

**BROWARD COUNTY, FLORIDA  
WATER AND WASTEWATER FUND**

Special Purpose Financial Statements  
Years Ended September 30, 2011 and 2010

**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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the special purpose financial statements referred to above. The supplementary information listed in the table of contents is presented for additional analysis and is not a required part of the financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2012, 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.

*Moore Stephens Lovelace, P.A.*

**MOORE STEPHENS LOVELACE, P.A.**  
Certified Public Accountants

Orlando, Florida  
February 8, 2012

**BROWARD COUNTY, FLORIDA  
WATER AND WASTEWATER FUND  
STATEMENTS OF NET ASSETS  
SEPTEMBER 30, 2011 AND 2010**

	2011	2010
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 41,846,326	\$ 19,153,888
Accounts Receivable (Net)	12,764,481	14,778,576
Inventory	7,121,114	7,242,284
Other Current Assets	703,014	1,262,565
Total Current Assets	62,434,935	42,437,313
Restricted Assets:		
Cash & Cash Equivalents	12,719,316	63,470,062
Investments	51,314,031	36,008,673
Total Restricted Assets	64,033,347	99,478,735
Property, Plant and Equipment:		
Land	4,900,960	4,896,059
Buildings	209,769,182	209,769,182
Equipment	761,712,512	739,769,678
Utility Plant In Service before Depreciation	976,382,654	954,434,919
Less Accumulated Depreciation	(388,540,864)	(358,281,688)
Utility Plant In Service (Net)	587,841,790	596,153,231
Construction in Progress	108,117,265	65,978,177
Property Plant and Equipment (Net)	695,959,055	662,131,408
Deferred Charges	2,466,204	2,750,043
Total Assets	\$ 824,893,541	\$ 806,797,499
<b>LIABILITIES</b>		
Current Liabilities:		
Vouchers Payable and Accrued Liabilities	\$ 11,260,932	\$ 12,375,750
Due to Other County Funds	21,355,489	-
Due to Other Governments	2,176,809	1,949,153
Total Current Liabilities	34,793,230	14,324,903
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable	9,984,191	10,116,680
Current Portion Long-Term Debt	10,110,000	9,765,000
Customer Deposits	8,378,517	8,173,542
Total Current Liabilities Payable from Restricted Assets	28,472,708	28,055,222
Long-Term Liabilities:		
Revenue Bonds Payable	402,623,397	412,674,304
Long-Term OPEB Obligation	470,182	346,202
Other Long-Term Liabilities	2,487,000	2,963,000
Total Long-Term Liabilities	405,580,579	415,983,506
Total Liabilities	468,846,517	458,363,631
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	276,709,290	275,515,952
Restricted For:		
Debt Service	40,110,292	39,764,667
Renewal, Replacement and Improvement	5,600,000	5,600,000
Unrestricted	33,627,442	27,553,249
Total Net Assets	356,047,024	348,433,868
Total Liabilities and Net Assets	\$ 824,893,541	\$ 806,797,499

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

BROWARD COUNTY, FLORIDA  
WATER AND WASTEWATER FUND  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
<b>Operating Revenue:</b>		
Retail Services:		
Water	\$ 44,293,830	\$ 41,938,529
Wastewater	32,664,066	29,925,893
Septic Charges	1,518,932	1,659,400
Other Services	4,094,224	3,889,586
	82,571,052	77,413,408
Wholesale Services:		
Water	820,138	832,617
Wastewater	30,659,726	31,360,994
Total Operating Revenue	114,050,916	109,607,019
<b>Operating Expense:</b>		
Personal Services	24,664,054	26,881,760
Utilities Services	14,273,462	14,016,533
Chemicals	2,802,623	2,555,622
County Services	3,389,650	3,583,190
Material and Supplies	5,656,117	4,837,310
Motor Pool	1,387,081	1,279,250
Contractual Services	6,196,391	7,412,282
Other	5,573,925	4,921,007
Total Operating Expense (Excluding Depreciation)	63,943,303	65,486,954
Operating Income Before Depreciation	50,107,613	44,120,065
Depreciation Expense	30,974,831	28,924,359
Operating Income	19,132,782	15,195,706
<b>Non-Operating Income (Expense):</b>		
Interest Income	1,569,706	1,757,549
Interest Expense	(17,608,307)	(18,014,253)
Other Expense	-	(4,314,509)
Other Income	852,739	269,204
Other Debt Service	(294,788)	(33,534)
Gain / (Loss) On Disposal Of Assets	25,060	37,628
Total Non-Operating Income (Expense)	(15,455,590)	(20,297,915)
Income Before Contributions	3,677,192	(5,102,209)
<b>Capital Contributions:</b>		
Capital Recovery Fees	661,661	274,641
Capital Contributed From Other Governments	1,721,245	1,742,223
Assets Contributed by Developers	1,553,058	5,564,491
Total Capital Contributions	3,935,964	7,581,355
Change in Net Assets	7,613,156	2,479,146
Total Net Assets - Beginning	348,433,868	345,954,722
<b>Total Net Assets - Ending</b>	<b>\$ 356,047,024</b>	<b>\$ 348,433,868</b>

