MIAMI-DADE WATER AND SEWER DEPARTMENT
(A DEPARTMENT OF MIAMI-DADE COUNTY, FLORIDA)

SINGLE AUDIT REPORTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

MIAMI-DADE WATER AND SEWER DEPARTMENT
(A DEPARTMENT OF MIAMI-DADE COUNTY, FLORIDA)

CONTENTS

I. Financial Statements

Independent Auditors' Report 1-2

Management's Discussion and Analysis 3-6

Balance Sheets 7-8

Statements of Revenues, Expenses and Changes in Net Assets 9

Statements of Cash Flows 10-11

Notes to Financial Statements 12-27

Required Supplementary Information – OPEB Schedule of Funding Progress 28

II. Independent Auditors' 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* 29-30

III. Independent Auditors' Report on Federal Awards Programs

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Program and on Internal Controls over Compliance in Accordance with OMB Circular A-133 31-33

Schedule of Expenditures of Federal Awards 34

Notes to Schedule of Expenditures of Federal Awards 35

Summary Schedule of Prior Audit Findings 36

Schedule of Findings and Questioned Costs 37-41

INDEPENDENT AUDITORS' REPORT

Honorable Carlos A. Giminez, Mayor, and
Honorable Chairperson and Members
Board of County Commissioners
Miami-Dade County, Florida

We have audited the accompanying balance sheets of the Miami-Dade Water and Sewer Department (the Department), a department of Miami-Dade County, Florida (the County) as of September 30, 2011 and 2010 and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Departments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Miami-Dade Water and Sewer Department as of September 30, 2011 and 2010 and the respective changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the financial statements referred to above are intended to present the financial position, and changes in financial position, and cash flows of the Miami-Dade Water and Sewer Department of Miami-Dade County, Florida and do not purport to, and do not, present the financial position of Miami-Dade County, Florida as of September 30, 2011 and 2010 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

MARCUMGROUP
MEMBER

Marcum LLP ▪ One Southeast Third Avenue ▪ Tenth Floor ▪ Miami, Florida 33131 ▪ **Phone** 305.995.9600 ▪ **Fax** 305.995.9601
marcumllp.com

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2012, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the schedule of funding progress pages 3 to 6 and 28, respectively, 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, which 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 principally of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purposes of forming opinions on the financial statements that collectively comprise the Department's basic financial statements as a whole. The introductory section, supplemental financial data and the statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental financial data has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit the information is fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The information identified in the table of contents as the Introductory and Statistical Sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion or provide any assurance on them.

Marcum LLP

Miami, FL
January 23, 2012

Management's Discussion & Analysis

OVERVIEW

The following Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements of the Miami-Dade Water and Sewer Department (Department) for the fiscal year ended September 30, 2011. The MD&A presents management's examination and analysis of the Department's financial condition and performance. It should be read in conjunction with the financial information of the transmittal letter in the introductory section and the financial statements in the financial section of this report. The financial statements include balance sheets; statements of revenues, expenses and changes in net assets; statements of cash flows; and notes to the financial statements.

The balance sheets present the financial position of the Department as of a specific date. It provides information about the nature and amount of resources (assets) and obligations (liabilities), with net assets being the difference between assets and liabilities. Increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The statements of revenues, expenses, and changes in net assets present information showing how the Department's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs which might not coincide with the timing of the related cash flows.

The statements of cash flows present the cash activities of the Department segregated in the following four major categories: operating, non-capital financing, capital and related financing, and investing. This statement also presents the changes in cash and cash equivalents of the Department.

The notes to the financial statements provide required disclosures and other information that are essential to the full understanding of data provided in the statements.

FINANCIAL POSITION

A summary of the Department's net assets and related changes for the fiscal years ended September 30, 2011, 2010 and 2009 is shown on the following page. Total net assets as of September 30, 2011, were approximately $2.2 billion. The Department's total net assets decreased by $8.4 million, or by 0.4%, from prior year which is primarily due to an increase in non-operating expenses as a result of a County General Fund transfer. In 2010, net assets increased by $18.2 million, or by 1.0% from the prior year. The increase is primarily due to an increase in operating revenues as a result of rate increases as well as the inclusion of the adopted GASB 53 adjustment. The unrestricted portion of net assets (available to meet ongoing and future obligations of the Department) increased by $33.4 million, or 1.5% in 2011. In 2010, unrestricted net assets had a decrease of $17.8 million, or 1.0%.

Operating and maintenance expenses decreased by $16.8 million, or by 5.1%, in 2011, and increased by $20.7 million or by 5.9% in 2010. The 2011 decrease is primarily due to a decreased level of employee salaries and administrative reimbursement charges. The 2010 increase is primarily due to an increased level of administrative reimbursement charges, security services and general liability insurance.

Management's Discussion & Analysis

SUMMARY OF NET ASSETS	2011	2010	2009
		(In thousands)	
Current and Other Assets	$ 1,018,250	$ 1,226,842	$ 811,123
Capital Assets, net	3,434,125	3,286,107	3,151,053
Total Assets	4,452,375	4,512,949	3,962,176
Long-term Liabilities	2,039,700	2,084,569	1,537,506
Current Liabilities	226,054	233,367	247,867
Total Liabilities	2,265,754	2,317,936	1,785,373
Net Assets:			
Invested in capital assets, net of related debt	1,530,096	1,535,755	1,590,038
Restricted	243,292	279,576	150,107
Unrestricted	413,233	379,683	436,658
Total Net Assets	$ 2,186,621	$ 2,195,014	$ 2,176,803
SUMMARY OF CHANGES IN NET ASSETS			
Water operating revenues	$ 253,696	$ 245,122	$ 225,711
Wastewater operating revenues	291,964	273,273	253,025
Interest Income	6,193	18,160	13,440
Other nonoperating revenues	19,326	22,678	38,257
Total revenues	571,179	559,233	530,433
Water source of supply	13,558	12,354	14,208
Water power and pumping	1,942	2,002	2,407
Water purification	62,138	61,967	64,457
Water transmission and distribution	27,929	28,459	25,428
Wastewater collection system	20,385	21,523	15,987
Wastewater pumping	30,950	29,916	30,204
Wastewater treatment	72,512	68,043	69,997
Customer accounting	7,410	8,915	7,970
Customer service	16,821	19,088	19,602
General and Administrative	79,165	97,364	78,669
Depreciation	159,158	160,469	152,428
Interest expense	85,511	71,229	63,787
Other nonoperating expenses	3,429	4,091	4,400
Total expenses	580,908	585,420	549,544
Loss before contributions and transfers	(9,729)	(26,187)	(19,111)
Capital contributions	33,556	30,487	56,415
Transfers to County's General Fund	(32,220)	-	-
Increase (Decrease) in net assets	(8,393)	4,300	37,304
Net assets at beginning of year	2,195,014	2,190,714 [1]	2,139,499
Net assets at end of year	$ 2,186,621	$ 2,195,014	$ 2,176,803

[1] For fiscal year 2010, the beginning balance of net assets has been restated to include the cumulative effect of GASB 53. See Note 8, under Interest Rate Swap Agreements, for further details.

Reconciliation of Net Assets	
Ending Balance of net assets at 09/30/2009	$ 2,176,803
Cumulative effect of GASB 53	13,911
Adjusted beginning balance of net assets at 10/01/2009	$ 2,190,714

CAPITAL ASSETS

The following table summarizes the Department's capital assets, net of accumulated depreciation, for the fiscal years ended September 30, 2011, 2010 and 2009 (in thousands). Total capital assets increased by $148.0 million, or 4.3%, in 2011. This increase is due to capital additions, net of plant retirements of $121.3 million, offset by $148.3 million net increase in accumulated depreciation. Total capital assets increased by $135.1 million, or 4.1%, in 2010. This increase was due to capital additions, net of plant retirements of $249.5 million, offset by $154.2 million net increase in accumulated depreciation. Additional information on changes in capital assets can be found in Note 6 to the financial statements on page 17.

		(In thousands)	
	2011	**2010**	**2009**
Land	$ 47,520	$ 44,650	$ 44,485
Structures and improvements (net)	2,320,810	2,384,935	2,265,689
Equipment (net)	221,521	213,214	220,293
Construction work in progress	844,274	643,309	620,586
Total capital assets	$ 3,434,125	$ 3,286,108	$ 3,151,053

This year's major expenditures in capital assets included:

Water projects:

- Treatment facilities ($31.2 million)
- Transmission mains, meters and services ($21.4 million)
- Land ($10.0 million)

Wastewater projects:

- Treatment facilities ($149.0 million)
- Force mains ($28.3 million)
- Infiltration and inflow reduction program ($7.9 million)
- Pump stations ($7.0 million)
- Gravity mains and services ($3.1 million)
- System wide improvements ($2.7 million)

Budgeted capital expenditures for fiscal year 2012 amount to $261.3 million and include $87.0 million in water projects and $174.3 million in wastewater projects.

