

**\*\*REVISED\*\***

**Derivative Valuation and GASB 53  
Compliance Report  
For the Period Ending September 30, 2013**

**Prepared On Behalf Of**

**Broward County, Florida**

December 12, 2013

***BLX Group LLC  
777 S. Figueroa Street, Suite 3200  
Los Angeles, CA 90017  
213 612 2200 PH  
213 612 2499 FX  
www.blxgroup.com***

**DERIVATIVE VALUATION AND GASB 53 COMPLIANCE REPORT**  
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December 12, 2013

Dr. Alexandra C. Cook, CPA, CFF  
Director of Finance  
Port Everglades Department  
1850 Eller Drive  
Fort Lauderdale, FL 33316

Re: Derivative Valuation and GASB 53 Report For the Period Ending  
September 30, 2013 ( the "Reporting Period")

BLX Group LLC is pleased to provide the attached Derivative Valuation and GASB 53 Compliance Report (the "Report") for the benefit of Broward County, Florida (the "County") in connection with the Government Accounting Standards Board Statement No. 53 – Accounting and Financial Reporting for Derivative Instruments ("GASB 53"). Pursuant to the terms of our engagement, we have analyzed each of the transactions listed on Schedule A hereto (each, a "Transaction," which is, in whole, or in part, a "Derivative Instrument" as defined in GASB 53) pursuant to the procedural guidelines and provisions of GASB 53.

Generally, the objective of GASB 53 is to enhance the usefulness and comparability of derivative instrument information reported by state and local governments. Under GASB 53, instruments, in whole or in part, such as interest rate swaps and similar transactions that fall under the definition of Derivative Instruments must be reported on the statement of net assets, the classification of which depends on whether they represent assets or liabilities, and Derivative Instruments generally should be measured at "Fair Value." In addition, Derivative Instruments that are potential hedging instruments may be determined to be either "Effective" or "Ineffective." If a Derivative Instrument is determined to be Effective, changes in Fair Value are reported as deferred outflows or inflows of resources, and, if a Derivative Instrument is determined to be Ineffective, changes in fair value are reported within the investment revenue classification on the flow of resources statement.

In this Report we have undertaken the analyses and calculations to determine the appropriate recognition and measurement of the County's Derivative and Related Instruments, and, if applicable, any related instruments. Our findings are summarized in Report Section I, Schedules A through E and the supporting calculations and analyses are provided in Report Section II and the related Appendix and Exhibit.

The Report is based on information available to us as of the end of the Reporting Period, and therefore may be inapplicable thereafter. Please see the attached Notes, Assumptions, and Disclaimer Information attached. We have no obligation to inform you if and when information used in the Report has changed or new information becomes available to us. We have no obligation to update this Report delivered herewith because of any events occurring, changes in existing laws, regulations, or rulings or interpretations thereof, or data or information received, subsequent to the date hereof.

This Report is not to be used, circulated, quoted, referred to, or relied upon by any other person without the express written permission of BLX or the County.

Very truly yours,

BLX Group LLC

**NOTES, ASSUMPTIONS, AND DISCLAIMER INFORMATION**

For purposes of the Report, Fair Value (or “Market Value” as that term is used in the Report) was determined as of the market close or end of business on the last day of the Reporting Period (or if such day is not a business day, the preceding business day), or the date that is otherwise indicated. Our determination of Market Value utilizes “mid-market” interest rates and/or securities prices (i.e., the mean between the bid and offer prices) available to us from public and subscription sources and which we believe to be reliable. Accordingly, Market Values set forth on the Report (a) do not necessarily reflect the actual dollar amount that the counterparty to each such Derivative Instrument would pay, or require to be paid, to terminate each Derivative Instrument, or that a third party would pay or require to be paid to accept assignment of such Derivative Instrument, and (b) do not reflect any transaction costs that might be incurred in effecting a disposition (termination), in whole or in part, of the Derivative Instrument.