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, 2011 AND 2010

	2011	2010
<b>Cash Flows From Operating Activities:</b>		
Cash Received From Customers	\$ 116,497,642	\$ 109,969,634
Cash Payments To Suppliers For Goods And Services	(38,845,785)	(39,030,655)
Cash Payments To Employees For Services	(24,888,480)	(26,136,688)
Other Cash Received	853,031	(4,045,179)
Net Cash Provided By Operating Activities	53,616,408	40,757,112
<b>Cash Flows From Capital And Related Financing Activities:</b>		
Acquisition And Construction Of Capital Assets	(64,244,575)	(52,408,654)
Proceeds From Internal Loan	21,355,489	-
Proceeds From Sale of Capital Assets	25,060	37,628
Capital Recovery Fees	687,586	421,632
Capital Recovery Fees Refunded	(25,925)	(146,991)
Capital Surcharges Contributed From Other Governments	1,721,245	1,742,223
Principal Paid On Revenue Bonds	(9,705,907)	(7,789,345)
Interest Paid On Revenue Bonds	(17,456,957)	(18,155,253)
Debt Service Cost Paid	(294,788)	(33,534)
Net Cash Provided By (Used For) Capital And Related Financing Activities	(67,938,772)	(76,332,294)
<b>Cash Flows From Investing Activities:</b>		
Purchase Of Investment Securities	(102,645,993)	(51,448,753)
Proceeds From Sale And Maturities Of Investment Securities	87,340,635	53,937,125
Interest On Investments	1,569,414	1,757,423
Net Cash Provided By (Used For) Investing Activities	(13,735,944)	4,245,795
Net Increase (Decrease) In Cash & Cash Equivalents	(28,058,308)	(31,329,387)
Cash & Cash Equivalents, Beginning Of Year	82,623,950	113,953,337
<b>Cash &amp; Cash Equivalents, End Of Year</b>	<b>\$ 54,565,642</b>	<b>\$ 82,623,950</b>
Current Assets	\$ 41,846,326	\$ 19,153,888
Restricted Assets	12,719,316	63,470,062
Total Cash & Cash Equivalents	<b>\$ 54,565,642</b>	<b>\$ 82,623,950</b>
<b>Reconciliation Of Operating Income To Net Cash Provided By Operating Activities:</b>		
Operating Income	\$ 19,132,782	\$ 15,195,706
Depreciation	30,974,831	28,924,359
Miscellaneous Non-Operating Income (Expense)	853,031	(4,045,179)
Changes In Assets And Liabilities:		
(Increase) Decrease In Accounts Receivable	2,014,095	124,757
(Increase) Decrease In Inventory	121,170	(651,719)
(Increase) Decrease In Other Current Assets	559,551	107,615
Increase (Decrease) In Vouchers Payable	(471,683)	863,715
Increase (Decrease) In Due to Other Governments	227,656	(54,015)
Increase (Decrease) In Customer Deposits	204,975	291,873
Total Adjustments	34,483,626	25,561,406
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 53,616,408</b>	<b>\$ 40,757,112</b>
<b>Non-Cash Capital and Related Financing Activities:</b>		
Contributions of Capital Assets	<b>\$ 1,553,058</b>	<b>\$ 5,564,491</b>

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, 2011 and 2010

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies used in preparation of the special purpose financial statements.