LONG-TERM DEBT

Long-term debt outstanding (including current portion) at September 30, 2011, 2010 and 2009 is presented in the following table (in thousands). The year 2011 shows a decrease of $43.3 million from the previous year, and 2010 shows an increase of $548.9 million from 2009.

		(In thousands)	
	2011	**2010**	**2009**
Revenue Bonds	$ 1,932,611	$ 1,980,844	$ 1,432,012
State Loan Obligations	124,162	119,255	119,093
Total long-term debt	$ 2,056,773	$ 2,100,099	$ 1,551,104

Management's Discussion & Analysis

During 2011, draws made on state revolving loan commitments and recorded as debt, including capitalized interest, totaled $15.8 million. Current long-term debt maturities were met in the amount of $58.9 million. Additional long-term debt details can be found in Note 8 on page 18 of this report.

The Department is required to maintain rates and charges sufficient to meet two tiers of debt service coverage requirements. First, adjusted annual net operating revenues must equal or exceed 1.10 percent of the debt service on senior lien revenue bonds. The Department met the primary debt coverage for the year with a ratio of 1.80 percent. Second, adjusted net operating revenues, after payment of revenue bond debt service, must be at least equal to 1.15 percent of the debt service for the subordinate state loan obligations. The Department met the secondary debt service coverage with a ratio of 6.00 percent.

REQUEST FOR INFORMATION

Questions concerning this report or request for additional information should be directed to Frances G. Morris, Assistant Director – Finance at 786-552-8104 or, at her office at 3071 SW 38th Avenue, Miami, Florida 33146.

Balance Sheets

		(In thousands)	
	September 30,	**2011**	2010
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		**$ 49,783**	$ 8,525
Investments		**35,878**	82,300
Accounts receivable (net of allowance for uncollectible accounts of $19.3 million in 2011 and $26.9 million in 2010)		**106,978**	102,512
Inventory of materials and supplies		**34,638**	30,821
Other current assets		**3,526**	9,503
Restricted cash and cash equivalents		**154,041**	183,354
Total current assets		**384,844**	417,015
NON-CURRENT RESTRICTED ASSETS:			
Cash and cash equivalents		**132,228**	127,884
Investment derivative instrument		**29,590**	25,743
Investments		**316,510**	486,177
Grants receivable		**125**	430
Total restricted assets		**478,453**	640,234
OTHER ASSETS:			
Deferred debt issue costs, net		**27,067**	28,814
Other deferred charges, net		**127,886**	140,779
Total other assets		**154,953**	169,593
CAPITAL ASSETS:			
Land		**47,520**	44,650
Structures and Improvements		**3,895,888**	3,844,833
Equipment		**924,973**	883,520
Utility plant in service before depreciation		**4,868,381**	4,773,003
Less accumulated depreciation		**(2,278,530)**	(2,130,204)
Net utility plant in service		**2,589,851**	2,642,799
Construction work in progress		**844,274**	643,309
Total capital assets		**3,434,125**	3,286,108
Total non-current assets		**4,067,531**	4,095,935
Total Assets		**$ 4,452,375**	$ 4,512,950

(Continued)

Balance Sheets

(Continued) September 30,	2011	2010
	(In thousands)	
LIABILITIES		
CURRENT LIABILITIES (PAYABLE FROM UNRESTRICTED CURRENT ASSETS):		
Accounts payable and accrued expenses	$ 40,948	$ 37,820
Customer and developer deposits	11,129	14,612
Current portion of long-term debt	7,652	7,405
Rebatable arbitrage earnings	1,949	1,994
Liability for compensated absences	10,280	11,019
Other liabilities	222	2,250
Total current liabilities (payable from unrestricted current assets)	72,180	75,100
CURRENT LIABILITIES (PAYABLE FROM RESTRICTED CURRENT ASSETS):		
Accounts payable and accrued expenses	31,306	39,260
Retainage payable	19,022	15,152
Current portion of long-term debt	53,841	51,491
Accrued interest payable	48,332	51,174
Liability for self insurance	1,373	1,189
Total current liabilities (payable from restricted current assets)	153,874	158,266
Total current liabilities	226,054	233,366
NON-CURRENT LIABILITIES:		
Revenue bonds payable, net	1,882,336	1,932,810
State loan obligations, net	112,944	108,393
Liability for self-insurance	1,837	1,526
Liability for compensated absences	27,969	27,194
Liability for post-employment benefits	3,300	2,557
Deferred revenues	11,314	12,090
Total non-current liabilities	2,039,700	2,084,570
Total liabilities	2,265,754	2,317,936
NET ASSETS		
Invested in capital assets, net of related debt	1,530,096	1,535,755
Restricted for:		
Capital projects	132,705	133,325
Debt service	110,587	146,252
Unrestricted	413,233	379,682
Total net assets	2,186,621	2,195,014
Total liabilities and net assets	$ 4,452,375	$ 4,512,950

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

Statements of Revenues, Expenses, and Changes in Net Assets

For the years ended September 30,	(In thousands) 2011	2010
OPERATING REVENUES:		
Water	$ 253,696	$ 245,122
Wastewater	291,964	273,273
Total operating revenues	545,660	518,395
OPERATING AND MAINTENANCE EXPENSES:		
Water source of supply	13,558	12,354
Water power and pumping	1,942	2,003
Water purification	62,138	61,967
Water transmission and distribution	27,929	28,459
Wastewater collection system	20,385	21,523
Wastewater pumping	30,950	29,916
Wastewater treatment	72,512	68,043
Customer accounting	7,410	8,915
Customer service	16,821	19,088
General and administrative	79,165	97,364
Total operating and maintenance expenses	332,810	349,632
Operating income before depreciation	212,850	168,763
DEPRECIATION	159,158	160,469
Operating income	53,692	8,294
NON-OPERATING REVENUES (EXPENSES):		
Investment income	6,193	18,160
Interest expense	(85,511)	(71,229)
Amortization of debt issue costs	(2,618)	(3,026)
Operating grants	1,806	1,632
Customer connection fees	13,933	15,979
Other revenues	3,587	5,068
Other expenses	(811)	(1,065)
Loss before contributions and transfers	(9,729)	(26,187)
Capital contributions	33,556	30,487
Transfers to County's General Fund	(32,220)	-
(Decrease) Increase in net assets	(8,393)	4,300
Net assets at beginning of year	2,195,014	2,190,714 [1]
Net assets at end of year	$ 2,186,621	$ 2,195,014

[1] For fiscal year 2010, the beginning balance of net assets has been restated to include the cumulative effect of GASB 53. See Note 8, under Interest Rate Swap Agreements, for further details.

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

Statements of Cash Flows

For the years ended September 30,	(In thousands) 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ **553,361**	$ 520,075
Cash paid to suppliers for goods and services	**(141,917)**	(148,086)
Cash paid to employees for services	**(181,472)**	(196,602)
Net cash provided by operating activities	**229,972**	175,387
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating grants received	**1,806**	1,632
Transfers to County's General Fund	**(32,220)**	-
Net cash (used in) provided by non-capital financing activities	**(30,414)**	1,632
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from bond issues, loan agreements and notes	**15,781**	605,007
Principal payments - bond, loans and notes	**(58,908)**	(55,900)
Bond premium and issue costs	**(1,178)**	(9,689)
Interest paid	**(79,650)**	(46,915)
Acquisition and construction of capital assets	**(277,703)**	(294,814)
Net cash (used in) provided by capital and related financing activities	**(401,658)**	197,689
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	**(392,283)**	(697,592)
Proceeds from sale and maturity of investment securities	**607,351**	505,957
Interest on investments	**3,321**	6,292
Net cash provided by (used in) investing activities	**218,389**	(185,343)
Net increase in cash and cash equivalents	**16,289**	189,365
Cash and cash equivalents at beginning of year	**319,763**	130,398
Cash and cash equivalents at end of year	$ **336,052**	$ 319,763

(Continued)

Statements of Cash Flows

(Continued) For the years ended September 30,	(In thousands) 2011	2010
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 53,692	$ 8,294
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	159,158	160,469
Provision for uncollectible accounts	2,175	3,022
Amortization of deferred charges	-	(36)
Amortization of deferred revenues	530	815
Non-operating other, net	16,708	19,981
Increase (decrease) in assets:		
Accounts Receivable	(6,640)	(15,266)
Inventory of materials and supplies	(3,815)	(408)
Other current assets	5,977	(9)
Contracts receivable	404	(389)
Other deferred charges	2,894	(847)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	3,128	1,516
Customer and developer deposits	(3,483)	(3,710)
Liability for compensated absences	35	612
Other liabilities	(2,029)	109
Liability for other post-employment benefits	743	712
Liability for self-insurance	495	522
Net cash provided by operating activities	$ 229,972	$ 175,387

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Property, plant and equipment contributions were received in amounts of $33.6 million and $30.5 million in fiscal years 2011 and 2010, respectively.