The methodologies employed in the Report are based on what we believe to be widely accepted industry standard valuation models. Expected future cash flows from Derivative Instruments are valued using the discounted cash flow methodology, which considers the net present value of the future payments from payments to be made or received under the swap. The present value of a “fixed leg” is calculated as the sum of the present values, as of the computation date, of the payment amounts (computed at the fixed swap rate) expected to be paid over the scheduled term of the swap. The value of a “floating leg” is calculated as the sum of the present values, as of the valuation date, of the floating leg payment amounts expected to be paid over the scheduled term of the swap. The floating leg coupon rates are based on the forward rates derived from the relevant interest rate swap yield curve data (e.g., LIBOR, SIFMA, etc.) as of the valuation date. The present value discount factors for each future payment date is determined by the LIBOR swap curve data using the zero coupon method. The fixed swap rate, which may be adjusted for estimated bid-ask and other spread components, that would produce a net present value of \$0, is the “On-Market Rate,” and the difference between the actual fixed and the On-Market Rate is the “Off-Market Rate Component.” On-Market Rates may be expressed differently for different types of Derivative Instruments. In certain circumstances when On-Market Rates or related information is required to perform the calculations in the Report, at your direction, BLX will rely upon information previously determined (e.g., in a tax or related certificate) that is provided to us.

From your perspective, if the net present value is negative, the Derivative Instrument is a liability, and, if positive, the Derivative Instrument is an asset. Outstanding loans, bonds, or other fixed yield liabilities are expressed as positive numbers. The Report may also include certain information other than the Market Value of each Derivative Instrument, including calculations and information related to compliance with GASB and/or FASB pronouncements, as well as other supplemental information.

Note that certain information and calculations provided in the Report may be based on historical information, estimates of future performance and other assumptions that may not be realized. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect the projections or estimates contained or implied in the Report.

**BROWARD COUNTY, FLORIDA**

Schedule A. GASB 53 Accounting Summary

ID	Description	9/30/2012	9/30/2013	Change in Value
Assets:				
	Deferred outflows on derivative instruments			
1	46.145MM Goldman	(6,800,192.08)	(4,084,032.03)	2,716,160.05
	<b>Total</b>	<b>(6,800,192.08)</b>	<b>(4,084,032.03)</b>	<b>2,716,160.05</b>
Liabilities:				
	Derivative instruments			
1	46.145MM Goldman	(6,800,192.08)	(4,084,032.03)	2,716,160.05
	<b>Total</b>	<b>(6,800,192.08)</b>	<b>(4,084,032.03)</b>	<b>2,716,160.05</b>

**BROWARD COUNTY, FLORIDA**

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Schedule B. Transaction Accounting Classifications

ID	Description	GASB 53 Transaction Classification	GASB 53 Derivative Classification
1	46.145MM Goldman	Derivative Instrument	Derivative Consists of Hedging Portion Only

**BROWARD COUNTY, FLORIDA**

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Schedule C. Hedged Items

ID	Description	Hedged Item	Hedging Objective
		\$46,145,000	
		Broward County, Florida	
1	46.145MM Goldman	Refunding Revenue Bonds, Series 2008	To hedge changes in the benchmark interest rate, i.e. SIFMA, that will adversely affect the cash flows of the Hedged Item.

**BROWARD COUNTY, FLORIDA**

Schedule D. GASB 53 Results – Hedging Derivatives<sup>1</sup>

ID	Description	Hedging Derivative Value as of 9/30/2012	Hedging Derivative Value as of 9/30/2013	Change in Value	Evaluation Method <sup>2</sup>	GASB 53 Result
1	46.145MM Goldman	(6,800,192.08)	(4,084,032.03)	2,716,160.05	REG	Effective-Deferred
	<b>Total</b>	<b>(6,800,192.08)</b>	<b>(4,084,032.03)</b>	<b>2,716,160.05</b>		

<sup>1</sup> Referred to as “Deferred outflows (or inflows, as applicable) on derivative instrument” in Broward County’s CAFR and Port Everglades’ Audited Financial Report.