**Reporting Requirement** – The Broward County, Florida Water and Wastewater Fund (the “Fund”) is a “business-type” enterprise fund of Broward County, Florida (the “County”), and as such the Fund’s financial statements do not purport to reflect the financial position, results of operations, or cash flows of the County, taken as a whole. These special purpose financial statements are presented at the request of the County’s management. The financial position, results of operations, and cash flows of the Fund are presented in the basic financial statements of the County’s Comprehensive Annual Financial Report (“CAFR”) as a major enterprise fund and consolidated into the business-type activities of the entity-wide financial statements.

**Basis of Accounting and Presentation** – The Fund is accounted for on a “flow of economic resources” measurement focus using the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of the Fund are included on the statements of net assets. Revenues are recognized when earned and expenses are recognized when incurred.

The County has elected not to apply the Financial Accounting Standards Board (“FASB”) Statements and Interpretations issued after November 30, 1989, as permitted by SGAS No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, for its proprietary funds and entity-wide financial statements.

**Cash and Investments** – The County’s Board of County Commissioners (the “Board”), for accounting and investment purposes, maintains a pooled cash and investment account for funds within the County. All of the Fund’s cash and investments are maintained in this pooled account. Investments, including restricted investments, consist of repurchase agreements, U.S. Government obligations, and funds on deposit with the State Board of Administration (“SBA”). All investments are carried at approximate fair value.

The Fund considers all highly liquid investments, including restricted assets, with maturities of three months or less, when purchased, to be cash equivalents. Investments in the County’s investment pool are considered cash equivalents since the Fund may withdraw such investments at any time, except for certain investments included in restricted cash, which are required to be separately maintained in accordance with bond covenants.

**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, 2011 and 2010 were \$3,693,356 and \$3,489,789, respectively. Accounts receivable are presented on the statements of net assets at estimated net realizable value utilizing historical aging and trend analysis.

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

## BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

### NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS - CONTINUED

Years Ended September 30, 2011 and 2010

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Capital Assets** – Capital Assets includes property, plant and equipment. The capitalization levels are \$1,000 for equipment and \$5,000 for land and buildings. Property, plant and equipment are capitalized at cost when purchased, except for donated assets, which are capitalized at their estimated fair market value when received. Depreciation is provided using the straight-line method of depreciation, with estimated useful lives of the various depreciable assets of 10-45 years for buildings, improvements and infrastructure, and 3-15 years for machinery and equipment.

**Capitalization of Interest** – In accordance with FASB Statement 34, *Capitalization of Interest Cost*, the Fund capitalizes net interest costs on funds borrowed to finance the construction of property and equipment. During the years ended September 30, 2011 and 2010, interest paid was \$19,987,819 and \$20,496,334, of which \$2,379,512 and \$2,482,081 was capitalized, respectively.

**Unamortized Bond Issue Costs** – At September 30, 2011 and 2010, bond insurance, legal fees and other costs associated with the issuance of the revenue bonds are presented net of accumulated amortization and adjustments of \$3,982,086 and \$4,490,525, respectively, and are amortized over the term of the bonds using the effective interest method.

**Unamortized Bond Discount** – Bond discount, at September 30, 2011 and 2010, associated with the issue of revenue bonds, is reported net of accumulated amortization and adjustments of \$1,159,273 and \$1,210,924, respectively, and is amortized over the term of the bonds using the effective interest method.

**Unamortized Bond Premium** – Bond premium at September 30, 2011 and 2010, associated with the issue of revenue bonds, is reported net of accumulated amortization and adjustments of \$2,939,756 and \$3,440,753, respectively, and is amortized over the term of the bonds using the effective interest method.

**Compensated Absences** – The Fund accrues a liability for employees' rights to receive compensation for future absences when certain conditions are met.

**Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### 2. CASH AND INVESTMENTS

**Deposits and Investments** – The Fund's portion of the County's cash and investment pool is presented on the statements of net assets as "Equity in pooled cash and investments." Interest earned from investments purchased with pooled cash is allocated to the Fund based on its percentage of the total average cash balance.

