



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

**Financial Statements
For the Years Ended September 30, 2013 and 2012**

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

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September 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying 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, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water and Wastewater Fund, an enterprise fund of Broward County, as of September 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Enterprise Fund Presentation

As discussed 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, as of September 30, 2013 and 2012, the changes in its financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Adoption of New Accounting Pronouncement

As discussed in Note 1 to the financial statements, the Water and Wastewater Fund adopted Governmental Accounting Standards Board Statement 65, “*Items Previously Reported as Assets and Liabilities*” (“GASB 65”) during the fiscal year ended September 30, 2013. The Water and Wastewater Fund retroactively applied the accounting changes to conform to the provisions of GASB 65 by restating the financial statements for the fiscal year ended September 30, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis and 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.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The supplemental information included on page 34 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including

Honorable Board of County Commissioners
Broward County Water and Wastewater Fund

comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2014, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water and Wastewater Fund's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Moore Stephens Lovelace, P.A.".

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
January 24, 2014

**Broward County, Florida
Water and Wastewater Fund
Management's Discussion and Analysis**

The management of the Water and Wastewater Fund (the Fund) of Broward County, Florida (the County) offers this narrative overview and analysis of the financial activities of the Fund for the fiscal years ended September 30, 2013 and 2012. This discussion has been prepared by management and we encourage readers to consider the information presented here in conjunction with the financial statements and related notes, which follows this section.

INTRODUCTION

The Broward County Utilities Division was established on January 31, 1962, with the County's purchase of a small, investor-owned water and wastewater utility. Between 1962 and 1975, the County acquired additional private utilities. In 1972, the utility commenced construction of the North Regional Wastewater Treatment Plant (NRWWTP), and in 1975, began providing wholesale wastewater treatment service to large users. The water utility service area is divided into separate geographic districts; District 1 is served by Water Treatment Plant (WTP) 1A, District 2 by WTP 2A and District 3 by purchased water from the City of Hollywood. Subsequent reorganizations created Water and Wastewater Services (WWS).

WWS operates as an enterprise fund of the County. It is self-supporting and does not rely on local tax dollars to fund its operations. Operating revenues must therefore be generated from water utility fees, investment income, and other non-operating revenues in order to (1) cover the utility's operating expenses, debt service payments, certain capital outlays, and other requirements, and (2) comply with the rate covenant provided in the Bond Resolution.

FINANCIAL HIGHLIGHTS

- Assets plus deferred outflows of resources of the Fund exceeded its liabilities at the close of the fiscal year 2013 by \$373.8 million (net position). Of this amount \$67.0 million is unrestricted and thus available for the Fund's ongoing and future obligations.
- In 2013, the net position increased by \$13.8 million, or 3.8%. The increase is attributable to an increase in wastewater treatment charges and capital recovery fees and a reduction in bond issuance costs and interest expense.
- The debt service coverage for the Fund of 1.58 is above the required 1.2 times debt coverage as required by the bond covenant.
- With signs of a slow economic recovery, capital recovery fees increased by \$3.0 million; however, interest rates continue to remain low, resulting in minimal interest earnings.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Fund's financial statements. The financial section is comprised of two components: (1) financial statements, and (2) notes to the financial statements. This report also contains required and other supplementary information in addition to the financial statements.

Financial Statements

The financial statements consist of a statement of net position, statement of revenues, expenses and changes in net position and a statement of cash flows. These statements provide information about the activities and performance of the Fund and are prepared on 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 flow takes place. These statements are presented on pages 13-17.

**Broward County, Florida
Water and Wastewater Fund
Management's Discussion and Analysis**

The **Statement of Net Position** includes all of the Fund's assets, deferred outflows of resources, and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating.

Revenues and expenses are accounted for in the **Statement of Revenues, Expenses and Changes in Net Position**. This statement measures the success of the Fund's operations over the past year and can be used to determine whether the Fund has recovered all of its costs through its user charges and fees.

The **Statement of Cash Flows** provides information about the Fund's cash receipts, cash payments, and net changes in cash resulting from operations, investing in non-capital activities, investing in capital and related financing activities, and investing activities.

Notes to the Financial Statements

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of the information provided in the Fund's financial statements. The notes to the financial statements can be found on pages 18-34.

Other Information

In addition to the financial statements and accompanying notes, this report also presents required supplementary information concerning the progress in funding the obligation to provide other post employment benefits. Required supplementary information can be found on page 36.

A schedule of net revenue and debt coverage calculation is presented immediately following the required supplementary information and can be found on page 38.

FINANCIAL ANALYSIS

The statements of net position serve as a useful indicator of the Fund's financial position. They distinguish assets, deferred outflows of resources and liabilities with respect to their expected use for current operations or internally designated use for capital projects. A condensed comparative summary of the Fund's Statements of Net Position as of September 30, 2013, 2012, and 2011, is shown on the following page:

**Broward County, Florida
Water and Wastewater Fund
Management's Discussion and Analysis**

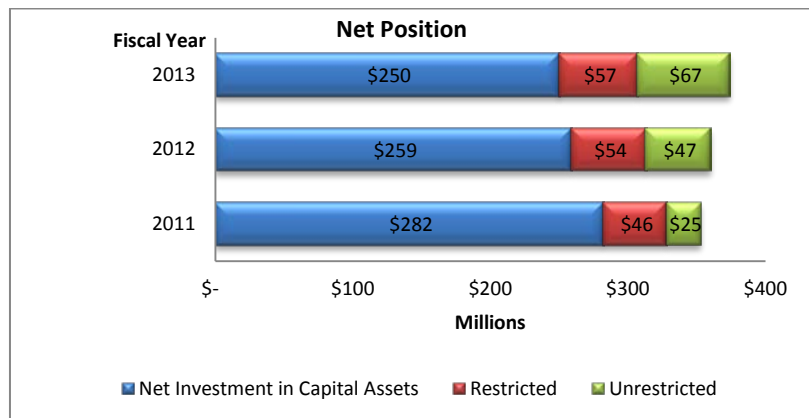
**Broward County, Florida
Water and Wastewater Fund
Net Position**

As of September 30, 2013, 2012 and 2011
(In Thousands)

	2013	2012	2011
Current Assets	\$ 116,869	\$ 97,860	\$ 90,868
Noncurrent Assets-Other Than Capital Assets	122,932	148,407	35,600
Capital Assets (Net)	722,357	717,058	695,959
Total Assets	<u>962,158</u>	<u>963,325</u>	<u>822,427</u>
Deferred Outflows of Resources	<u>13,311</u>	<u>14,798</u>	<u>3,982</u>
Current Liabilities	47,381	47,971	63,266
Noncurrent Liabilities	554,265	570,137	410,440
Total Liabilities	<u>601,646</u>	<u>618,108</u>	<u>473,706</u>
Net Investment in Capital Assets	249,985	259,115	282,348
Restricted	56,789	53,769	45,710
Unrestricted	67,049	47,131	24,645
Total Net Position	<u>\$ 373,823</u>	<u>\$ 360,015</u>	<u>\$ 352,703</u>

The overall position of the Fund improved in both the 2013 and 2012 fiscal years. Total net position as of September 30, 2013, was \$373.8 million, representing an increase of \$13.8 million, or 3.8%, compared to 2012. Total net position as of September 30, 2012, was \$360.0 million (as restated), representing an increase of \$7.3 million, or 2.1% during fiscal year 2012. The increase in fiscal years 2013 and 2012 was primarily due to the positive results of operations in the Fund.