The change in the fair value of investments was a $0.6 million decrease and a $0.2 million decrease in fiscal year 2011 and 2010, respectively.

The change in the fair value of swaps was a $3.8 million increase and a $11.8 million increase in fiscal year 2011 and 2010, respectively.

	(In thousands) 2011	2010
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Unrestricted Current Cash and Cash Equivalents	$ 49,783	$ 8,525
Restricted Current Cash and Cash Equivalents	154,041	183,354
Restricted Noncurrent Cash and Cash Equivalents	132,228	127,884
Total cash and cash equivalents at end of year	$ 336,052	$ 319,763

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

SEPTEMBER 30, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Miami-Dade Water and Sewer Department (the Department) functions as a self-supporting governmental enterprise fund of Miami-Dade County, Florida (the County). An enterprise fund is used to account for the financing of services to the general public on a continuing basis with costs recovered primarily through user charges. Accordingly, its financial statements have been prepared on the accrual basis of accounting. The Department issues a separate comprehensive annual financial report and its financial statements are combined in the County's comprehensive annual financial report.

The accompanying financial statements combine the accounts of both the Water and Wastewater Systems to provide meaningful information with respect to the Department, with all transactions of the Department accounted for as one enterprise fund. All significant inter-system accounts and transactions have been eliminated.

BASIS OF ACCOUNTING

The financial statements are prepared in conformity with generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB). The Department has elected not to apply certain pronouncements of the Financial Accounting Standards Board issued after November 30, 1989 as permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*.

OPERATING/NONOPERATING REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing water and wastewater services. Nonoperating revenues and expenses include capital, financing, investing and other activities either not related to or incidental to the provision of water and wastewater services.

REVENUE RECOGNITION

All water and wastewater revenues are recognized when the related services are provided. Unbilled receivables have been estimated and accrued as revenue from the date of last reading of the meters based on the billing cycle. Unbilled accounts receivable were approximately $35.0 million and $34.3 million as of September 30, 2011 and 2010, respectively.

CAPITAL ASSETS

Property acquired with an initial individual cost of $1,000 or more and an estimated useful life in excess of one year is capitalized at cost. Major outlays for construction of capital assets and improvements are capitalized at cost. Expenditures for maintenance and repairs are expensed as incurred. Property contributions received from municipalities are recorded as capital assets by the Department at the acquisition cost to the municipality. Property contributed in aid of construction is capitalized at its estimated fair market value on the date received.

Annualized depreciation expense, expressed as a percent of depreciable capital assets, was 3.3% and 3.4% for fiscal years ended September 30, 2011 and 2010, respectively. The Department utilizes the single-unit straight-line depreciation method with normal retirements charged to accumulated depreciation, and gain or loss is recognized on retirements. Assets with a change in estimated life are depreciated based on net book value over the remaining life of the asset. Estimated useful lives of capital assets in service are as follows:

	Water System	Wastewater System
	(Years)	
Structures and improvements	25-45	25-45
Equipment	3-20	3-20
Transmission mains and accessories	25-45	30-40

Total depreciation expense for the fiscal years ended September 30, 2011 and 2010 was $159.2 million and $160.5 million, respectively.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting requirements for intangible assets, including easements, to minimize inconsistencies among governments. The statement was effective for fiscal year 2010.

Starting on October 1, 2009, intangible assets received in a non-exchange transaction are recorded at their estimated fair value at the time of the acquisition. Therefore, donated/granted easements are recorded at their fair value at the time of transfer. In addition, when purchasing or developing computer software, licenses or similar assets, threshold determinations are based on the aggregate cost. Only those intangible assets valued at more than $100,000 are recorded as an asset.

Notes to Financial Statements

CASH, CASH EQUIVALENTS AND INVESTMENTS
Cash includes cash on hand, amounts in demand deposits, and positions in investment pools that can be deposited or withdrawn without notice or penalty. Cash equivalents are short-term, highly liquid securities with known market values and maturities, when acquired, of less than three months.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* the Department has opted to report money market and non-participating investments, with remaining maturities of one year or less at the time of purchase, at amortized cost, which approximates fair value.

Investments are carried at fair value. The net increase or decrease in the fair value of investments is included as part of investment income in the accompanying statements of revenues, expenses and changes in net assets.

For purposes of the statements of cash flows, the Department considers all highly liquid pooled investments with a maturity of three months or less, when purchased, to be cash equivalents.

INVENTORY
Materials and supplies inventories are stated at lower of weighted average cost or market.

INTEREST ON INDEBTEDNESS
Interest is charged to expense, as incurred, except for interest related to borrowings used for construction projects which is capitalized, net of interest earned on construction funds borrowed. Interest incurred during the fiscal years ended September 30, 2011 and 2010 was \$93.5 million and \$82.8 million, respectively. Interest in the amount of, \$8.0 million and \$11.6 million was capitalized in fiscal years 2011 and 2010, respectively, net of interest earned on construction funds from tax-exempt borrowing of \$1.1 million and \$0.7 million in fiscal years 2011 and 2010, respectively.

For interest rate swap agreements, the amounts recorded in the financial statements are the net interest expense along with amortization of fees paid or received resulting from these agreements. The Department recorded a liability for the swap option that was terminated during FY 2009 and is amortizing the up-front-payment shown as net of interest expense in the financial statements.

Effective October 1, 2009, the Department adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which requires recognition, measurement and disclosure of information regarding derivative instruments entered into by the Department and reported at fair value.

BOND DISCOUNT, PREMIUM AND ISSUANCE COSTS
Discounts and premiums on bonds and notes payable are amortized using the straight-line method over the life of the related bond issuances or term of the notes. Bond issuance costs, an asset, are capitalized and amortized over the life of the bonds in a manner similar to discounts and premiums. Discounts and premiums are presented Net of the Related Debt.

CAPITAL CONTRIBUTIONS
The Department records external capital contributions as revenues to the proprietary funds.

GRANTS FROM GOVERNMENT AGENCIES
The Department records grants when all applicable eligibility requirements have been met. This normally occurs as amounts are expended and become reimbursable from the granting agency.

COMPENSATED ABSENCES
The Department accounts for compensated absences by accruing a liability for employees' compensation for future absences according to the guidelines of GASB Statement No. 16, *Accounting for Compensated Absences*.

COST ALLOCATION
Certain engineering overhead and other costs are generally allocated to capital projects and operating expenses using standard rates developed by independent consultants. The rate is based on various allocation bases which bear reasonable relation with the type of allocable expenditure.

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 expenditures/expense during the reporting period. Actual results could differ from those estimates.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The County is authorized through the Florida Statutes §218.415, Ordinance No. 84-47, Resolution R-31-09 and its Investment Policy to make certain investments. The County's Investment Policy (Policy) was updated and adopted on January 22, 2009 in response to current and possible uncertainties in the domestic and international financial markets. The County's overall investment objectives are, in order of priority, the safety of principal, liquidity of funds and maximizing investment income.

The Department pools all cash, cash equivalents and investments, with the exception of certain amounts which are required to be held in trust and escrow accounts under the terms of bond ordinances and loan agreements. Various self-balancing account groups are participants in such pooling, sharing on a pro-rata basis in the pooled earnings, according to their respective average monthly balances.

DEPOSITS

The carrying amounts of the Department's local deposits were \$320.5 million and \$133.7 million as of September 30, 2011 and 2010, respectively. The bank balances at local depositories were \$329.3 million and \$170.7 million as of September 30, 2011 and 2010, respectively, consisting of demand deposit accounts only. All deposits are fully insured by Federal Depository Insurance and a multiple financial institution collateral pool required by Chapter 280 Florida Statutes, "Florida Security for Public Deposits Act". Under the Act, 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 depository's collateral pledging level. The pledging level may range from 50% to 125% depending upon the depository's financial condition and establishment period. All collateral must be deposited with a State-approved financial institution. Any 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.