Federal Depository Insurance or the State of Florida collateral pool covered all deposits at September 30, 2011 and 2010. This collateral pool is a multiple financial institution pool with the ability to assess its members for collateral shortfalls, if a member institution fails.

The County is legally authorized under Florida Statutes to invest excess funds in securities backed by the United States Government, the Florida State Board of Administration Local Government Surplus

## BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

### NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS - CONTINUED

Years Ended September 30, 2011 and 2010

#### 2. CASH AND INVESTMENTS – CONTINUED

Funds Trust Fund, collateralized interest-bearing deposits and repurchase agreements. The Fund's investments consist of participation in the County Investment Pool and direct investments in U.S. Government Agency Obligations. A summary of the County's Investment Pool, including descriptions of credit risk at September 30, 2011 and 2010, can be found in the County's CAFR.

#### 3. CAPITAL ASSETS

The Fund's capital assets consist of land, buildings and improvements, containment equipment and facilities, machinery and equipment, and intangible assets. Following is a summary of changes related to capital assets during the years ended September 30, 2011 and 2010:

September 30, 2011	Balance 10/1/2010	Increases	Decreases	Balance 10/1/2011
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$ 4,896,059	\$ 4,901	\$ -	\$ 4,900,960
Construction In Progress	65,978,177	64,797,767	(22,658,679)	108,117,265
<b>Total Capital Assets , Not Being Depreciated</b>	<b>70,874,236</b>	<b>64,802,668</b>	<b>(22,658,679)</b>	<b>113,018,225</b>
<b>Capital Assets, Being Depreciated:</b>				
Buildings and Improvements	209,769,182	-	-	209,769,182
Machinery and Equipment	739,769,678	22,661,409	(718,575)	761,712,512
<b>Total Capital Assets Being Depreciated</b>	<b>949,538,860</b>	<b>22,661,409</b>	<b>(718,575)</b>	<b>971,481,694</b>
<b>Less Accumulated Depreciation For:</b>				
Buildings and Improvements	(118,152,468)	(7,709,509)	-	(125,861,977)
Machinery and Equipment	(240,129,220)	(23,265,209)	715,542	(262,678,887)
<b>Total Accumulated Depreciation</b>	<b>(358,281,688)</b>	<b>(30,974,718)</b>	<b>715,542</b>	<b>(388,540,864)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>591,257,172</b>	<b>(8,313,309)</b>	<b>(3,033)</b>	<b>582,940,830</b>
<b>Capital Assets, Net</b>	<b>\$ 662,131,408</b>	<b>\$ 56,489,359</b>	<b>\$ (22,661,712)</b>	<b>\$ 695,959,055</b>
September 30, 2010	Balance 10/1/2009 (unaudited)	Increases	Decreases	Balance 10/1/2010
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$ 4,896,059	\$ -	\$ -	\$ 4,896,059
Construction In Progress	115,108,702	59,063,391	(108,193,916)	65,978,177
<b>Total Capital Assets , Not Being Depreciated</b>	<b>120,004,761</b>	<b>59,063,391</b>	<b>(108,193,916)</b>	<b>70,874,236</b>
<b>Capital Assets, Being Depreciated:</b>				
Buildings and Improvements	199,109,808	10,659,374	-	209,769,182
Machinery and Equipment	641,410,769	105,791,675	(7,432,766)	739,769,678
<b>Total Capital Assets Being Depreciated</b>	<b>840,520,577</b>	<b>116,451,049</b>	<b>(7,432,766)</b>	<b>949,538,860</b>
<b>Less Accumulated Depreciation For:</b>				
Buildings and Improvements	(118,632,988)	(3,768,829)	4,249,349	(118,152,468)
Machinery and Equipment	(210,774,422)	(25,155,530)	(4,199,268)	(240,129,220)
<b>Total Accumulated Depreciation</b>	<b>(329,407,410)</b>	<b>(28,924,359)</b>	<b>50,081</b>	<b>(358,281,688)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>511,113,167</b>	<b>87,526,690</b>	<b>(7,382,685)</b>	<b>591,257,172</b>
<b>Capital Assets, Net</b>	<b>\$ 631,117,928</b>	<b>\$ 146,590,081</b>	<b>\$ (115,576,601)</b>	<b>\$ 662,131,408</b>

## BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

### NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS - CONTINUED

Years Ended September 30, 2011 and 2010

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#### 3. CAPITAL ASSETS – CONTINUED

For the fiscal years ended September 30, 2011 and 2010, depreciation expense reflected in the Fund's statements of revenues, expenses and changes in net assets, is \$30,974,831 and \$28,924,359, respectively.

