Funding Progress

The funded status of the plan as of October 1, 2011, the date of the latest actuarial valuation, was as follows:

Actuarial accrued liability	\$24,800,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	\$24,800,000
Funded ratio	0.00%
Covered payroll	\$231,302,000
Unfunded actuarial accrued liability as a percentage of covered payroll	10.72%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplemental information is designed to provide multi-year trend information to show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

Years Ended September 30, 2012 and 2011

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan, as understood by the employer and plan members) and include the types of benefits in force at the evaluation date and the pattern of sharing benefit costs between the Fund and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Significant methods and assumptions were as follows:

Actuarial valuation date	10/1/2011
Actuarial cost method	Entry age
Amortization method	Level Percent, closed
Remaining amortization period	26 years
Asset valuation method	Unfunded
Actuarial assumptions:	
Investment rate of return*	3.75%
Projected salary increases*	4.0% - 8.38%
Healthcare inflation rate*	9% initial, 4.92% ultimate

*Includes 3% general inflation rate

NOTE 12 - RELATED PARTY TRANSACTIONS

The Fund reimburses the General Fund of the County for an allocated portion of certain support department costs, which include such services as management, administrative, fiscal, internal audit, legal, personnel, purchasing, computer services and information systems, and communication costs. Furthermore, the Fund is charged for the cost of services provided by the Risk Management, Fleet Services and Print Shop Funds. The total cost for the above services was approximately \$7,993,400 and \$8,790,644 for the years ended September 30, 2012 and 2011, respectively.

On April 12, 2011, the Fund entered into a loan agreement with the Risk Management Fund. This loan was for the funding of capital projects and served as interim financing to be repaid with a future bond issuance. As of the fiscal year ended September 30, 2011, the Fund had drawn down \$21,355,489, and in the 2012 fiscal year, an additional \$3,513,144 was drawn down. The Fund repaid the total loan of the \$24,868,633 as of September 30, 2012.

NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES

At September 30, 2012, the Fund had in process various uncompleted construction projects, with remaining balances totaling \$57,582,156. The retainage payable on these contracts totaled \$3,351,594. Funding of these projects is to be made primarily through the proceeds of the related bond issues.

**BROWARD COUNTY, FLORIDA
WATER AND WASTEWATER FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of covered Payroll ((b-a)/c)
10/1/2007	\$0	\$48,755,000	\$48,755,000	0.00%	\$272,383,000	17.90%
10/1/2009	\$0	\$43,582,000	\$43,582,000	0.00%	\$270,612,000	16.10%
10/1/2011	\$0	\$24,800,000	\$24,800,000	0.00%	\$231,302,000	10.72%

This schedule shows the County's actuarial accrued liability (AAL). An estimated 7% of this liability can be attributed to the Fund, for the 10/1/2011 valuation.

BROWARD COUNTY, FLORIDA
WATER AND WASTEWATER FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF NET REVENUE AND DEBT COVERAGE CALCULATION
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
Revenue:		
Water	\$ 46,342,824	\$ 45,113,968
Wastewater	66,249,028	64,842,724
Other	5,144,696	4,946,963
Interest Income	792,626	1,569,706
Total Revenue	118,529,174	116,473,361
Expense:		
Personal Services	23,108,316	24,664,054
Utilities Services	15,399,775	14,273,462
Chemicals	2,784,134	2,802,623
County Services	3,334,198	3,389,650
Material and Supplies	4,431,528	5,656,117
Motor Pool	1,520,370	1,387,081
Contractual Services	8,419,379	6,196,391
Other	5,075,147	5,573,925
Total Expense	64,072,847	63,943,303
Net Revenue Available for Principal and Interest Requirements	54,456,327	52,530,058
Principal and Interest Requirements on Series 2003A Bonds	3,459,092	5,868,264
Principal and Interest Requirements on Series 2003B Bonds	9,079,615	9,970,003
Principal and Interest Requirements on Series 2005 Bonds	3,146,750	3,837,000
Principal and Interest Requirements on Series 2009A Bonds	10,322,207	10,323,808
Principal and Interest Requirements on Series 2012A Bonds	3,219,004	-
Principal and Interest Requirements on Series 2012B Bonds	2,623,235	-
Principal and Interest Requirements on Series 2012C Bonds	283,145	-
Debt Coverage Required	1.20	1.20
Actual Debt Coverage All Debt Service By Net Revenue	1.69	1.75
Balance Available for Renewal, Replacement and Capital Expenditures	\$ 22,323,279	\$ 22,530,983

Revenue recorded on this schedule is based on bond debt agreements.