At September 30, 2013, 66.9% of the Fund's net position is represented by its net investment in capital assets. These capital assets are used to provide services to the utility's customers. The restricted portion, 15.2% of the Fund's net position, relates to assets that are subject to external restrictions on how they can be used under bond resolution covenants. The remaining unrestricted net position, 17.9% may be used to meet any of Fund's ongoing obligations.



**Broward County, Florida
Water and Wastewater Fund
Management's Discussion and Analysis**

The following schedule shows the changes in net position for the fiscal years ended September 30, 2013, 2012 and 2011.

**BROWARD COUNTY, FLORIDA
Water and Wastewater Fund
Changes in Net Position
For the Years Ended September 30, 2013, 2012 and 2011
(In Thousands)**

	2013	2012	2011
Operating Revenues:			
Water Sales	\$ 43,990	\$ 46,343	\$ 45,114
Wastewater Services	69,419	66,249	64,843
Other Services	6,807	4,070	4,094
Total Operating Revenues	<u>120,216</u>	<u>116,662</u>	<u>114,051</u>
Operating Expenses:			
Personal Services	23,208	23,108	24,664
General Operating	40,167	40,965	39,279
Depreciation	33,947	31,039	30,975
Total Operating Expenses	<u>97,322</u>	<u>95,112</u>	<u>94,918</u>
Operating Income	<u>22,894</u>	<u>21,550</u>	<u>19,133</u>
Non-Operating Revenues (Expenses):			
Investment Income	353	793	1,570
Interest Expense	(17,235)	(18,557)	(17,569)
Bond Issuance Costs	-	(2,306)	-
Other	1,759	1,064	866
Total Non-Operating Revenues (Expenses)	<u>(15,123)</u>	<u>(19,006)</u>	<u>(15,133)</u>
Income Before Capital Contributions	<u>7,771</u>	<u>2,544</u>	<u>4,000</u>
Capital Contributions:			
Capital Recovery Fees	3,680	636	662
Capital Contributed from Other Governments	1,633	1,709	1,721
Assets Contributed by Developers	724	2,423	1,553
Total Capital Contributions	<u>6,037</u>	<u>4,768</u>	<u>3,936</u>
Change in Net Position	13,808	7,312	7,936
Total Net Position - Beginning, as Restated	<u>360,015</u>	<u>352,703</u>	<u>344,767</u>
Total Net Position - Ending	<u>\$ 373,823</u>	<u>\$ 360,015</u>	<u>\$ 352,703</u>

Net position for the Fund at September 30, 2013 was \$373.8 million, a 3.8%, or \$13.8 million, increase from the 2012 balance of \$360 million, as restated. The increase is primarily due to the positive result of operations. Key elements of the increase are as follows:

- Operating revenues increased \$3.6 million (or 3.0%) over the prior year. The increase was primarily due to \$1.7 million increase in wastewater wholesale services as well as an increase in debt service costs paid by large users for wholesale wastewater services. Compared to the prior fiscal year, sewage flows rose by 2.6% resulting in an increase of \$1.0 million in retail sewer services and \$400,000 in septic fees and water charges, respectively.
- Operating expenses increased \$2.2 million (or 2.3%) over the prior year primarily due to an increase in depreciation expense of \$2.9 million.

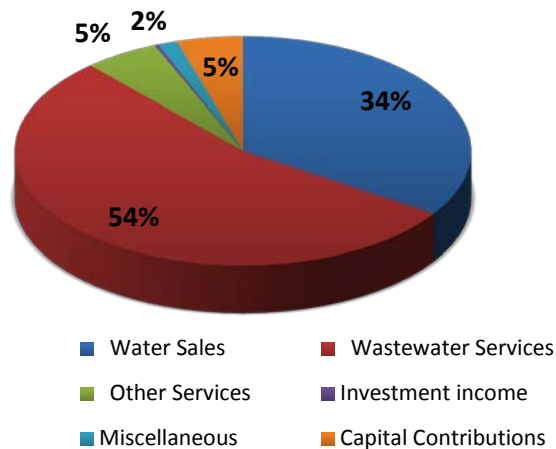
**Broward County, Florida
Water and Wastewater Fund
Management's Discussion and Analysis**

- Non-operating revenues (expenses) for FY2013 decreased by \$3.9 million from the prior year. This was primarily due to a decrease in bond issuance costs of \$2.3 million and an increase in other non-operating revenues of \$700,000.
- The \$1.3 million or 26.6% increase in capital contributions is an indication that development activity in the service area is beginning to show signs of economic recovery. Contributions from development activities are anticipated to grow, as broader economic factors in Broward County and throughout the state, such as unemployment rate, home values, and access to capital, continue to improve.

In FY2012, net position for the Fund's current year activities was \$360 million as restated, a 2.1%, or \$7.3 million, increase from the 2011 balance of \$352.7 million. The increase is primarily due to the positive result of operations.

- Operating revenues increased by \$2.6 million or 2.3% from \$114 million in 2011 to \$116.7 million in 2012. The increase can be primarily attributed to an increase in both water and wastewater customer rates.
- Operating expenses were consistent with 2011 resulting in a minimal increase of 0.2% over the prior year.
- Non-operating expenses increased by \$3.9 million or 25.6% over the prior year. This was primarily due to an increase in interest expense and bond issuance costs.
- Capital contributions increased by \$832,000 or 21.1% to \$4.7 million over \$3.9 million in FY2011 due to improving economic conditions.

**Water and Wastewater Services
Revenues by Source
Fiscal Year 2013**



**Broward County, Florida
Water and Wastewater Fund
Management's Discussion and Analysis**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of year-end, the Fund had \$722.4 million invested in a variety of capital assets, as reflected in the following schedule. In 2013, there was a net increase in capital assets (additions less retirements and depreciation) of \$5.3 million.