#### 4. DUE TO OTHER COUNTY FUNDS

On April 12, 2011, the Fund entered into a loan agreement with the Risk Management Fund. This loan is for the funding of capital projects and serves as interim financing to be repaid with a future bond issuance. Total internal loan proceeds are not to exceed \$35,000,000 and for the fiscal year ended September 30, 2011, the Fund has drawn down \$21,355,489.

#### 5. LONG-TERM DEBT

**2003 Series A** – In 2003, the County issued \$104,375,000 in Water and Sewer Utility Revenue Bonds. These Bonds are comprised of \$84,160,000 in Serial Bonds due October 1, 2008 to October 1, 2025 with interest rates ranging from 2.0% to 5.0%, and \$20,215,000 in Term Bonds due on October 1, 2027 with an interest rate of 4.625%. These Bonds were issued for utility improvements and to refund a portion of the Series 1998A Water and Sewer Utility Revenue Refunding Bonds and all the Series 1991 Water and Sewer Utility Revenue Bonds.

**2003 Series B** – In 2003, the County issued \$76,015,000 in Water and Sewer Utility Revenue Bonds. These Bonds are comprised of Serial Bonds due October 1, 2008 to October 1, 2018 with interest rates ranging from 2.5% to 5.0%. These Bonds were issued to refund a portion of the Series 1993 Water and Sewer Utility Revenue Refunding Bonds.

**2005 Series** – In April 2005, the County issued \$76,740,000 in Water and Sewer Utility Revenue Bonds. These Bonds are comprised of \$23,065,000 in Serial Bonds due October 1, 2006 to October 1, 2026 with an interest rate of 5.0%, and \$53,675,000 in Term Bonds due on October 1, 2030 with an interest rate of 5.0%. These Bonds were issued for utility improvements.

**2009 Series** – In February 2006, the County issued \$175,380,000 in Water and Sewer Utility Revenue Bonds. These Bonds are comprised of \$45,555,000 in Serial Bonds due October 1, 2010 to October 1, 2029 with an interest rate ranging from 2.1% to 5.2%, \$102,120,000 in Term Bonds due October 1, 2034 with an interest rate of 5.25%, and \$9,705,000 in Term Bonds due October 1, 2034 with an interest rate of 5.3%. These Bonds were issued for utility improvements.

**BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND**

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS - CONTINUED

Years Ended September 30, 2011 and 2010

**5. LONG TERM DEBT- CONTINUED**

The Fund's long-term liabilities consist of bonds payable, compensated absences and other post employment benefits. The following is a summary of changes during the years ended September 30, 2011 and 2010:

<u>Year Ended 9/30/2011</u>	Balance 10/1/2010	Additions	Reductions	Balance 9/30/2011
Bonds Payable:				
Revenue Bonds	\$ 424,700,000	\$ -	\$ (9,765,000)	\$ 414,935,000
Add Premium	3,440,753	-	(500,997)	2,939,756
Less Deferred Amounts	(5,701,449)	-	560,090	(5,141,359)
Total Bonds Payable	422,439,304	-	(9,705,907)	412,733,397
Compensated Absences	2,963,000		(476,000)	2,487,000
Other Post Employment Benefits	346,202	123,980	-	470,182
Long-Term Liabilities	<u>\$ 425,748,506</u>	<u>\$ 123,980</u>	<u>\$ (10,181,907)</u>	<u>\$ 415,690,579</u>