As a rule, the County intends to hold all purchased securities until their final maturity date. There may be occasional exceptions, including, but not limited to the need to sell securities to meet unexpected liquidity needs.

Cash on hand and cash held by other parties as of September 30, 2011 was approximately \$328,798,600.

INVESTMENTS

The Department's investments at September 30, 2011 and 2010, are shown in the following table (in thousands).

	Fair Value	
	2011	2010
Federal Home Loan Mortgage Corporation	\$ 93,605	\$ 149,674
Federal Home Loan Bank	104,698	96,600
Federal Farm Credit Bank	70,511	147,049
Federal National Mortgage Association	61,740	182,559
Time Deposits	-	13
Treasury Notes	16,244	82,775
Interest Bearing	12,844	66,076
Total Investments	\$ 359,642	\$ 724,746

CREDIT RISK

The Policy, minimizes credit risk by restricting authorized investments to: Local Government Surplus Funds, Trust Funds, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act; Securities and Exchange Commission (SEC) registered money market funds with the highest credit rating from a nationally recognized rating agency; interest-bearing time deposits or saving accounts in qualified public depositories, pursuant to Florida Statutes §280.02, which are defined as banks, savings banks, or savings associations organized under the laws of the United States with an office in this state that is authorized to receive deposits, and has deposit insurance under the provisions of the Federal Deposit Insurance Act; direct obligations of the United States Treasury; federal agencies and instrumentalities; securities of, or other interests in, and open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, provided that the portfolio is limited to the obligations of the United States government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian; commercial paper of prime quality with a stated maturity of 270 days or less from the date of its issuance, which has the highest letter and numerical rating as provided for by at least two nationally recognized rating services; banker acceptances which have a stated maturity of 180 days or less from the date of issuance, and have the highest letter and numerical rating as provided for by at least two nationally recognized rating services, and are drawn on and accepted by commercial banks and which are eligible for purchase by the Federal Reserve Bank, investments in repurchase agreements ("Repos") collateralized by securities authorized by this policy. All Repos shall be governed by a standard SIFMA Master Repurchase Agreement; municipal securities issued by U.S., state or local governments, having at time of purchase, a stand-alone credit rating of AA or better assigned by two or more recognized credit rating agencies or a short-term rating of A1/P1 or equivalent from one or more recognized credit rating agencies. Securities lending, securities or investments purchased or held under the provisions of this section, may be loaned to securities dealers or financial institutions provided the loan is collateralized by cash or securities having a market value of at least 102 percent of the market value of the securities loan upon ignition of the transaction.

The following table summarizes the investments by type and credit ratings at September 30, 2011 and 2010.

	Credit Ratings	
	(S&P/Moody's/Fitch)	(Fitch)
	2011	2010
Federal Home Loan Mortgage Corporation	AA+/Aaa/AAA	AAA
Federal Home Loan Bank	AA+/Aaa/AAA	AAA
Federal Farm Credit Bank	AA+/Aaa/AAA	AAA
Federal National Mortgage	AA+/Aaa/AAA	AAA
Time Deposits	N/A	N/A
Treasury Notes	AA+	N/A
Commercial Paper	A1/P1	A1/P1

Guaranteed investment contracts (GIC) are not subject to credit rating because they are direct contractual investments and are not securities. These GIC provide for a guaranteed return on investments over a specified period of time.

CUSTODIAL CREDIT RISK

The Policy requires that bank deposits be secured per Chapter 280, Florida Statutes. This requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida and creates the Public Deposits Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2011 all the County's bank deposits were in qualified public depositories.

The Policy requires the execution of a Custodial Safekeeping Agreement (CSA) for all purchased securities which shall be held for credit of the County in an account separate and apart from the assets of the financial institution.

CONCENTRATION OF CREDIT RISK

The Policy establishes limitations on portfolio composition by investment type and by issuer to limit its exposure to concentration of credit risk. The Policy provides that a maximum of 50% of the portfolio may be invested in the State of Florida Local Government Surplus Trust Fund (the "Pool"); however, the bond proceeds may be temporarily deposited in the Pool until alternative investments have been purchased. Prior to any investment in the Pool, approval must be received from the Board of County Commissioners. A maximum of 30% of the portfolio may be invested in SEC registered money market funds with no more than 10% to any single money market fund; a maximum of 20% of the portfolio may be invested in non -negotiable interest bearing time certificates of deposit and savings account with no more than 5% deposited with any one insurer. There is no limit on the percent of the total portfolio that may be invested in direct obligations of the U.S. Treasury or federal agencies and instrumentalities; with no limits on individual issuers (investment in agencies containing call options shall be limited to a maximum of 25% of total portfolio). A maximum of 5% of the portfolio may be invested in open-end or closed-end funds; a maximum of 50% of the portfolio may be invested in prime commercial paper with a maximum of 5% with any one issuer; a maximum of 25% of the portfolio may be invested in bankers acceptances with a maximum of 10% with any one issuer, but a maximum of 60% of the portfolio may be invested in both commercial paper and bankers acceptances. A maximum of 20% of the portfolio may be invested in repurchase agreements with the exception of one (1) business day agreements, with a maximum of 10% of the portfolio with any one institution or dealer with the exception of one (1) business day agreements. Investments in derivative products is prohibited by Miami-Dade County. A maximum of 25% of the portfolio may be directly invested in municipal obligations, up to 5% with any one municipal issuer.

As of September 30, 2011 and 2010, the following issuers held 5% or more of the investment portfolio:

	% of Portfolio	
	2011	2010
Federal Home Loan Mortgage Corporation	26.03	20.65
Federal Home Loan Bank	29.11	13.33
Federal Farm Credit Bank	19.61	20.29
Federal National Mortgage Association	17.17	25.19
Treasury Notes	-	11.42
Interest Bearing	8.17	9.12

The schedule excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds and external investments pools.

INTEREST RATE RISK

The Policy limits interest rate risk by requiring the matching of known cash needs and anticipated net cash outflow requirements; following historical spread relationships between different security types and issuers; evaluating both interest rate forecasts and maturity dates to consider short-term market expectations. The Policy requires that investments made with current operating funds shall maintain a weighted average of no longer than one year. Investments for bond reserves, construction funds and other non-operating funds shall have a term appropriate to the need for funds and in accordance with debt covenants. The Policy limits the maturity of an investment to a maximum of five years.

As of September 30, 2011 and 2010 the County had the following investments with the respective weighted average maturity in years.

	Weighted Average in Years	
	2011	2010
Federal Home Loan Mortgage Corporation	0.42	0.61
Federal Home Loan Bank	0.39	0.60
Federal Farm Credit Bank	-	1.74
Federal National Mortgage Association	0.88	0.42
Time Deposits	-	0.49
Treasury Notes	0.34	0.24
Interest Bearing	-	0.06

FOREIGN CURRENCY RISK

The Policy limits the County's foreign currency risk by excluding foreign investments as an investments option.

3. RECEIVABLES

Receivables at September 30, 2011 and 2010 were as follows (in thousands):

	2011	2010
Trade Accounts	$ 115,753	$ 116,227
Non-retail accounts	10,384	12,854
Other County funds	92	372
Gross receivables	126,229	129,453
Less: allowance for doubtful accounts	(19,251)	(26,941)
Net receivables	$ 106,978	$ 102,512

4. OTHER CURRENT ASSETS

Other current assets at September 30, 2011 and 2010 were as follows (in thousands):

	2011	2010
Beginning Balance	$ 9,503	$ 9,500
Prepaid Expenses	2	3
Advance to City of Hialeah	9,538	-
Grant Receipts	1,880	-
Construction in Progress	(17,397)	-
Ending Balance	$ 3,526	$ 9,503

The County entered into an agreement with the City of Hialeah (the City) to construct a 10 MGD, expandable to 17.5 MGD, reverse osmosis water treatment plant. The City and the County shall have equal 50% ownership of a reverse osmosis water treatment plant (WTP), exclusive of land but inclusive of structures, facilities and appurtenances to be situated in the Annexation Area of the City. The WTP is expected to be permitted and operational by April 2013. The County shall contribute and pay for 50% of the planning, design, construction and construction management (design and construction) cost for the WTP, in an amount not less than $80 million, and the City shall contribute 50% of the design and construction cost for the WTP, in an amount not less than $80 million based on an estimate. In fiscal year 2011, an additional $9.5 million was contributed to the City of Hialeah. As of September 30, 2011, the Department has contributed $19.0 million towards the construction of the WTP.