The following is a summary of capital assets of the Fund as of September 30, 2013, 2012 and 2011:

**Broward County, Florida
Water and Wastewater Fund
Comparative Summary of Capital Assets
September 30, 2013, 2012 and 2011
(In Thousands)**

	2013	2012	2011
Land	\$ 4,904	\$ 4,904	\$ 4,901
Construction in Progress	40,268	70,212	108,117
Total Non-depreciable Assets	<u>45,172</u>	<u>75,116</u>	<u>113,018</u>
Utility Plant in Service	1,102,690	1,035,917	946,439
Equipment	26,710	24,509	25,043
Less Accumulated Depreciation	<u>(452,215)</u>	<u>(418,484)</u>	<u>(388,541)</u>
Total Depreciable Assets, Net	<u>677,185</u>	<u>641,942</u>	<u>582,941</u>
Total Capital Assets, Net	<u>\$ 722,357</u>	<u>\$ 717,058</u>	<u>\$ 695,959</u>

In fiscal year 2013, capital projects under construction increased by \$37.0 million and \$66.9 million in projects were completed and put into service. Major capital projects completed include the Neighborhood Improvement Program for \$45.9 million and \$21.0 million for various water and wastewater improvement projects. The Neighborhood Improvement Program was initiated by the County in 1993 to upgrade the infrastructure in what were unincorporated neighborhoods. The improvements include upgrades to the existing water and wastewater systems, installation of drainage, new pavement, swales and landscaping.

In fiscal year 2012, the Fund capitalized assets totaling \$94.6 million of new and improved capital assets. The major new additions included equipment purchases and capital projects such as improvements to the retail water treatment plants, unincorporated neighborhoods' water and wastewater systems, wastewater main collection and transmission lines.

The Fund evaluates the need for capital improvements to the County's retail water and wastewater systems as well as the regional wastewater and water supply systems based upon its five-year capital improvement plan that balances the use of capital resources with projected cash flows. The overall plan is updated annually wherein all projects are thoroughly examined and scheduled. Each review builds upon prior analyses and uses new planning data when available. The Fund finances the capital projects from a combination of operating cash flows and the issuance of revenue bonds.

**Broward County, Florida
Water and Wastewater Fund
Management's Discussion and Analysis**

Debt Administration

As of year-end, the Fund had \$527.5 million in bonded debt outstanding compared to the \$537.9 million in 2012, a 1.9% decrease. During fiscal year 2013, the decreases in the debt payable were due to principal payments of \$10.4 million on the debt. All debt outstanding as of the end of fiscal year 2013, were secured by various revenue sources. As of September 30, 2012, the Fund had \$537.9 million in bonded debt outstanding compared to the \$414.9 million in 2011, a 29.6% increase. In FY2012, the \$123 million increase in the debt payable was due to the bond refunding and issuance of new additional revenue bonds.

**Broward County, Florida
Water and Wastewater Fund
Comparative Summary of Bonded Debt
As of September 30, 2013, 2012 and 2011
(In Thousands)**

	2013	2012	2011
Water and Sewer Utility Revenue Bonds	\$527,500	\$537,940	\$414,935

Water and sewer utility bonds maintained strong ratings Aa2, AA+ and AA from the three major rating services: Moody's Investors Service, Fitch Ratings, and Standard and Poor's Ratings Services, respectively.

Additional information on the Fund's long-term liabilities can be found in Note 5 on pages 28-30.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The County charges uniform rates throughout its service areas. The water utility service area is divided into separate geographic districts; District 1 is served by Water Treatment Plant (WTP) 1A, District 2 by WTP 2A and District 3 by purchased water from the City of Hollywood. The County also owns and operates the North Regional Wastewater System (NRWWS), which provides contract wholesale wastewater services to 11 large users and retail customers from District 1 and 2.

The management of the fund has established goals which include providing high quality and cost effective services to its customer while operating the facilities and executing programs in a manner that protects the environment. These goals were used as a guide to prepare for the fiscal year 2014 approved budget.

The operating and capital budgets assure rates, fees and charges are sufficient to support fund activities and debt service requirements while providing appropriate coverage to maintain or to enhance bond ratings.

Management develops and implements a financing plan for the successful implementation of the capital plan and policies to ensure environmentally safe water resources.

The following factors were considered in preparing the Fiscal Year 2014 Budget:

- Water consumption continues to be flat/slightly down.
- Minimal increase in operating costs.
- Maintain competitive retail rates among local utilities.
- Maintain conservation based rates to reward customers with the lowest consumption rates.
- The retail rates for Fiscal Year 2014 will not be increased and will remain the same as Fiscal Year 2013.

**Broward County, Florida
Water and Wastewater Fund
Management's Discussion and Analysis**

- The Regional Rates for wastewater and raw water were recalculated in conformance with large user agreements and recommended rates were approved by the Board for fiscal year 2014. The regional rates for wastewater and raw water for Fiscal Year 2014 decreased by 8% and 1.6%, respectively from Fiscal Year 2013.

Additional information on Water and Wastewater Services is available on the County's web site, <http://www.broward.org/waterservices/Pages/Default.aspx>.

REQUESTS FOR INFORMATION

This financial report is designed to present users with a general overview of the Fund's finances for all those with an interest in the Fund's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Director of Water and Wastewater Services
2555 West Copans Road, Pompano Beach, FL 33069
Office: 954-831-0704 Fax: 954-831-0989

**BROWARD COUNTY, FLORIDA
WATER AND WASTEWATER FUND
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2013 And 2012
(In Thousands)**

	2013	2012
ASSETS		
Current Assets:		
Unrestricted Assets:		
Cash and Cash Equivalents	\$ 14,441	\$ 4,531
Investments	39,703	32,234
Receivables:		
Accounts, Net of Allowance of \$6,735 and \$5,538 Respectively	13,067	12,460
Other	393	407
Inventory	8,070	7,557
Prepaid Items	2,051	1,391
Total Current Unrestricted Assets	77,725	58,580
Restricted Assets:		
Cash and Cash Equivalents	30,643	31,091
Investments	8,501	8,189
Total Current Restricted Assets	39,144	39,280
Total Current Assets	116,869	97,860
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents	89,593	114,025
Investments	33,339	34,382
Total Noncurrent Restricted Assets	122,932	148,407
Capital Assets:		
Utility Plant in Service	1,102,690	1,035,917
Land	4,904	4,904
Construction in Progress	40,268	70,212
Equipment	26,710	24,509
Total Capital Assets	1,174,572	1,135,542
Less Accumulated Depreciation	(452,215)	(418,484)
Total Capital Assets, Net	722,357	717,058
Total Noncurrent Assets	845,289	865,465
TOTAL ASSETS	962,158	963,325
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charge on Refunding	\$ 13,311	\$ 14,798

(continued)

**BROWARD COUNTY, FLORIDA
WATER AND WASTEWATER FUND
STATEMENTS OF NET POSITION - continued
SEPTEMBER 30, 2013 And 2012
(In Thousands)**