<u>Year Ended 9/30/2010</u>	Balance 10/1/2009 (unaudited)	Additions	Reductions	Balance 9/30/2010
Bonds Payable:				
Revenue Bonds	\$ 432,510,000	\$ -	\$ (7,810,000)	\$ 424,700,000
Add Premium	4,037,571	-	(596,818)	3,440,753
Less Deferred Amounts	(6,318,927)	-	617,478	(5,701,449)
Total Bonds Payable	430,228,644	-	(7,789,340)	422,439,304
Compensated Absences	2,501,000	462,000	-	2,963,000
Other Post Employment Benefits	220,187	126,015	-	346,202
Long-Term Liabilities	<u>\$ 432,949,831</u>	<u>\$ 588,015</u>	<u>\$ (7,789,340)</u>	<u>\$ 425,748,506</u>

At September 30, 2011 and 2010, revenue bonds payable were as follows:

	<u>2011</u>	<u>2010</u>
2003 Series A Water & Sewer Utility Revenue Bonds at interest rates of 2.0% to 5.0%, due April 1 and October 1, maturing on October 1, 2027	\$ 102,600,000	\$ 103,505,000
2003 Series B Water & Sewer Utility Revenue Bonds at interest rates of 2.5% to 5.0%, due April 1 and October 1, maturing on October 1, 2018	61,885,000	69,075,000
2005 Water & Sewer Utility Revenue Bonds at an interest rate of 5.0%, due April 1 and October 1, maturing on October 1, 2030	76,740,000	76,740,000
2009 Water & Sewer Utility Revenue Bonds at interest rates of 2.1% to 5.3%, due April 1 and October 1, maturing on October 1, 2034	173,710,000	175,380,000
	414,935,000	424,700,000
Add: Unamortized bond premium	2,939,756	3,440,753
Less: Current portion	(10,110,000)	(9,765,000)
Less: Unamortized bond issue costs	(3,982,086)	(4,490,525)
Less: Unamortized bond discount	(1,159,273)	(1,210,924)
Long-Term Portion	<u>\$ 402,623,397</u>	<u>\$ 412,674,304</u>

**BROWARD COUNTY, FLORIDA WATER AND WASTEWATER SERVICES**

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS - CONTINUED

Years Ended September 30, 2011 and 2010

**5. LONG-TERM DEBT- CONTINUED**

The annual debt service requirements for the bonds payable at September 30, 2011, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 10,110,000	\$ 19,723,806	\$ 29,833,806
2013	10,440,000	19,390,692	29,830,692
2014	10,775,000	19,060,937	29,835,937
2015	11,100,000	18,652,334	29,752,334
2016	11,590,000	18,145,154	29,735,154
2017-2021	66,035,000	82,467,096	148,502,096
2022-2026	83,340,000	64,596,613	147,936,613
2027-2031	105,805,000	41,561,775	147,366,775
2032-2035	105,740,000	11,467,360	117,207,360

**6. NET ASSETS**

The amount reported on the statements of net assets as "Investment in Capital Assets, Net of Related Debt" consists of the following for the years ended September 30, 2011 and 2010:

Net Assets

	<u>2011</u>	<u>2010</u>
Net Capital Assets	\$ 695,959,055	\$ 662,131,408
Debt Related to Acquisition of Capital Assets	(419,249,765)	(422,439,304)
Unspent Bond Proceeds	-	35,823,848
	<u>\$ 276,709,290</u>	<u>\$ 275,515,952</u>

The financial presentation herein does not include the Water Management Division. The Water Management Division is presented separately as a Non-major Enterprise Fund.

**7. PENSION PLAN**

**Plan Description** – The Fund’s employees participate in the Florida Retirement System (“FRS”), a multiple-employer, cost-sharing, defined-benefit retirement system, administered by the Florida Department of Administration. 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 participating city or special district within the State of Florida. For a detailed plan description, see the County’s CAFR for the fiscal year ended September 30, 2011.

**Funding Policy** – The Fund’s contributions to the FRS for the fiscal years ended September 30, 2009 through 2011 were \$2,048,722, \$2,140,215 and \$1,922,081, respectively, which equal the required contribution for each fiscal year.