<sup>2</sup> REG – Regression analysis method



**BROWARD COUNTY, FLORIDA**

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Schedule E. Transaction Market Valuations<sup>3</sup>

ID	Description	Market Value as of 9/30/2012	Market Value as of 9/30/2013	Change in Value
1	46.145MM Goldman	(6,800,192.08)	(4,084,032.03)	2,716,160.05
	<b>Total</b>	<b>(6,800,192.08)</b>	<b>(4,084,032.03)</b>	<b>2,716,160.05</b>

<sup>3</sup> Note: The Transaction Market Valuations are provided for informational purposes only and may not be the same as the values for GASB 53 reporting purposes (e.g., in the event the transaction does not have a zero fair value at the inception of the hedging relationship). See Schedule A for the GASB 53 reporting amounts for each Transaction.

**BROWARD COUNTY, FLORIDA**

**TRANSACTION #1 – 46.145MM GOLDMAN 2008**

**TRANSACTION GENERAL TERMS**

<u>Principal Terms</u>		<u>Pay Leg</u>		<u>Receive Leg</u>	
Counterparty Name	Goldman Sachs Bank USA	Fixed Rate	3.642%	Reference Index	100% SIFMA
Counterparty Ref.	LTAA1717608484.0/00694613101	Pay Frequency	Monthly	Pay Frequency	Monthly
Trade Date	7/7/2008			Reset Frequency	Weekly
Effective Date	7/10/2008				
Maturity Date	9/1/2027				

**OFF-MARKET SWAP ADJUSTMENTS & ALLOCATIONS**

	Investment Derivative Portion	Hedging Instrument Portion
Swap In Excess of Related Bonds During Fiscal Year	0	0
Is the Swap an Off-Market Swap?	No	On-Market Component 3.642%
Off-Market Portion Trade Date		
Off-Market Portion Settlement Date		
Off-Market Portion Component		
Off-Market Portion Amount		

**TRANSACTION MARKET VALUATIONS**

<u>September 30, 2012</u>	<u>Principal</u>	<u>Accrued</u>	<u>Total</u>
Pay Leg			
Receive Leg			
<b>Swap Value</b>			<b>(6,800,192.08)<sup>1</sup></b>

<u>September 30, 2013</u>	<u>Principal</u>	<u>Accrued</u>	<u>Total</u>
Pay Leg	(9,406,480.67)	(104,840.53)	(9,511,321.20)
Receive Leg	5,425,546.48	1,742.69	5,427,289.17
<b>Swap Value</b>	<b>(3,980,934.19)</b>	<b>(103,097.84)</b>	<b>(4,084,032.03)</b>

**GASB 53 ACCOUNTING VALUATIONS**

	September 30, 2012	September 30, 2013	Change in Value
Investment Portion Balance			0
On-Market Hedging Portion Balance	(6,800,192.08)	(4,084,032.03)	2,716,160.05
Off-Market Amount Portion Balance			0

<sup>1</sup> Per the PFM report generated 10/9/2012.

BROWARD COUNTY, FLORIDA

TRANSACTION #1 – 46.145MM GOLDMAN 2008

Key GASB 53 Considerations

	<u>Criteria</u>	<u>Explanation</u>	<u>Evaluation Result</u>
1	Is the financial instrument a " <b>derivative instrument</b> "?	Yes, the settlement factors, leverage, and net settlement of the swap are characteristic of a derivative instrument, and the swap is not an instrument excluded from the scope of GASB 53.	Yes, applicable
2	Does the derivative instrument result from the termination of a previous hedging relationship?	No, the derivative instrument doesn't result from a termination of a previous hedge.	Not applicable
3	Is the derivative instrument embedded in a financial instrument and therefore a " <b>hybrid instrument</b> "?	No, the derivative instrument is not a hybrid instrument.	Not applicable
4	Is the derivative instrument associated with a " <b>hedgeable item</b> "?	Yes, the swap is associated with a hedgeable item having a consistent quantity, is reported from the same fund, and has a consistent term.	Yes, applicable
5	Is the derivative instrument designed to reduce an identified financial risk by offsetting changes in cash flows or fair values of the hedged item?	Yes, the swap is designed to offset changes in cash flows of the hedged item and is therefore a " <b>potential hedging derivative instrument.</b> "	Yes, applicable
6	a. Does the potential hedging derivative instrument meet the criteria of the " <b>consistent critical terms method</b> "?	No, consistent with PFM report.	No or N/A, therefore see 6(b) below
	b. Is the potential hedging derivative instrument eligible for evaluation of effectiveness using the " <b>regression analysis method</b> "?	All criteria under i. - iii. below must be satisfied.	PASS (see i. - iii. below)
	i. The R-squared of the regression analysis is at least 0.80.	Yes, the R-squared is 0.99551.	PASS
	ii. The F-statistic calculated for the regression model demonstrates that the model is significant using a 95 percent confidence interval.	Yes, the F-statistic is 0.00000.	PASS
	iii. The regression coefficient for the slope is between -1.25 and -0.80.	Yes, the regression coefficient for the slope is -1.02576.	PASS