	2013	2012
LIABILITIES		
Current Liabilities:		
Payable From Unrestricted Assets:		
Accounts Payable	\$ 2,348	\$ 3,659
Accrued Liabilities	868	826
Due to Other Governments	3,258	2,425
Compensated Absences	1,763	1,781
Total Current Liabilities Payable from Unrestricted Assets	8,237	8,691
Payable From Restricted Assets:		
Accounts Payable	5,013	8,381
Accrued Liabilities	-	55
Accrued Interest Payable	12,068	11,914
Revenue Bonds Payable	13,360	10,440
Customer Deposits	8,703	8,490
Total Current Liabilities Payable from Restricted Assets	39,144	39,280
Total Current Liabilities	47,381	47,971
Noncurrent Liabilities:		
Revenue Bonds Payable, Net of Discount and Premiums	551,826	567,379
Compensated Absences	1,822	2,220
Other Post Employment Benefits Liability	617	538
Total Noncurrent Liabilities	554,265	570,137
TOTAL LIABILITIES	601,646	618,108
NET POSITION		
Net Investment in Capital Assets	249,985	259,115
Restricted for:		
Debt Service	50,859	47,939
Renewal, Replacement, and Improvement	5,930	5,830
Unrestricted	67,049	47,131
TOTAL NET POSITION	\$ 373,823	\$ 360,015

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

BROWARD COUNTY, FLORIDA
WATER AND WASTEWATER FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012
(In Thousands)

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Retail Services:		
Water	\$ 43,114	\$ 45,642
Wastewater	34,485	33,476
Septic Charges	1,977	1,545
Other Services	<u>6,807</u>	<u>4,070</u>
	86,383	84,733
Wholesale Services:		
Water	876	701
Wastewater	<u>32,957</u>	<u>31,228</u>
Total Operating Revenue	<u>120,216</u>	<u>116,662</u>
Operating Expenses:		
Personal Services	23,208	23,108
Utilities Services	15,338	15,400
Chemicals	3,086	2,784
County Services	3,236	3,334
Material and Supplies	5,635	4,432
Motor Pool	1,449	1,520
Contractual Services	8,203	8,420
Other	<u>3,220</u>	<u>5,075</u>
Total Operating Expense Before Depreciation	<u>63,375</u>	<u>64,073</u>
Operating Income Before Depreciation	56,841	52,589
Depreciation Expense	<u>33,947</u>	<u>31,039</u>
Operating Income	<u>22,894</u>	<u>21,550</u>
Non-Operating Revenues (Expenses):		
Grants	20	-
Interest Income	353	793
Interest Expense	(17,235)	(18,557)
Other Income	1,938	1,053
Bond Issuance Costs	-	(2,306)
Write off of Discontinued Project Costs	(179)	-
Gain on Disposal of Assets	4	22
Other Expenses	<u>(24)</u>	<u>(11)</u>
Total Non-Operating Expenses	<u>(15,123)</u>	<u>(19,006)</u>
Income Before Capital Contributions	<u>7,771</u>	<u>2,544</u>
Capital Contributions:		
Capital Recovery Fees	3,680	636
Capital Contributed from Other Governments	1,633	1,709
Assets Contributed by Developers	<u>724</u>	<u>2,423</u>
Total Capital Contributions	<u>6,037</u>	<u>4,768</u>
Change in Net Position	13,808	7,312
Total Net Position - Beginning, as Restated	<u>360,015</u>	<u>352,703</u>
Total Net Position - Ending	<u>\$ 373,823</u>	<u>\$ 360,015</u>

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

**BROWARD COUNTY, FLORIDA
WATER AND WASTEWATER FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012
(In Thousands)**

	2013	2012
Cash Flows From Operating Activities:		
Cash Received from Customers	\$ 120,655	\$ 117,325
Cash Payments to Suppliers for Goods and Services	(42,004)	(41,486)
Cash Payments to Employees for Services	(23,503)	(23,410)
Other Cash Received	980	1,053
Net Cash Provided by Operating Activities	56,128	53,482
Cash Flows From Noncapital Financing Activities:		
Cash from Noncapital Grants	20	-
Net Cash Provided by Noncapital Financing Activities	20	-
Cash Flows From Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	(35,632)	(43,827)
Proceeds from Sale of Capital Assets	12	22
Proceeds from Internal Loan	-	3,513
Payments on Internal Loan	-	(24,869)
Interest Paid on Internal Loan	-	(175)
Proceeds from Revenue Bonds	-	157,651
Payment of Bond Issuance Costs	-	(110)
Capital Recovery Fees	3,721	701
Capital Recovery Fees Refunded	(41)	(65)
Capital Surcharges Contributed from Other Governments	1,633	1,709
Principal Paid on Revenue Bonds	(10,440)	(10,110)
Interest Paid on Revenue Bonds	(23,982)	(19,724)
Other Costs Paid	(18)	(11)
Net Cash (Used for) Provided by Capital and Related Financing Activities	(64,747)	64,705
Cash Flows From Investing Activities:		
Purchase of Investment Securities	(135,467)	(70,241)
Proceeds from Sale and Maturities of Investment Securities	128,729	49,500
Interest and Dividends on Investments	367	793
Net Cash Used for Investing Activities	(6,371)	(19,948)
Net (Decrease) Increase in Cash and Cash Equivalents	(14,970)	98,239
Cash and Cash Equivalents, Beginning of Year	149,647	51,408
Cash and Cash Equivalents, End of Year	\$ 134,677	\$ 149,647
Cash and Cash Equivalents - Unrestricted Assets	\$ 14,441	\$ 4,531
Cash and Cash Equivalents - Restricted Assets	120,236	145,116
Total Cash and Cash Equivalents	\$ 134,677	\$ 149,647

(continued)

BROWARD COUNTY, FLORIDA
WATER AND WASTEWATER FUND
STATEMENTS OF CASH FLOWS - continued
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012
(In Thousands)

	2013	2012
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:		
Operating Income	\$ 22,894	\$ 21,550
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:		
Depreciation	33,947	31,039
Miscellaneous Non-Operating Revenues	1,030	1,053
Decrease (Increase) in Assets:		
Accounts Receivable	(607)	304
Inventory	(513)	(436)
Prepaid Items	131	(687)
Increase (Decrease) in Liabilities:		
Accounts Payable	(1,455)	601
Accrued Liabilities	(8)	(87)
Due to Other Governments	833	248
Customer Deposits	213	111
Compensated Absences	(416)	(282)
Other Post Employment Benefits Liability	79	68
Total Adjustments	33,234	31,932
Net Cash Provided by Operating Activities	\$ 56,128	\$ 53,482
Noncash Investing, Capital and Related Financing Activities:		
Issuance of Refunding Bonds to Refund Existing Debt	\$ -	\$ 179,635
Capital Assets Acquired through Current Accounts Payable	5,013	8,381
Capital Contributions	724	2,423
Amortization of Deferred Charge on Refunding	1,487	998
Amortization of Bond Discounts and Premiums	(2,193)	(1,281)
Change in Fair Value of Investments	(1,168)	(633)

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

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2013 and 2012

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BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

These financial statements present the financial position, changes in net position and cash flows of the Water and Wastewater Fund (the Fund) of Broward County, Florida (the County), a major enterprise fund of the County, and not the County as a whole. The Fund accounts for water and wastewater services provided to certain incorporated and unincorporated areas of the County.