Notes to Financial Statements

5. RESTRICTED ASSETS

Certain bond ordinances and loan agreements require the Department to establish accounts to be used in accounting for proceeds and collateral pledged as a result of the various issues of debt. In many cases, the applicable ordinances refer to the restricted accounts as "funds". Such accounts are not "funds" as defined by the National Council of Governmental Accounting *(NCGA) Statement No. 1: Governmental Accounting and Financial Reporting Principles* and, therefore, are not funds for financial reporting purposes, but are maintained as separate accounts. Restricted assets at September 30, 2011 and 2010 are represented in the following table (in thousands):

	2011	2010
Debt Service	$ 156,886	$ 179,358
Construction	215,077	385,637
Renewal and Replacement	75,257	68,860
Plant Expansion	87,263	90,099
Self-Insurance	4,715	4,400
Other	63,706	69,491
Total Restricted Assets	$ 602,904	$ 797,845

6. CAPITAL ASSETS

Capital asset activity during fiscal years 2011 and 2010 was as follows (in thousands):

	Balance 09/30/09	2010 Additions	2010 Deletions	Balance 09/30/10	2011 Additions	2011 Deletions	Balance 09/30/11
Capital Assets, not being depreciated:							
Land	$ 44,485	$ 165	$ -	$ 44,650	$ 2,870	$ -	$ 47,520
Construction work in progress	620,586	266,073	(243,350)	643,309	307,439	(106,474)	844,274
Total capital assets, not being depreciated	665,071	266,238	(243,350)	687,959	310,309	(106,474)	891,794
Capital Assets, being depreciated							
Structures and improvements	3,604,920	240,793	(880)	3,844,833	60,056	(9,001)	3,895,888
Equipment	857,022	31,759	(5,261)	883,520	47,303	(5,850)	924,973
Total capital assets, being depreciated	4,461,942	272,552	(6,141)	4,728,353	107,359	(14,851)	4,820,861
Less accumulated depreciation:							
Structures and improvements	(1,339,231)	(122,354)	1,690	(1,459,895)	(121,644)	6,459	(1,575,080)
Equipment	(636,729)	(38,115)	4,535	(670,309)	(37,515)	4,374	(703,450)
Total accumulated depreciation	(1,975,960)	(160,469)	6,225	(2,130,204)	(159,159)	10,833	(2,278,530)
Total capital assets, being depreciated, net	2,485,982	112,083	84	2,598,149	(51,800)	(4,018)	2,542,331
Total capital assets, net	$ 3,151,053	$ 378,321	$(243,266)	$ 3,286,108	$ 258,509	$(110,492)	$ 3,434,125

7. LINE OF CREDIT

On July 31, 2009, the Department entered into a Loan Agreement in the form of a line of credit with Regions Bank for the purpose of providing short term interim financing for multiple capital improvements projects pursuant to Miami-Dade County Ordinance 08-126, as amended and restated by Ordinance 09-67, and Resolution R-1040-09. The Agreement was for a short-term line of credit of up to $100 million, which may be renewed, and requires the Department to maintain a depository account balance of no less than $25 million with Regions Bank.

The Department issued the Miami-Dade County Revenue Bonds, Series 2010 on March 10, 2010 and a portion of the proceeds were used to repay the line of credit. The Department exercised the option to keep the line of credit open until December 2010. However, the line of credit was formally closed on November 4, 2010.

The following schedule shows the Department's Line of Credit Balance as of September 30, 2011 and 2010.

	2011	2010
Balance at beginning of year	$ -	$ 40,000
Draws against Line of Credit	-	60,000
Repayment of Line of Credit	-	(100,000)
Balance at end of year	$ -	$ -

The line of credit was collateralized by the net operating revenues of the Department. Interest was payable monthly. The principal balance was reimbursed in full from revenue bonds.

8. LONG-TERM DEBT

Long-term debt includes various bonds and loans which have been issued or approved by the County for the improvement of the Department's water and wastewater infrastructure, and defeasance of outstanding debt. General covenants, along with debt service requirements, are disclosed on page 20. See Note 5, Restricted Assets, for a discussion of the accounts used in accounting for proceeds and collateral pledged as a result of the issuance of the various forms of debt.

The Department's debt instruments contain various covenants and restrictions, which among other things, (1) prohibit the Department from taking any action that could jeopardize its tax-exempt status, and (2) require the Department to meet certain financial tests. Management believes that the Department was in compliance with all such covenants and restrictions at September 30, 2011.

DADE COUNTY REVENUE BONDS, SERIES 1995

On October 19, 1995, $346.8 million of Dade County Water and Sewer System Revenue Bonds, Series 1995 were issued to finance capital improvements to the water and wastewater systems. On September 29, 2006, $295.2 million of Dade County Water and Sewer System Revenue Refunding Variable Rate Demand Bonds, Series 2005 were issued to refund the Series 1995 Bonds maturing after October 1, 2011.

The Series 1995 Revenue Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 through the year 2011 with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2011.

DADE COUNTY REVENUE BONDS, SERIES 1997

On January 30, 1997, $437.2 million of Dade County Water and Sewer System Revenue Bonds, Series 1997 were issued to finance capital improvements to the water and wastewater systems. On September 27, 2007, $344.7 million of Dade County Water and Sewer System Revenue Refunding Bonds, Series 2007 were issued to refund the Series 1997 Bonds maturing after October 1, 2009.

The Series 1997 Revenue Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 through the year 2009 with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2011.

MIAMI-DADE COUNTY REVENUE BONDS, SERIES 1999A

On May 5, 1999, $150 million of Dade County Water and Sewer System Revenue Bonds, Series 1999A were issued to finance capital improvements to the water and wastewater systems.

The Series 1999A Revenue Bonds are collateralized by net operating revenues of the Department and are due serially on October 1 through the year 2029 with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2011.

MIAMI-DADE COUNTY REVENUE BONDS, SERIES 2003

On October 9, 2003, $248.9 million of Miami-Dade County Water and Sewer System Revenue Refunding Bonds, Series 2003 were issued to refund the County's Water and Sewer System Revenue Refunding Bonds, Series 1993, and to pay issue costs.

The Series 2003 Refunding Bonds are collateralized by net operating revenues of the Department and are due serially on October 1 through the year 2013 with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2011.

MIAMI-DADE COUNTY REVENUE BONDS, SERIES 2007

On September 29, 2007, $344.7 million of Miami-Dade County Water and Sewer System Revenue Refunding Bonds, Series 2007 were issued to refund the Miami-Dade County Water and Sewer System Revenue Bonds, Series 1997 maturing after October 1, 2009, and to pay issue costs.

The Series 2007 Refunding Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 starting in 2008 through the year 2026 with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2011.

MIAMI-DADE COUNTY WATER AND SEWER SYSTEM REVENUE BONDS, SERIES 2008A

On July 15, 2008, the County issued $68.3 million of Miami-Dade County Water and Sewer System Revenue

Bonds, Series 2008A to pay the costs of terminating the AIG Financial Products Corporation interest rate swap associated with the variable rate Dade County Water and Sewer System Revenue Bonds, Series 1994 and to pay issuance costs.

The Series 2008A Revenue Bonds are collateralized by the net operating revenues of the Department and are due serially October 1 starting in 2009 through the year 2022 with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2011.

MIAMI-DADE COUNTY WATER AND SEWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2008B

On July 15, 2008, $374.6 million of Miami-Dade County Water and Sewer System Revenue Refunding Bonds, Series 2008B were issued to redeem all of the County's Water and Sewer System Revenue Bonds, Series 1994 and to pay issuance and surety costs.

The Series 2008B Refunding Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 starting in 2009 through the year 2022 with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2011.

MIAMI-DADE COUNTY WATER AND SEWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2008C

On December 18, 2008, $306.8 million of Miami-Dade County Water and Sewer System Revenue Refunding Bonds, Series 2008C were issued to redeem all of the County's Dade County Water and Sewer System Revenue Refunding Variable Rate Demand Bonds, Series 2005 and to pay issuance and surety costs. The refunding resulted in a gain of $13.8 million.

The Series 2008C Refunding Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 starting in 2009 through the year 2026 with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2011.

MIAMI-DADE COUNTY WATER AND SEWER SYSTEM REVENUE BONDS, SERIES 2010

On March 10, 2010, $594.3 million of Miami-Dade County Water and Sewer System Revenue Bonds, Series 2010 were issued to finance capital improvements under the Department's Multi-Year Capital plan, repay the Regions Bank Line of Credit and to pay issue costs.