**BROWARD COUNTY, FLORIDA**

**TRANSACTION #1 – 46.145MM GOLDMAN 2008**

**GASB 53 Conclusion**

Since (i) the swap has been determined to be a potential hedging derivative instrument, (ii) no new market conditions arose during the current reporting period, and (iii) the swap meets the criteria of one of the permitted methods, i.e., regression analysis method, **the swap is an Effective Hedge as defined in GASB 53.**

**BROWARD COUNTY, FLORIDA**

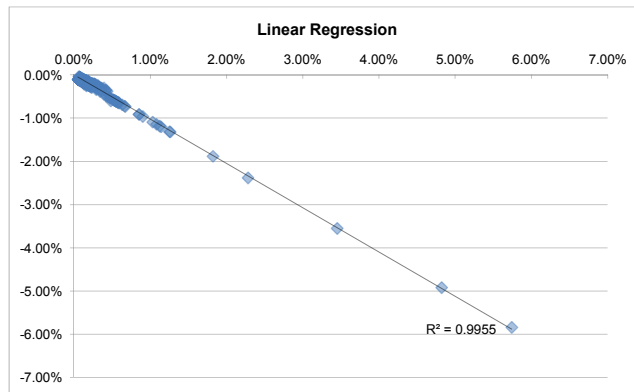
**TRANSACTION #1 – 46.145MM GOLDMAN 2008**