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. The Water and Wastewater Services (the WWS) operate within the Public Works Department, and are responsible for planning, construction, operation and financial management of the Water and Wastewater Systems (collectively, the Utility).

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The Fund operates as an enterprise fund of the County and uses the enterprise fund type to account for all of 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 liabilities are 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 charges to 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. Implementation of Governmental Accounting Standards Board Statements

The County adopted the following Governmental Accounting Standards Board (GASB) Statements during the fiscal year ended September 30, 2013:

1. GASB Statement No. 60, "*Accounting and Financial Reporting for Service Concession Arrangements.*"

This Statement provides guidance for financial reporting of service concession arrangements (SCAs) between a transferor (a government) and an operator (governmental or nongovernmental entity). It establishes recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner. This Statement contributes to the assessment of interperiod equity by reporting up-front payments or the present value of installment payments primarily as deferred inflows of resources, reflecting the acquisition of resources that are applicable to a future reporting period. It further requires that specific relevant disclosures be made by transferors and governmental operators about SCAs. This Statement had no impact on the Fund's financial statements.

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. GASB Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."*

This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board Statements (FASB) and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

This Statement also supersedes GASB Statement No. 20, *"Accounting and Financial Reporting for Propriety Funds and Other Governmental Entities That Use Propriety Fund Accounting."* Those entities who chose to apply post-November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements can continue to apply those pronouncements as other accounting literature. The financial reporting impact resulting from the implementation of GASB Statement No. 62 was not material.

3. GASB Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."*

This Statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. Amounts that are required to be reported as deferred outflows should be reported in a statement of net position in a separate section following assets. Similarly, amounts required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. This Statement also amends net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The adoption of this Statement resulted in a change in the presentation of the Statement of Net Assets to what is now referred to as the Statement of Net Position and, in addition, the term "net assets" was changed to "net position" throughout the financial statements. Additionally, this Statement requires that the component of net position previously titled "Invested in Capital Assets, Net of Related Debt" now be titled "Net Investment in Capital Assets."

4. GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities."*

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources, or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statement periods beginning after December 15, 2012; however, the County opted to early implement this Statement. For debt refunding resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt was reclassified from liabilities to deferred outflows of resources in the Statements of Net Position. Additionally, the adoption of this Statement required that debt issuance costs be expensed in the period incurred, resulting in a restatement of net position (see Note 1 D, below).

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Change in Accounting Principle

The October 1, 2012 and 2011, beginning net position was restated as follows due to the implementation of GASB Statement No. 65 (in thousands):

	October 1, 2012	October 1, 2011
Net position, as previously stated	<u>\$ 365,277</u>	<u>\$ 356,047</u>
Restatement due to the write off of deferred bond issuance costs pursuant to the implementation of GASB Statement No. 65	<u>(5,262)</u>	<u>(3,344)</u>
Net position, as restated	<u>\$ 360,015</u>	<u>\$ 352,703</u>

E. Deposits and Investments

Cash and cash equivalents consist of cash on hand, demand deposits, as well as 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 carried at fair value, as is determined from quoted market prices. 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.

F. Accounts Receivable

Accounts receivable are composed primarily of monthly billings to retail and wholesale customers. Unbilled revenues for services delivered during the last month of the fiscal year are accrued based on meter readings for September consumption. 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 \$6,735,000 and \$5,538,000 at September 30, 2013 and 2012, respectively.

G. Inventories and Prepaid Items

Inventories held for use in maintaining the Utility 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 utility plant in service, 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 utility plant in service and land. 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:

Utility Plant in Service	10 - 45 years
Equipment	3 -15 years

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2013 and 2012

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2013 and 2012, was \$23,430,000 and \$21,545,000, respectively, and of this \$6,195,000 and \$2,988,000, respectively, was included as part of the cost of construction-in-progress.

J. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The Fund has reported the deferred charge on refunding as a deferred outflow of resources in the Statements of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or refunding debt.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Fund does not have any items that qualify for reporting in this category.

K. Compensated Absences

The County'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, 2013 and 2012, such amounts aggregated \$3,585,000 and \$4,001,000, respectively, and are included in current and long-term liabilities.

L. Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statements of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable unamortized premium or discount.

M. Net Position and Net Position Flow Assumption

Net position represents the residual interest in the Fund's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consists of three components: net investment in capital assets, restricted and unrestricted net position. Net investment in capital assets includes capital assets, net of accumulated depreciation, reduced by outstanding debt incurred to acquire, construct or improve those capital assets, excluding unexpended proceeds. The restricted category represents the balance of assets restricted for general use by external parties (creditors, grantors, contributors, or laws or regulations of other governments) or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position consists of the net position not meeting the definition of either of other two components.

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2013 and 2012

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sometimes the Fund will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts reported as restricted - net position and unrestricted - net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Fund's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

N. Capital Contributions

Capital contributions consist mainly of capital recovery fees and contributions from developers and other governments. These capital contributions are recognized when received.

O. Reclassifications

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

P. Use of Estimates

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

NOTE 2 - DEPOSITS AND INVESTMENTS

At September 30, 2013 and 2012, the Fund's deposits and investments consisted of the following (in thousands):

	September 30	
	2013	2012
Cash Deposits	\$ 134,677	\$ 149,647
Investments:		
U.S. Treasuries	14,847	6,302
U.S. Agencies	43,141	67,569
Commercial Paper	23,555	934
Total Investments	81,543	74,805
Total Cash and Investments	\$ 216,220	\$ 224,452

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2013 and 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Cash, cash equivalents and investments are classified on the Statements of Net Position as follows (in thousands):

	September 30	
	2013	2012
Current Assets		
Unrestricted		
Cash and Cash Equivalents	\$ 14,441	\$ 4,531
Investments	39,703	32,234
Restricted		
Cash and Cash Equivalents	30,643	31,091
Investments	8,501	8,189
Noncurrent Assets		
Restricted		
Cash and Cash Equivalents	89,593	114,025
Investments	33,339	34,382
Total Cash, Cash Equivalents and Investments	\$ 216,220	\$ 224,452

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 State 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, 2013, \$95,417,000 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institutions' trust department, but not in the County's name.

Investments

The Fund follows the County's investment practices, which are governed by 218.415 of the Florida Statutes, County Code of Ordinances, Chapter 1, Article 1, Section 1-10 and the requirements of outstanding bond covenants. The County has a formal investment policy that, in the opinion of management, is designed to ensure conformity with State Statutes and seeks to limit exposure to investment risks. The investment policy specifies the type, 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 102% of the cost of the repurchase agreements.

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2013 and 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

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%; and 4-5 years 10%. Assets held pursuant to bond covenants are exempt from these maturity limitations. As of September 30, 2013, the portfolio weighted average maturity was 561 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 Investors Service and/or Standard and Poor's Ratings Services. Investments in Security and Exchange Commission registered money market funds must have the highest credit quality rating from a nationally recognized rating agency.