The Series 2010 Revenue Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 starting in 2010 through the year 2040 with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2011.

STATE REVOLVING FUND

Under the State Revolving Fund program, the Department has received various loan commitments for the construction of water and wastewater treatment facilities. Draws to date against committed loans as of September 30, 2011 are detailed in the following table (in thousands). Related payments of principal and interest are due through the year 2034.

Loan #	Draws	Closed Out Date
375310	$ 45,906	06/07/99
377400	36,402	06/07/99
377450	27,831	05/18/01
377470	11,959	08/21/00
377490	3,098	05/02/01
377500	25,874	12/01/03
377650	2,618	08/08/03
377670	3,604	10/27/03
377860	4,253	09/20/06
377870	4,979	09/20/06
37788P	3,252	09/27/04
37789A	845	08/01/07
37789L	2,891	09/26/06
300010	39,534	08/04/08
300080	4,691	04/28/03
377900	45,000	Active
130200	1,255	Active
130201	137	Active
	$ 264,129	

No further draws will be made against closed loans.

The Department has agreed to maintain rates, together with other pledged revenues, sufficient to provide "net revenues" equal to at least 1.15 times the annual loan payments after meeting the primary debt service requirements. Reserve and debt service funding requirements, as required by the agreements, were met in fiscal year 2011.

Notes to Financial Statements

CHANGES IN LONG-TERM LIABILITIES

A summary of long-term liability activity during fiscal years 2010 and 2011 is presented in the following table (in thousands):

Description	Outstanding Rate	Balance 09/30/2009	2010 Additions	2010 Deletions	Balance 09/30/2010	2011 Additions	2011 Deletions	Balance 09/30/2011	Due in 2012
Dade County Revenue Bonds									
Series 1995	4.10%-6.25%	$ 14,530	$ -	$ 4,555	$ 9,975	$ -	$ 4,835	$ 5,140	$ 5,140
Series 1997	4.50%-6.25%	9,810	-	9,810	-	-	-	-	-
Series 1999A	5.00%-5.00%	150,000	-	-	150,000	-	-	150,000	-
Series 2003	2.00%-5.00%	142,845	-	27,395	115,450	-	28,540	86,910	29,725
Series 2007	4.00%-5.00%	344,500	-	380	344,120	-	10,715	333,405	11,200
Series 2008A & B	3.25%-5.25%	442,855	-	2,815	440,040	-	2,945	437,095	3,110
Series 2008C	4.00%-6.00%	306,845	-	430	306,415	-	1,000	305,415	1,000
Series 2010	2.00%-5.00%	-	594,330	-	594,330	-	-	594,330	100
Less: Unamortized Discount		(4,819)	-	(349)	(4,470)	-	(345)	(4,125)	-
Deferred amounts on refunding		(27,030)	-	(3,440)	(23,590)	-	(4,496)	(19,094)	-
Plus: Unamortized Premium		52,475	1,120	5,021	48,574	-	5,039	43,535	-
Total revenue bonds		$ 1,432,011	$ 595,450	$ 46,617	$ 1,980,844	$ -	$ 48,233	$ 1,932,611	$ 50,275
State Loan Obligations									
State Revolving Fund	2.56%-4.17%	119,093	10,668	10,506	119,255	15,781	10,873	124,163	11,218
Total long-term debt		$ 1,551,104	$ 606,118	$ 57,123	$ 2,100,099	$ 15,781	$ 59,106	$ 2,056,774	$ 61,493
Other liabilities									
Compensated Absences		37,601	6,686	6,074	38,213	5,878	5,842	38,249	10,280
Self-Insurance		2,194	5,370	4,849	2,715	4,903	4,408	3,210	1,373
Other post-employment benefits		1,845	712	-	2,557	743	-	3,300	-
Deferred revenues		13,286	54	1,250	12,090	-	776	11,314	-
Total long-term liabilities		$ 1,606,030	$ 618,940	$ 69,296	$ 2,155,674	$ 27,305	$ 70,132	$ 2,112,847	$ 73,146

DEBT SERVICE REQUIREMENTS

As of September 30, 2011, the Department's debt service requirements to maturity for their term were as follows (in thousands):

Maturing in Fiscal Year	Revenue Bonds Principal	Revenue Bonds Interest	State Loans Principal	State Loans Interest	Total Principal	Total Interest	Total Debt
2012	$ 50,275	$ 93,919	$ 11,218	$ 2,274	$ 61,493	$ 96,193	$ 157,686
2013	54,650	91,561	9,468	1,911	64,118	93,472	157,590
2014	57,115	89,096	10,724	2,109	67,839	91,205	159,044
2015	59,745	86,453	10,758	2,268	70,503	88,721	159,224
2016	62,640	83,572	9,784	1,981	72,424	85,553	157,977
2017-2021	363,620	367,625	35,395	6,526	399,015	374,151	773,166
2022-2026	463,875	261,847	16,622	2,925	480,497	264,772	745,269
2027-2031	388,975	144,202	13,142	1,487	402,117	145,689	547,806
2032-2036	206,160	78,085	7,052	220	213,212	78,305	291,517
2037-2040	205,240	21,149	-	-	205,240	21,149	226,389
	$ 1,912,295	$ 1,317,509	$ 124,163	$ 21,701	$ 2,036,458	$ 1,339,210	$ 3,375,668
Unamortized Discount, Deferred & Premium Amounts	20,316	-	-	-	20,316	-	20,316
Total	$ 1,932,611	$ 1,317,509	$ 124,163	$ 21,701	$ 2,056,774	$ 1,339,210	$ 3,395,984

INTEREST RATE SWAP AGREEMENTS
The Department is currently a party to two interest rate swap agreements related to the various revenue bonds issued by the Department. The fair value of a swap is determined at September 30, 2011 based on an estimated mark-to-mid market assessment.

On June 15, 2008, Merrill Lynch Capital Services, Inc. exercised their option to terminate a fixed to variable rate swap option with a notional amount of $215 million with respect to the Series 2007 Bonds at no cost to either party.

On July 15, 2008, the Department issued fixed rate bonds refunding the Water and Sewer System Revenue Bonds, Series 1994, which were issued as variable rate bonds. The Series 1994 Bonds were associated with a variable to fixed rate swap agreement with AIG Financial Products Corporation, which effectively fixed the rate on the variable rate bonds at 5.28% plus liquidity and remarketing costs. With the refunding of all outstanding obligations of the Series 1994 Bonds by the issuance of the fixed rate debt, the Series 2008B Bonds, the Department terminated the AIG swap agreement at a termination value of $76.4 million (including accrued interest of $2.8 million). The Department issued $68.3 million of Water and Sewer System Revenue Bonds, Series 2008A to pay a portion of the termination value. The balance was paid from the revenues of the Department.

On November 19, 2008, the County terminated the $295.2 million notional amount, variable to fixed rate swap with Bank of America N.A. related to the Series 2005 Bonds. The termination was a result of the County's inability to secure a substitute standby bond purchase agreement that was scheduled to expire in December 2008. The termination value of the Bank of America Swap was $67.2 million, with accrued interest of $1.9 million, making the total termination amount of $69.1 million, which the County paid from legally available funds of the Department. The County does not believe that such payment will have an adverse effect on the operation of the Utility.

Swaps formerly held by Rice Financial Products Company Capital Services, LLC and Rice Financial Products Company, LLC, respectively, subsidiaries of Rice Financial Products Company, New York, New York are now

INTEREST RATE SWAP AGREEMENTS
Below is a recap of each of the interest rate swap agreements that the Department has entered into:

Associated Series of Bonds	Notional Amount as of 09/30/11	Counterparty[3]	Counterparty Ratings as of 09/30/11[1]	Start Date	Termination Date	Counterparty Payment	County Payment	Fair Value at 09/30/11
Series 2007	$ 200,000,000	Bank of New York Mellon[2]	Guarantor- Aaa, AA, AA-	07/18/02	10/01/26	Variable-USD -Libor- BBA+1.465%	Variable - (USD - SIFMA Municipal Swap Index/.0604)	$ 4,434,700
Series 1999A	$ 205,070,000	Bank of New York Mellon[2]	Guarantor- Aaa, AA, AA-	03/06/06	10/01/29	Variable- (USD-ISDA- Swap Rate) x 90.15% + 1.58%	Variable[4] - (USD-SIFMA Municipal Swap Index/.0604)	$ 25,155,367

[1] Moody's, S&P, Fitch.