**8. INSURANCE COVERAGE**

The County has established an internal service fund to account for insurance claims against the County. All claim reserves and expenses are recorded on the books and records of the County’s internal service fund, which is sustained through charges to various County funds. During the years

**BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND**

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS - CONTINUED

Years Ended September 30, 2011 and 2010

**8. INSURANCE COVERAGE- CONTINUED**

ended September 30, 2011 and 2010, the Fund was charged \$3,104,475 and \$2,943,270, respectively, by the County for insurance.

**9. RELATED-PARTY TRANSACTIONS**

The County charges the Fund for administrative costs incurred on behalf of the Fund. Total charges for the years ended September 30, 2011 and 2010, amounted to \$3,389,650 and \$3,583,190, respectively, which is included in county services expense in the Fund's statements of revenues, expenses and changes in net assets.

**10. OTHER POST EMPLOYMENT BENEFITS**

The County allows its employees and their beneficiaries to continue obtaining health, dental and other insurance benefits upon retirement but does not directly contribute to the cost of such benefits. Retirees and their beneficiaries pay the same group rates as are charged to the County for active employees. This constitutes a single-employer, defined-benefit healthcare plan, and the benefits conform to Florida Statutes, which are the legal authority for the plan. The plan has no assets and does not issue a financial report.

The County makes no direct contribution to the plan. However, the County's actuaries in their actuarial valuation calculate an offset to the cost of these benefits that is called the Employer Contribution. The Employer Contribution equals the total age-adjusted costs paid by the County or its active employees for coverage of the retirees and their dependents for the year, net of the retiree's own payments for the year.

	Broward County (in '000s)
Required contribution rates:	
Employer	Pay-as-you-go
Active plan members	N/A
Annual required contribution	\$4,399
Interest on net OPEB obligation	386
Adjustment to annual required contribution	(357)
Annual OPEB cost	4,428
Contributions made	(1,435)
Increase in net OPEB obligation	2,993
Net OPEB obligation – beginning of year	9,646
Net OPEB obligation – end of year	\$12,639

The Fund's share of the net other post employment benefits liability for the years ended September 30, 2011 and 2010, was \$470,182 and \$346,202, respectively.

**BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND**

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS - CONTINUED

Years Ended September 30, 2011 and 2010

**10. OTHER POST EMPLOYMENT BENEFITS – CONTINUED**

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2011 and 2010 for each of the plans, were as follows (in thousands):

Fiscal year ended	Broward County	
	9/30/2011 (in '000s)	9/30/2010 (in '000s)
Annual OPEB cost	\$4,248	\$4,208
Percentage of OPEB cost contributed	32.41%	28.97%
Net OPEB obligation	\$12,639	\$9,646

**Funded Status and Funding Progress**

The funded status of the plan as of October 1, 2009, the date of the latest actuarial valuation, was as follows:

Actuarial accrued liability	\$43,581,820
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	\$43,581,820
Funded ratio	0.00%
Covered payroll	\$270,611,701
Unfunded actuarial accrued liability as a percentage of covered payroll	16.10%

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 supplementary 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. However, the County has not contributed assets to the plan at this time.

**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 valuation date and the pattern of sharing benefit costs between the County 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.

**BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND**

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS - CONTINUED

Years Ended September 30, 2011 and 2010

**10. OTHER POST EMPLOYMENT BENEFITS – CONTINUED**

Significant methods and assumptions were as follows:

	<u>Broward County</u>
Actuarial valuation date	10/1/2009
Actuarial cost method	Entry age
Amortization method	Level percent, closed
Remaining amortization period	27 years
Asset valuation method	Unfunded
Actuarial assumptions:	
Investment rate of return	4%
Projected salary increases	4.5%-9.5%
Healthcare inflation rate	9% initial 4.5% ultimate

**11. COMMITMENTS**

At September 30, 2011, the Fund had in process various uncompleted construction projects, with remaining balances totaling approximately \$12.2 million. The following is a summary of the major commitments:

PROJECT	SPENT TO DATE	REMAINING COMMITMENT
36 inch Plug Valve Installation	\$ 178,526	\$ -
Air Relief Valve Sample Rd	158,808	123,318
Construction of 2MG water storage tank in District 3C	4,500,154	-
Construction services for water storage tank at District 3C	2,311,444	-
Consulting services for water storage tank at District 3C	524,475	74,407
Expansion to Regional Wastewater Plant	39,231,578	146,079
Expansion to Water Treatment Plant 1A	364,231	331,951
Fuel Tank Leak Monitoring	2,435,430	-
Generator replacement at the Regional Wastewater Treatment Plant	5,944,034	7,215
Improvements in Motor Control Room of Regional Wastewater Plant	6,151,266	4,698,423
Improvements to Water Treatment Plant 3C	170,877	-
Installation of new sewer mains	2,959,321	-
Installation of new water transmission mains at Water Treatment Plant 1A	1,636,802	-
Installation of transmission mains in District 1A	3,511,793	-
Neighborhood improvements in Broward Gardens	1,717,022	10,013
Neighborhood improvements in Central County	1,632,068	168,296
Sewer main replacement	11,487,599	4,318,515
Upgrade of Anion Exchange Treatment facility at Water Treatment Plant 1A	3,863,558	230,472
Upgrade to Maximo system	962,072	370,684
Water main replacement	13,489,953	1,714,189
	<u>\$ 103,231,011</u>	<u>\$ 12,193,562</u>

**SUPPLEMENTARY INFORMATION (Unaudited)**

BROWARD COUNTY, FLORIDA  
WATER AND WASTEWATER FUND  
SCHEDULE OF NET REVENUE AND DEBT COVERAGE CALCULATION  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
Revenue:		
Water	\$ 45,113,968	\$ 42,771,146
Wastewater	64,842,724	62,946,287
Other	4,946,963	4,158,790
Interest Income	1,569,706	1,757,549
Total Revenue	116,473,361	111,633,772
Expense:		
Personal Services	24,664,054	26,881,760
Utilities Services	14,273,462	14,016,533
Chemicals	2,802,623	2,555,622
County Services	3,389,650	3,583,190
Material and Supplies	5,656,117	4,837,310
Motor Pool	1,387,081	1,279,250
Contractual Services	6,196,391	7,412,282
Other	5,573,925	4,921,007
Total Expense	63,943,303	65,486,954
Net Revenue Available for Principal and Interest Requirements	52,530,058	46,146,818
Principal and Interest Requirements on Series 2003 A Bonds	5,868,264	5,867,224
Principal and Interest Requirements on Series 2003 B Bonds	9,970,003	9,970,228
Principal and Interest Requirements on Series 2005 Bonds	3,837,000	3,837,000
Principal and Interest Requirements on Series 2009A Bonds	10,323,808	10,323,908
Debt Coverage Required	1.20	1.20
Actual Debt Coverage All Debt Service By Net Revenue	1.75	1.54
Balance Available For Renewal, Replacement and Capital Expenditures	\$ 22,530,983	\$ 16,148,458

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

## **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, 2011, and have issued our report thereon dated February 8, 2012. 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  
Broward County, Florida

***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 8, 2012



## **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, 2011, and have issued our report thereon dated February 8, 2012.

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 Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in that report, which is dated February 8, 2012, 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. In connection with our audit, we did not have any such recommendations.
- 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.
- 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.

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

- 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.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter 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 8, 2012

# **BROWARD COUNTY WATER AND WASTEWATER FUND**

## **SCHEDULE OF CURRENT YEAR AUDIT OBSERVATION**

**Fiscal Year Ended September 30, 2011**

### **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.

#### **Management's Response**

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

The shared administrative access accounts for the Kronos system were changed so that the two administrators now have their own separate accounts for logging into the system. Users of the Kronos system are now required to change their passwords every 30 days. An email is also sent to users, when it is time to change their password, requesting them to use a minimum of eight characters, including alpha and numeric characters. Management will ensure that future upgrades to the system include complex password requirements.

Management is currently working with the Purchasing Division and the County Attorney's office to negotiate a new software vendor agreement for the Energy system. The review of the administrator activity log for the Energy system has been reassigned from the system administrator to an Information Systems Manager, in order to segregate the duties. Users of the Energy system are sent an email every 45 days requesting them to change their password. Management will ensure that future upgrades to the system include password expiration and complex password requirements. Management has enhanced the process of the user access review meetings to include the formal documentation of the reviews.