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

Concentration of Credit Risk - The County places no limit on the amount that may be invested in securities of the U.S. Government and U.S. Agencies 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 Statement No. 40 requires disclosure when 5% or more is invested in any one issuer. The County's investment in the Federal Home Loan Bank is 15.48%, the Federal Home Loan Mortgage Corporation is 18.40%, the Federal National Mortgage Association is 27.69%, and the Federal Agricultural Mortgage Corporation is 5.55%.

NOTE 3 - RESTRICTED ASSETS

Restricted assets of the Fund at September 30, 2013 and 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 construction funds include bond proceeds available for the design and construction of major capital projects. 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 other restricted accounts include customer deposits and the renewal, replacement, and improvement fund required by the bond resolution.

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2013 and 2012

NOTE 3 - RESTRICTED ASSETS (Continued)

Composition of restricted accounts is as follows (in thousands):

	September 30,	
	2013	2012
Bond Construction Funds	\$ 84,516	\$ 113,514
Bond Reserve Accounts	37,499	37,499
Debt Service Accounts	25,428	22,354
Other Restricted Accounts	14,633	14,320
	<u>\$ 162,076</u>	<u>\$ 187,687</u>

Restricted assets are classified on the Statements of Net Position as follows (in thousands):

	September 30,	
	2013	2012
Current Restricted Assets		
Cash and Cash Equivalents	\$ 30,643	\$ 31,091
Investments	8,501	8,189
Noncurrent Restricted Assets		
Cash and Cash Equivalents	89,593	114,025
Investments	33,339	34,382
	<u>\$ 162,076</u>	<u>\$ 187,687</u>

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BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2013 and 2012

NOTE 4 - CAPITAL ASSETS

Changes in capital assets for the years ended September 30, 2013 and 2012, are as follows (in thousands):

	Balance 10/1/2012 (1)	Increases	Decreases	Balance September 30, 2013
Capital Assets, Not Being Depreciated:				
Land	\$ 4,904	\$ -	\$ -	\$ 4,904
Construction in Progress	70,212	36,987	(66,931)	40,268
Total Capital Assets, Not Being Depreciated	<u>75,116</u>	<u>36,987</u>	<u>(66,931)</u>	<u>45,172</u>
Capital Assets, Being Depreciated:				
Utility Plant in Service	1,035,917	66,773	-	1,102,690
Equipment	24,509	2,426	(225)	26,710
Total Capital Assets, Being Depreciated	<u>1,060,426</u>	<u>69,199</u>	<u>(225)</u>	<u>1,129,400</u>
Less Accumulated Depreciation For:				
Utility Plant in Service	(398,495)	(32,897)	-	(431,392)
Equipment	(19,989)	(1,050)	216	(20,823)
Total Accumulated Depreciation	<u>(418,484)</u>	<u>(33,947)</u>	<u>216</u>	<u>(452,215)</u>
Total Capital Assets Being Depreciated, Net	<u>641,942</u>	<u>35,252</u>	<u>(9)</u>	<u>677,185</u>
Total Capital Assets, Net	<u>\$ 717,058</u>	<u>\$ 72,239</u>	<u>\$ (66,940)</u>	<u>\$ 722,357</u>

	Balance 10/1/2011 (1)	Increases	Decreases	Balance September 30, 2012
Capital Assets, Not Being Depreciated:				
Land	\$ 4,901	\$ 3	\$ -	\$ 4,904
Construction in Progress	108,117	50,982	(88,887)	70,212
Total Capital Assets, Not Being Depreciated	<u>113,018</u>	<u>50,985</u>	<u>(88,887)</u>	<u>75,116</u>
Capital Assets, Being Depreciated:				
Utility Plant in Service	946,439	94,001	(4,523)	1,035,917
Equipment	25,043	564	(1,098)	24,509
Total Capital Assets, Being Depreciated	<u>971,482</u>	<u>94,565</u>	<u>(5,621)</u>	<u>1,060,426</u>
Less Accumulated Depreciation For:				
Utility Plant in Service	(368,576)	(29,919)	-	(398,495)
Equipment	(19,965)	(1,120)	1,096	(19,989)
Total Accumulated Depreciation	<u>(388,541)</u>	<u>(31,039)</u>	<u>1,096</u>	<u>(418,484)</u>
Total Capital Assets Being Depreciated, Net	<u>582,941</u>	<u>63,526</u>	<u>(4,525)</u>	<u>641,942</u>
Total Capital Assets, Net	<u>\$ 695,959</u>	<u>\$ 114,511</u>	<u>\$ (93,412)</u>	<u>\$ 717,058</u>

(1) The October 1, 2012 and 2011, beginning balances in the schedules above were revised to reflect reclassifications of amounts previously reported as Buildings and Improvements and Machinery and Equipment to Utility Plant in Service and Equipment. There was no effect on the total net capital assets reported.

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2013 and 2012

NOTE 5 - LONG-TERM LIABILITIES

Changes in long-term obligations for the years ended September 30, 2013 and 2012, are as follows (in thousands):

	Balance, as Restated October 1, 2012 (2)	Additions	Deductions	Balance September 30, 2013	Amount Due Within One Year	Amount Due After One Year
Revenue Bonds Payable	\$ 537,940	\$ -	\$ (10,440)	\$ 527,500	\$ 13,360	\$ 514,140
Unamortized Bond Premiums and Discounts	39,879	-	(2,193)	37,686	-	37,686
Other Post Employment Benefits	538	157	(78)	617	-	617
Compensated Absences	4,001	1,206	(1,622)	3,585	1,763	1,822
Total	\$ 582,358	\$ 1,363	\$ (14,333)	\$ 569,388	\$ 15,123	\$ 554,265

	Balance, as Restated October 1, 2011 (2)	Additions	Deductions	Balance September 30, 2012	Amount Due Within One Year	Amount Due After One Year
Revenue Bonds Payable	\$ 414,935	\$ 299,200	\$ (176,195)	\$ 537,940	\$ 10,440	\$ 527,500
Unamortized Bond Premiums and Discounts	1,780	41,034	(2,935)	39,879	-	39,879
Other Post Employment Benefits	470	144	(76)	538	-	538
Compensated Absences	4,283	1,240	(1,522)	4,001	1,781	2,220
Total	\$ 421,468	\$ 341,618	\$ (180,728)	\$ 582,358	\$ 12,221	\$ 570,137

(2) The October 1, 2012 and 2011, beginning balances in the tables above were restated due to the implementation of GASB Statement No. 65. This restatement reclassifies the unamortized deferred charge on refunding from liabilities to deferred outflows of resources on the Statements of Net Position.