OTHER REPORTS



MOORE STEPHENS
LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF SPECIAL-PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Honorable Board of County Commissioners
Broward County Water and Wastewater Fund
Broward County, Florida

We have audited the special purpose financial statements of the Broward County, Florida Water and Wastewater Fund (the "Water and Wastewater Fund"), an enterprise fund of Broward County, Florida, as of and for the year ended September 30, 2012, and have issued our report thereon dated February 15, 2013. We conducted our audit 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.

Internal Control over Financial Reporting

Management of the Water and Wastewater Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Water and Wastewater Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water and Wastewater Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Water and Wastewater Fund's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Honorable Board of County Commissioners
Broward County Water and Wastewater Fund

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water and Wastewater Fund's special purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Water and Wastewater Fund's management and the State of Florida Auditor General and is not intended to be, and should not be, used by anyone other than these specified parties.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
February 15, 2013



**MOORE STEPHENS
LOVELACE, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Honorable Board of County Commissioners
Broward County Water and Wastewater Fund
Broward County, Florida

We have audited the special purpose financial statements of the Broward County, Florida Water and Wastewater Fund (the "Water and Wastewater Fund"), an enterprise fund of Broward County, Florida, as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated February 15, 2013.

We conducted our audit 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. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in that report, which is dated February 15, 2013, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's report:

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Audit Observation in the preceding financial audit report are partially corrected as noted in the attached Schedule of Prior Year Audit Observation.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Water and Wastewater Fund complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Honorable Board of County Commissioners
Broward County Water and Wastewater Fund

- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but not more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. Observation, as reported in the accompanying Schedule of Current Year Audit Observation, should be considered in conjunction with this management letter.
- Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The legal authority is disclosed in the notes to the financial statements.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Water and Wastewater Fund's management and is not intended to be, and should not be, used by anyone other than these specified parties.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
February 15, 2013

BROWARD COUNTY WATER AND WASTEWATER FUND

SCHEDULE OF PRIOR YEAR AUDIT OBSERVATION

Fiscal Year Ended September 30, 2012

MLO 2011-01 Information Technology

Criteria

In order to keep the Broward County Water and Wastewater Fund's ("Fund") IT environment safe and secure, security must remain a key concern and function of a properly operating IT Department. As with any control, management must make the ultimate cost-benefit analysis to determine what risks to security the organization is willing to accept.

Condition

During our evaluation of the IT processes, we noted several areas which we believe could improve the Fund's data integrity, system security and business continuity. Our findings were related to the following IT issues: shared administrative access accounts, password policies, software vendor agreement, administrator activity log review, and formal documentation of access level review. Specifics of these issues were discussed in detail with the responsible personnel and management of the Fund.

Effect

The Fund's data integrity, system security and business continuity could be compromised.

Recommendation

We recommend that the IT Department and management evaluate each of the issues noted under our findings and consider the most efficient and effective way to address them.

Current-Year Status

During the current year, management addressed two of the five issues addressed in our recommendations. Shared administrative access accounts and administrator activity log review have been resolved to our satisfaction. However, password policies related to the "Kronos & Energy" software systems and formal documentation of access level review related to the "Kronos" software system have not been fully corrected. In addition, the software vendor agreement issue related to the "Energy" application also has not been fully corrected. Therefore, we do not consider this observation to be fully corrected as of September 30, 2012.

Management's Response

Management concurs with findings from the report and addressed each area as follows:

Password policies – As a result of the finding last year management implemented a forced password change every 30 days for Kronos and a manual reminder to change the password every 45 days for Energy with the instructions for creating a strong password. Furthermore, the county has completed the solicitation of and awarded a contract for the implementation of a new Enterprise Time and Accounting system that will replace the current Kronos system installed at WWS. Management will ensure that future upgrades to Kronos and Energy include complex password requirements.

Software vendor support agreement – A new Software Support Agreement for Energy was executed on December 12, 2012.

Formal documentation of access level review – Management has enhanced the process of the user access review meetings to include formal documentation of the reviews.