**Historical Basis Data**

**Regression Analysis Method Summary**

Payment Date	Bond Variable Rate	100%SIFMA	Difference
10/02/08	-5.84000%	5.74000%	0.10%
10/09/08	-4.92000%	4.82000%	0.10%
10/16/08	-3.55000%	3.45000%	0.10%
10/23/08	-2.38000%	2.28000%	0.10%
10/30/08	-1.88000%	1.82000%	0.06%
11/06/08	-1.32000%	1.26000%	0.06%
11/13/08	-1.20000%	1.14000%	0.06%
11/20/08	-1.18000%	1.12000%	0.06%
11/27/08	-1.09000%	1.03000%	0.06%
12/04/08	-0.91000%	0.85000%	0.06%
12/11/08	-0.91000%	0.85000%	0.06%
12/18/08	-1.14000%	1.08000%	0.06%
12/25/08	-1.31000%	1.25000%	0.06%
01/01/09	-0.96000%	0.90000%	0.06%
01/08/09	-0.65000%	0.59000%	0.06%
01/15/09	-0.52000%	0.46000%	0.06%
01/22/09	-0.57000%	0.51000%	0.06%
01/29/09	-0.59000%	0.53000%	0.06%
02/05/09	-0.54000%	0.48000%	0.06%
02/12/09	-0.61000%	0.55000%	0.06%
02/19/09	-0.72000%	0.66000%	0.06%
02/26/09	-0.73000%	0.67000%	0.06%
03/05/09	-0.61000%	0.55000%	0.06%
03/12/09	-0.64000%	0.58000%	0.06%
03/19/09	-0.63000%	0.57000%	0.06%
03/26/09	-0.60000%	0.54000%	0.06%
04/02/09	-0.60000%	0.48000%	0.12%
04/09/09	-0.57000%	0.51000%	0.06%
04/16/09	-0.59000%	0.53000%	0.06%
04/23/09	-0.63000%	0.57000%	0.06%
04/30/09	-0.69000%	0.63000%	0.06%
05/07/09	-0.53000%	0.47000%	0.06%
05/14/09	-0.50000%	0.44000%	0.06%
05/21/09	-0.48000%	0.42000%	0.06%
05/28/09	-0.45000%	0.39000%	0.06%
06/04/09	-0.34000%	0.34000%	0.00%
06/11/09	-0.31000%	0.36000%	-0.05%
06/18/09	-0.36000%	0.36000%	0.00%
06/25/09	-0.30000%	0.35000%	-0.05%
07/02/09	-0.25000%	0.30000%	-0.05%
07/09/09	-0.22000%	0.27000%	-0.05%
07/16/09	-0.27000%	0.32000%	-0.05%
07/23/09	-0.32000%	0.37000%	-0.05%
07/30/09	-0.36000%	0.41000%	-0.05%
08/06/09	-0.30000%	0.35000%	-0.05%
08/13/09	-0.38000%	0.43000%	-0.05%
08/20/09	-0.35000%	0.42000%	-0.07%
08/27/09	-0.30000%	0.39000%	-0.09%
09/03/09	-0.28000%	0.28000%	0.00%
09/10/09	-0.25000%	0.31000%	-0.06%
09/17/09	-0.25000%	0.31000%	-0.06%
09/24/09	-0.35000%	0.40000%	-0.05%
10/01/09	-0.30000%	0.34000%	-0.04%
10/08/09	-0.20000%	0.24000%	-0.04%
10/15/09	-0.21000%	0.26000%	-0.05%
10/22/09	-0.21000%	0.26000%	-0.05%
10/29/09	-0.20000%	0.26000%	-0.06%
11/05/09	-0.20000%	0.23000%	-0.03%
11/12/09	-0.20000%	0.23000%	-0.03%
11/19/09	-0.22000%	0.28000%	-0.06%
11/26/09	-0.26000%	0.27000%	-0.01%
12/03/09	-0.22000%	0.22000%	0.00%
12/10/09	-0.22000%	0.24000%	-0.02%
12/17/09	-0.26000%	0.27000%	-0.01%
12/24/09	-0.30000%	0.32000%	-0.02%

**R-Squared** 0.99551  
**Significance F** 0.00000  
**Slope Regression Coefficient** -1.02576











**BROWARD COUNTY, FLORIDA**

**Appendix – Hedging Allocation**

<b>2008 Swap Hedging Allocation</b>			
Period Start Date	Period End Date	Swap Notional	2008 Port Bonds Principal
7/10/2008	9/1/2008	46,145,000	46,145,000
9/1/2008	9/1/2009	44,720,000	44,720,000
9/1/2009	9/1/2010	43,050,000	43,050,000
9/1/2010	9/1/2011	41,320,000	41,320,000
9/1/2011	9/1/2012	39,525,000	39,525,000
9/1/2012	9/1/2013	37,665,000	37,665,000
9/1/2013	9/1/2014	35,735,000	35,735,000
9/1/2014	9/1/2015	33,735,000	33,735,000
9/1/2015	9/1/2016	31,660,000	31,660,000
9/1/2016	9/1/2017	29,515,000	29,515,000
9/1/2017	9/1/2018	27,285,000	27,285,000
9/1/2018	9/1/2019	24,975,000	24,975,000
9/1/2019	9/1/2020	22,580,000	22,580,000
9/1/2020	9/1/2021	20,100,000	20,100,000
9/1/2021	9/1/2022	17,525,000	17,525,000
9/1/2022	9/1/2023	14,860,000	14,860,000
9/1/2023	9/1/2024	12,095,000	12,095,000
9/1/2024	9/1/2025	9,230,000	9,230,000
9/1/2025	9/1/2026	6,260,000	6,260,000
9/1/2026	9/1/2027	3,185,000	3,185,000

**BROWARD COUNTY, FLORIDA**

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**Exhibit – Suggested Journal Entries**

**Journal Entries for the Swap Fair Values as of 9/30/2013:**

**46.145MM Goldman**

	Debit	Credit
Derivative instrument - interest rate swap liabilities	\$ 2,716,160.05	
Deferred outflow on derivative instrument		\$ 2,716,160.05
(To record the change in fair value from 9/30/12 to 9/30/13)		