[2] Bank of New York Mellon replaced Rice Financial Products Co.

[3] The counterparty was replaced by Bank of New York Mellon on 10/02/2009. The counterparty associated with the series 1999A Bonds was also replaced by the Bank of New York Mellon under the same ISDA on 10/02/2009.

[4] (i) From July 5, 2007 to, but excluding January 1, 2009 (A), if the difference obtained by subtracting USD-LIBOR-BBA from the product of 90.15% multiplied by USD-ISDA-Swap Rate is greater than 0.4% USD-LIBOR-BBA, plus 1.58%, otherwise, (B) USD-ISDA-Swap Rate multiplied by 90.15%, plus 1.58%; and (ii) from January 1, 2009 and thereafter, USD-ISDA-Swap Rate multiplied by 90.15% plus 1.58%.

held by The Bank of New York Mellon pursuant to an International Swap Dealers Association, Inc. Master Agreement dated October 2, 2009.

During fiscal year 2010, Statement No. 53 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Derivative Instruments, (GASB 53) became effective. This statement refers to the recognition, measurement and disclosure of information regarding derivative instruments entered into by the Department and reported at fair value. In accordance with GASB 53, Swap Financial Group, LLC evaluated the Department's swaps to determine whether they are effective hedging derivative instruments. It was determined that both swaps are basis swaps. Given that there is no identified financial risk being hedged by the swaps that can be expressed in terms of exposure to adverse changes in cash flows or fair values, the swaps are treated as investment derivative instruments, and not hedging derivative instruments. Accordingly, the Department implemented GASB 53 in fiscal year 2010. The Department elected to report the cumulative effect of applying this statement as a restatement of beginning net assets, as of October 1, 2009, because other swaps were owned which would not provide a constructive comparison to current holdings. The change in fair value at September 30, 2011 was $3.8 million and was recorded in the Investment Derivative Instrument line item of the noncurrent asset section of the balance sheet, bringing the total to approximately $29.6 million.

Risk Disclosure

Credit Risk. Because all of the swaps rely upon the performance of the third parties who serve as swap counterparties, the Department is exposed to credit risk or the risk that the counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown and labeled fair value on the Interest Rate Swap Agreements chart on page 21. All fair values have been calculated using the mark-to-mid-market method. To mitigate credit risk, the County maintains strict credit standards for swap counterparties. All swap counterparties for longer term swaps are rated at least in the double-A category by both Moody's and Standard & Poor's. To further mitigate credit risk, the Department swap documents require counterparties to post collateral for the Department's benefit if they are downgraded below a designated threshold.

Basis Risk. The Department's swap agreements expose the County to basis risk. Should the relationship between the variable rate the Department receives on the swap fall short of the variable rate on the associated bonds, the expected savings may not be realized. As of September 30, 2011, the Department had no variable rate debt outstanding.

Tax Risk. For basis swaps, the interplay between the taxable index and the tax exempt index may be affected by changes to the marginal tax rates, the elimination of tax preferences or a flat tax. The Department considers these risks to be remote.

Termination Risk. The Department swap agreements do not contain any out-of-ordinary terminating events that would expose it to significant termination risk. In keeping with the market standards the Department or the counterparty may terminate each swap if the other party fails to perform under the terms of the contract. In addition, the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. If at the time of the termination, a swap has a negative value, the Department would be liable to the counterparty for a payment equal to the fair value of such swap unless the counterparty is the defaulting party. The Department is subject to Bank of New York Mellon's 10 year call provision, whereby Bank of New York Mellon has a one time termination option.

9. PAYABLES

Payables at September 30, 2011 and 2010 were as follows (in thousands):

	2011	2010
Other County funds	$ 6,197	$ 9,113
Vendors	25,549	17,745
Other governments	16,196	15,119
Salaries and benefits	8,239	8,519
Contractors	15,811	26,160
Other	262	424
Total payables	$ 72,254	$ 77,080

10. PENSION PLAN

The Department, as an agency of the County, participates in the Florida Retirement System (the FRS), a cost-sharing multi-employer public employment retirement system, which covers substantially all of the Department's full-time and part-time employees.

Notes to Financial Statements

The FRS was created in 1970 by consolidating several employee retirement systems and is administered by the State of Florida. All eligible employees as defined by the State of Florida who were hired after 1970, and those employed prior to 1970 who elected to be enrolled, are covered by the FRS.

The legislature created a new defined contribution program that was added to the menu of choices available to FRS members beginning June 2002. Formally created as the Public Employee Optional Retirement Program, the "FRS Investment Plan" is available as an option for all current and future members, including renewed members (FRS retirees who have returned to FRS employment). The FRS Investment Plan is a defined contribution plan where the contribution amount is fixed by a set percentage determined by law and the contribution is made to an individual account in each participant's name. Participant contributions are not allowed. With a defined contribution plan, in which the monthly contribution rate is fixed, the final benefit will be the total account value (contributions plus investment earnings less expenses and losses) distributed during retirement.

The 2011 Florida Legislative session passed Senate Bill 2100, making substantive changes to the FRS. The bill was signed into law effective July 1, 2011. The bill requires all FRS Investment and Pension Plan members to make 3% employee contributions on a pretax basis. Employees who are in the Deferred Retirement Option Program (DROP) are not required to pay employee contributions. The bill changes the annual interest rate of the DROP from 6.5% to 1.3% per year. Furthermore, the bill eliminates the cost-of-living adjustment (COLA) on FRS services earned on or after July 1, 2011. However, a reduced COLA will be calculated if a member's retirement or DROP participation date is effective on or after August 1, 2011.

Under the new bill, the Pension Plan's vesting requirement changes from 6 years to 8 years. For new employees initially enrolled in the Pension Plan on or after July 1, 2011, those members will be vested upon completion of 8 years of creditable services. For existing employees, vesting will remain at 6 years of creditable service.

The bill also changes the Pension Plan's normal retirement date. For Special Risk Class, the age increases from 55 to 60 years of age, and the years of creditable service increases from 25 to 30 years. For all other classes, the age increases from 62 to 65 years of age, and the years of creditable service increases from 30 to 33 years. Upon vesting, those members are entitled to an annual retirement benefit payable monthly for life. The FRS also provides for early retirement at reduced benefits and death and disability benefits. These benefit provisions and all other requirements are established by State statute.

The covered payroll for Department employees in the FRS for the years ended September 30, 2011 and 2010 was $153.1 million and $165.2 million, respectively, while the Department's total payroll was $153.5 million and $168.3 million for fiscal 2011 and 2010, respectively. Pension costs of the Department, as required and defined by Florida statute, ranged between 4.91% and 14.10% of gross salaries during fiscal years 2011 and 2010. For the years ended September 30, 2011, 2010, and 2009, the Department's actual contributions met all required contributions. These contributions aggregated $14.4 million, $16.6 million and $15.5 million, respectively, which represented 9.4%, 10.0% and 9.8% of covered payroll, respectively, and 0.7%, 0.8% and 0.7% of the total contributions required of all participating agencies, respectively, for fiscal years 2011, 2010 and 2009.

The FRS funding policy provides for monthly employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due based upon plan assumptions. Employer contributions rates are established by state law as a level percentage of payroll (Chapter 121.70 Florida Statutes). Employer contribution rates are determined using the entry-age actuarial cost method. The consulting actuary recommends rates based on the annual valuation, but actual contribution rates are established by the Florida Legislature.

Ten-year historical trend information is presented in the FRS' June 30, 2011 annual report. This information is useful in assessing the FRS' accumulation of sufficient assets to pay pension benefits as they become due. A copy of the Florida Retirement System's annual report can be obtained by writing to the Department of Management Services, Division of Retirement, P.O. Box 9000, Tallahassee, FL 32315-9000, by calling (877) 377-1737 or by visiting their website at http://FRS.myFlorida.com.

11. RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; job-related injuries or illnesses to employees; natural disasters and employee health and accident. In the year ended September 30, 1987, the Department established a self-insurance program for general and automobile liability exposures as provided by Section 706 of County Ordinance 78-82, as amended. Ordinance 78-82 was amended and restated by Ordinance 93-134 and Section 609 continues to provide for such self-insurance program.