The following is a summary of the major provisions and significant debt service requirements for the outstanding bonds at September 30, 2013 (in thousands):

WWS Revenue Bonds	Primary Purpose	Type	Interest Payment		Redemption		Final Maturity Date	Original Amount Issued	Retired/Refunded	Outstanding 9/30/2013
			Rate %	Date	Optional (O) or Mandatory (M)	Year				
2003 Series	Improv / Refunding	Serial	2.0-5.0	4/1 & 10/1	O	2014	10/1/2025	\$ 84,415	\$ 83,405	\$ 1,010
2003 Series B	Refunding	Serial	2.0-5.0	4/1 & 10/1	O	2014	10/1/2018	99,370	91,430	7,940
2005 Series A	Improvements	Serial	5.0	4/1 & 10/1	O	2016	10/1/2026	23,065	23,065	-
2005 Series A	Improvements	Term	5.0	4/1 & 10/1	M	2028	10/1/2030	53,675	4,545	49,130
2009 Series A	Improvements	Serial	2.1-5.2	4/1 & 10/1	O	2019	10/1/2029	63,555	5,160	58,395
2009 Series A	Improvements	Term	5.25-5.3	4/1 & 10/1	M	2031	10/1/2034	111,825	-	111,825
2012 Series A	Improvements	Serial	1.0-5.0	4/1 & 10/1	O	2023	10/1/2033	51,295	-	51,295
2012 Series A	Improvements	Term	5.0	4/1 & 10/1	M	2035	10/1/2037	89,330	-	89,330
2012 Series B	Refunding	Serial	4.0-5.0	4/1 & 10/1	O	2023	10/1/2027	110,920	-	110,920
2012 Series C	Refunding	Serial	0.44-1.9	4/1 & 10/1	N/A	N/A	10/1/2018	47,655	-	47,655
										\$ 527,500

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BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2013 and 2012

NOTE 5 - LONG-TERM LIABILITIES (Continued)

Certain bond indentures contain provisions stipulating annual debt service, sinking fund, and minimum net revenue requirements. In addition, certain indentures require maintenance of various accounts and specify the deposits to be made to such accounts. The Fund was in compliance with bond indenture requirements as of September 30, 2013 and 2012.

The annual debt service requirements for all bonds outstanding as of September 30, 2013 are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	\$ 13,360	\$ 23,965	\$ 37,325
2015	13,705	23,708	37,413
2016	13,875	23,521	37,396
2017	14,080	23,289	37,369
2018	14,340	23,011	37,351
2019-2023	79,915	105,729	185,644
2024-2028	101,200	83,771	184,971
2029-2033	129,230	54,957	184,187
2034-2038	147,795	18,499	166,294
	<u>\$ 527,500</u>	<u>\$ 380,450</u>	<u>\$ 907,950</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, 2013 is as follows (in thousands):

	<u>2013</u>
Revenues	\$ 122,531
Current Expenses	<u>63,375</u>
Amount Available for Debt Service	<u>\$ 59,156</u>
Debt Service	
Deposit to Principal Account	\$ 13,360
Deposit to Interest Account	<u>24,136</u>
Total Debt Service	<u>\$ 37,496</u>
Debt Service Coverage Available for Debt Service	158%
Required Debt Service Coverage	120%

Total pledged revenues to repay the principal and interest of the Water and Sewer Utility Revenue Bonds as of September 30, 2013 were as follows (in thousands):

Current Revenue Pledged	\$ 59,156
Current Year Debt Service	\$ 34,422
Total Future Revenues Pledged	\$ 907,950

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

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2013 and 2012

NOTE 5 - LONG-TERM LIABILITIES (Continued)

Defeased Bonds

The Fund has entered into refunding transactions whereby refunding bonds have been issued to facilitate the retirement of the Fund's obligation with respect to certain outstanding bond issues. The net proceeds of the refunding issues have been placed in irrevocable escrow accounts and invested in U.S. Treasury obligations that, together with interest earned thereon will provide amounts sufficient for future payments of interest and principal on the bond issues being refunded. The refunded bonds are not included in the Fund's Statements of Net Position as a liability since the Fund has legally satisfied its obligations through the refunding transactions.

The following is a summary of the Fund's outstanding defeased bonds (in thousands):

Year of Defeasance	Bond Issue Defeased	Principal Outstanding September 30, 2013
2012	Water and Sewer Utility Revenue Bonds Series 2003 (Partially Refunded)	\$ 99,675
2012	Water and Sewer Utility Revenue Bonds Series 2003 B (Partially Refunded)	38,800
2012	Water and Sewer Utility Revenue Bonds Series 2005 A (Partially Refunded)	27,610
Total		\$ 166,085

NOTE 6 - 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 Position. Capital contributions consist of the following (in thousands):

	2013	2012
Capital Recovery Fees	\$ 3,680	\$ 636
Capital Contributed from Other Governments	1,633	1,709
Capital Contributed by Developers	724	2,423
	<u>\$ 6,037</u>	<u>\$ 4,768</u>

NOTE 7 - 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 participates in the County's Self-Insured Workers' Compensation program, which provides coverage up to a maximum of \$1,500,000 (Self-Insured Retention Limit) for each worker's compensation occurrence. In addition, the County has purchased excess coverage for losses above the self-insured retention limit in accordance with State Statutes. General liability is 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 also purchases commercial insurance for life, disability, 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.

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2013 and 2012

NOTE 8 - LARGE USER AGREEMENTS

The County has entered into agreements with large (wholesale) users of the North Regional Wastewater System. These agreements provide that the cost of operating the system be charged to each large user on the basis of each user's proportionate share of total gallons processed. In addition, each large user is charged a debt service fee for the principal, interest and debt coverage requirements on debt issued to finance the construction of the North Regional Wastewater facilities. The debt service charge is based on the relative percentage of reserve capacity designated for each user to total reserve capacity.

NOTE 9 - 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. FRS offers a defined benefit plan (Pension Plan) or a defined contribution plan (Investment Plan). Benefits for both Plans are established by Florida Statutes and may only be amended by the Florida Legislature.

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 enrolled 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 enrolled prior to 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 to 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 Fund's required contribution rate to the *Pension Plan* is established by State Statute. Through June 30, 2013, rates ranged from 4.13% to 5.23% of covered payroll, based on employee risk groups. Effective July 1, 2013, rates ranged from 6.08% to 20.97% 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.

A summary of the covered payroll, contributions and percentage of covered payroll for the *Pension Plan* are as follows (dollars in thousands):

	2013	2012	2011
Covered Payroll	\$ 17,404	\$ 17,780	\$ 19,878
Employer Contributions	\$ 1,021	\$ 871	\$ 1,829
Employer Contributions % of Covered Payroll	5.9%	4.9%	9.2%

The Fund has met all contribution requirements for the *Pension Plan* for the current year and the two preceding years.

BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2013 and 2012

NOTE 9 - PENSION PLAN (Continued)

The *Investment Plan* is a participant-directed program selected by employees in lieu of participation in the defined benefit option of FRS. 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 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. The required contribution rate as of September 30, 2013 remained the same as the prior year and, ranged from 3.55% to 4.93%, 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, 2013, the Fund contributed \$146,000 and employees contributed \$74,000 to the *Investment Plan*. For the year ended September 30, 2012, the Fund contributed \$114,000 and employees contributed \$70,000 to the *Investment Plan*.

NOTE 10 - 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. The County's actuaries, in their actuarial valuation, calculate an offset to the cost of these benefits, which is described below as 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.

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BROWARD COUNTY, FLORIDA WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2013 and 2012

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (Continued)

The annual OPEB cost for the Fund for the 2013 ad 2012 fiscal years, and the related information for the plan, is as follows (in thousands):

Required Contributions Rates:	2013	2012
Employer	Pay-as-you-go	Pay-as-you-go
Active Plan Members	N/A	N/A
Annual Required Contribution	\$ 158	\$ 144
Interest on Net OPEB Obligation	28	27
Adjustment to Annual Required Contribution	(29)	(27)
Annual OPEB Cost	157	144
Contributions Made	(78)	(76)
Increase in Net OPEB Obligation	79	68
Net OPEB Obligation, Beginning of Year	538	470
Net OPEB Obligation, End of Year	\$ 617	\$ 538

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2013, 2012, and 2011, for the Fund, were as follows (dollars in thousands):

	2013	2012	2011
Annual OPEB Cost	\$ 157	\$ 144	\$ 183
Percentage of Annual OPEB Cost Contributed	49.61%	52.76%	32.41%
Net OPEB Obligation	\$ 617	\$ 538	\$ 470

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 (dollars in thousands):

Actuarial Accrued Liability	\$ 24,800
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability	\$ 24,800
Funded Ratio	0.00%
Covered Payroll	\$ 231,302
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 FINANCIAL STATEMENTS

September 30, 2013 and 2012

NOTE 10 - 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	25 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 11 - COMMITMENTS AND CONTINGENT LIABILITIES

At September 30, 2013, the Fund had in process various uncompleted construction projects, with commitments totaling \$54,015,000. The retainage payable on these contracts totaled \$2,418,000. Funding of these projects is to be made primarily through the proceeds of the related bond issues.

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Required Supplementary Information

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

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	\$44,858	\$44,858	0.00%	\$246,655	18.19%
10/1/2009	\$0	\$40,098	\$40,098	0.00%	\$245,050	16.36%
10/1/2011	\$0	\$24,800	\$24,800	0.00%	\$231,302	10.72%

This schedule shows the County's actuarial accrued liability (AAL). An estimated 4% of this liability can be attributed to the Fund.

Supplementary Financial Information

**BROWARD COUNTY, FLORIDA
WATER AND WASTEWATER FUND
SUPPLEMENTARY FINANCIAL INFORMATION
SCHEDULE OF NET REVENUE AND DEBT COVERAGE CALCULATION
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012
(Dollars In Thousands)**

	2013	2012
Revenue:		
Water	\$ 43,990	\$ 46,343
Wastewater	69,419	66,249
Other	8,769	5,144
Interest Income	353	793
Total Revenue	122,531	118,529
Expense:		
Personal Services	23,208	23,108
Utilities Services	15,338	15,400
Chemicals	3,086	2,784
County Services	3,236	3,334
Material and Supplies	5,635	4,432
Motor Pool	1,449	1,520
Contractual Services	8,203	8,420
Other	3,220	5,075
Total Expense	63,375	64,073
Net Revenue Available for		
Principal and Interest Requirements	59,156	54,456
Principal and Interest		
Requirements on Series 2003 Bonds	1,048	3,459
Principal and Interest		
Requirements on Series 2003B Bonds	8,188	9,080
Principal and Interest		
Requirements on Series 2005 Bonds	2,456	3,147
Principal and Interest		
Requirements on Series 2009A Bonds	10,325	10,322
Principal and Interest		
Requirements on Series 2012A Bonds	8,251	3,219
Principal and Interest		
Requirements on Series 2012B Bonds	5,522	2,623
Principal and Interest		
Requirements on Series 2012C Bonds	1,706	283
Debt Coverage Required	1.20	1.20
Actual Debt Coverage All Debt Service By Net Revenue	1.58	1.69
Balance Available for Renewal, Replacement, and Capital Expenditures	\$ 21,660	\$ 22,323

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



**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements, as listed in the table of contents, of the Broward County 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, 2013, and have issued our report thereon dated January 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Water and Wastewater Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Water and Wastewater Fund's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water and Wastewater Fund's 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*.

We noted certain other matters that we reported to management in a separate letter dated January 24, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Water and Wastewater Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water and Wastewater Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
January 24, 2014



INDEPENDENT AUDITOR’S MANAGEMENT LETTER

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

We have audited the financial statements of the Broward County 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, 2013, and have issued our report thereon dated January 24, 2014.

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; and Chapter 10.550, Rules of the Florida Auditor General. We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated January 24, 2014, 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.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuses, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Honorable Board of County Commissioners
Broward County Water and Wastewater Fund

- Section 10.554(1)(i)5., 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.
- Section 10.554(1)(i)6.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Water and Wastewater Fund did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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, and 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
January 24, 2014

BROWARD COUNTY WATER AND WASTEWATER FUND

SCHEDULE OF PRIOR YEAR AUDIT OBSERVATION

Fiscal Year Ended September 30, 2013

MLO 2011-01 Information Technology

Criteria

In order to keep the Broward County (the “County”) Water and Wastewater Fund’s (the “Water and Wastewater 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 Water and Wastewater Fund’s data integrity, system security, and business continuity. Our findings were related to the following IT issues: shared administrative access accounts, password policies (this issue is a result of program software limitations), 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 Water and Wastewater 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 three of the five issues addressed in our recommendations. Kronos weak password settings, Kronos access level review, and Energy vendor support agreement have been resolved to our satisfaction. However, password policies and backup tape rotation related to the “Energy” software systems have not been fully corrected. In addition, there were two new issues noted in the current year related to backup rotation and backup server access to Kronos. Therefore, we do not consider this observation to be fully corrected as of September 30, 2013.

This finding has been included in the second preceding financial audit report.

Management’s Response

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

Password policies – As a result of the finding, management sent e-mail every 45 days to all Energy users to change their passwords which should be a minimum of eight characters, including alpha and numeric characters. A replacement or upgrade to the current system is scheduled for fiscal year 2015. The new system or upgrade will have strong password requirements.

Backup rotation for Energy and Kronos – The division acknowledges that improvements can be made to mitigate the risk of lost data. A cloud based backup solution will be explored to include both incremental and weekly backup storage.

Backup Server for Kronos – The three domain groups have been reviewed and consolidated into one group. Users who do not have backup server responsibilities have been removed from the group. The Windows administrator will review the group on a quarterly basis to assure that only those personnel who require access are within the group.