Claims are administered by the County's Risk Management Division, and the program is based upon an actuarial study performed annually by consulting actuaries. Liabilities are reported when it is possible that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities also include an amount for claims that have been incurred but not reported (IBNR). Because actual claims liability depend on such complex factors as inflation, change in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

Changes in the balance of claim liabilities for the general and automobile self-insurance program during fiscal years 2011 and 2010 were as follows (in thousands):

	2011	2010
Balance at beginning of year	$ 2,715	$ 2,194
Claims and changes in estimates	1,417	1,066
Less: Payments	(922)	(545)
Balance at end of year	$ 3,210	$ 2,715

The Department participates in the workers' compensation self-insurance program of the County, administered by the Risk Management Division. Risk Management charges a "premium" to each County department based on amounts necessary to provide funding for expected payments during the fiscal year. The estimate of IBNR losses is performed by an independent actuary. The Department maintains a liability in the amount of $1.6 million and $1.7 million at September 30, 2011 and September 30, 2010, respectively, for possible funding of these IBNR losses. The County maintains no excess coverage with independent carriers for workers' compensation. The Department's total self-insurance liability was $4.8 million and $4.4 million as of September 30, 2011 and 2010, respectively.

The Department also participates in the County's group health and life self-insurance program, administered by an independent administrator. The County charges a uniform "premium" per employee to each County department based on recent trends in actual claims experience and makes provisions for catastrophic losses. Current year premiums are adjusted for County-wide prior year actual claims experience.

The Department purchases a master property insurance policy covering most properties. For windstorm losses, the policy carries a deductible of 5% of the total insured value of the damaged building(s), including contents, subject to a minimum of $250,000 and a maximum of $30,000,000 per occurrence. A $1,000,000 deductible applies to most other perils. The current limit of the policy is $200,000,000 per occurrence.

The Department continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12. CONTRIBUTIONS

Contributions during fiscal years 2011 and 2010 are presented as follows (in thousands):

	2011	2010
Contributed Facilities		
Developers	$ 33,556	$ 30,487

13. RELATED PARTY TRANSACTIONS

The Department provides water and wastewater services to other County departments as part of the normal course of business, based on regular retail rates. The Department also provides billing services to other County departments. The County provides various services to the Department which are charged using direct and indirect cost allocation methods. The Department reimburses the County (General Fund) for certain administrative services. The following table presents a list of providers of services and respective payments for the years ended September 30, 2011 and 2010 (in thousands):

	2011	2010
General Fund	$ 21,578	$ 24,585
General Services Administration	12,618	10,911
Information Technology	10,272	8,281
Government Information Center	1,938	403
Solid Waste	1,552	1,757
Public Works	1,243	1,681
Other County Departments	8,048	8,188

In addition to the payments, the Department had related payables of $6.2 million and $9.1 million at September 30, 2011 and 2010, respectively. The Department also has receivables from other County departments amounting to $0.1 million and $0.3 million at September 30, 2011 and 2010, respectively. The Department has every intention of paying the outstanding payables on a timely basis, and is confident it will collect the outstanding receivables.

The Department has also entered into other transactions with various County entities. These transactions arise from the normal course of business and in connection with the management of ongoing projects.

14. COMMITMENTS AND CONTINGENCIES

CONSTRUCTION

The Department had contractual commitments of $252.1 million for plant and infrastructure construction at September 30, 2011.

LEGAL CONTINGENCIES

The County is a defendant in various actions brought by parties in the normal course of business of the Department. Based on consultation with the County Attorney's Office, it is the opinion of management that the ultimate resolution of these suits would not materially affect the financial position of the Department or its ability to conduct its business.

FEDERAL GRANTS

Federal grant awards are audited under the provisions of the Single Audit Act and Office of Management and Budget Circular A-133 to determine that the Department has complied with the terms and conditions of the grant awards. Federal grants received are also subject to audit by the federal grantor agency. It is management's opinion that no material liabilities will result from any such audits.

REBATABLE ARBITRAGE EARNINGS

Federal tax law requires that arbitrage interest earnings be remitted to the federal government, unless the local government qualifies for an exemption. As of September 30, 2011 and 2010, the Department recorded obligations to rebate approximately $1.9 million and $2.0 million, respectively, of interest earned on bond proceeds invested in taxable securities in excess of interest costs. These arbitrage rebates are payable five years from the date of bond issuance and each five years thereafter. The amount of the obligation, if any, will be determined based on actual interest earned.

SETTLEMENT AGREEMENTS

In 1993, the Department entered into a settlement agreement with the Florida Department of Environmental Protection (FDEP) resulting in very limited restriction on new sewer construction in certain areas of the County until adequate capacity becomes available in the wastewater system. Subsequently, in 1994 and 1995, two consent decrees were entered into with the U.S. Environmental Protection Agency (EPA) whereby the Department accelerated its improvement program of the wastewater system, subject to a schedule of stipulated penalties if certain established completion dates are not met. All requirements of the Settlement Agreement have been satisfied and the Agreement closed by FDEP on September 1, 2011. The Department continues to be in compliance with all provisions of the two EPA Consent Decrees, and through fiscal year 2011 has not incurred any penalties.

On April 29, 2004, the Consent Order, (CO) OGC File No. 03-1376, was entered into between the State of Florida Department of Environment Protection and Miami-Dade County. It requires the County to provide high level disinfection for the effluent prior to injection. The CO was recently superseded by The Amended Consent Order (ACO), OGC File No. 03-1376(A), which became effective on April 14, 2010. The total project cost of the CO and ACO improvements is approximately $600 million and completion is anticipated in 2014. The Department continues to be in compliance with all provisions of the ACO, and through fiscal year 2011 has not incurred any penalties for not completing tasks within deadlines.

15. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

PLAN DESCRIPTION

Miami-Dade County administers a single-employer defined benefit healthcare plan (the Plan) that provides postemployment medical and dental coverage to retirees as well as their eligible spouses and dependents. Benefits are provided through the County's group health insurance plan, which covers both active and retired members. Benefits are established and may be amended by the Miami-Dade County Board of County Commissioners ("the BCC"), whose powers derive from F.S. 125.01(3)(a). The Plan does not issue a publicly available financial report.

To be eligible to receive retiree medical and dental benefits, participants must be eligible for retirement benefits under the Florida Retirement System (FRS) and pay required contributions. Refer to note 10, Pension Plan, for a description of eligibility requirements.

The medical plans offered provide hospital, medical and pharmacy coverage. Pre-65 retirees are able to select from five medical plans as follows:

- AvMed POS
- AvMed HMO High Option
- AvMed HMO Low Option
- JMH HMO High Option
- JMH HMO Low Option

Post-65 retirees are able to select from five medical plans, as follows. The Department only contributes to post-65 retirees electing an AvMed Medicare Supplement Plan.

- AvMed Medicare Supplement Low Option
- AvMed Medicare Supplement High Option with prescription drug coverage
- AvMed Medicare Supplement High Option without prescription drug coverage
- JMH HMO High Option
- JMH HMO Low Option

FUNDING POLICY

The County contributes to both the pre-65 and post-65 retiree medical coverage. Retirees pay the full cost of dental coverage. Medical contributions vary based on the plan and tier. For pre-65 retirees, the County explicitly contributed an average of 19% of the cost for the AvMed POS plan, 40% total for the AvMed HMO High and AvMed HMO Low plans. The JMH HMO plans receive no explicit contribution. However, it is the County's policy that after fiscal year 2008, its per capita contribution for retiree health care benefits will remain at the 2008 dollar level.

The pre-65 retirees also receive an implicit subsidy from the County since they are underwritten with the active employees. The implicit contribution is approximately 3% of the cost. The pre-65 cost is approximately 42% greater than the combined pre-65 and active cost. The post-65 retiree contributions also vary by plan and tier with the County contributing an average of 30% of the entire plan cost.

The postretirement medical and dental benefits are currently funded on a pay-as-you-go basis. No assets have been segregated and restricted to provide postretirement benefits. For fiscal years 2011 and 2010, the Department contributed $1.6 million and $1.5 million, respectively, to the plan.

ANNUAL OPEB COST AND NET OPEB OBLIGATION

The Department's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC 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 (or funding excess) over a period not to exceed thirty years.

The Department's annual OPEB cost for fiscal years 2011 and 2010 is as follows (dollar amounts in thousands):

	2011	2010
Annual required contribution	$ 2,372	$ 2,222
Interest on OPEB obligation	121	87
Adjustment of annual required contribution	121	87
Annual OPEB Cost	2,372	2,222
Contributions made	1,629	1,510
Increase in net OPEB obligation	743	712
Net OPEB obligation – beginning of year	2,557	1,845
Net OPEB obligation – end of year	$ 3,300	$ 2,557

The Department's annual OPEB cost, the percentage of annual cost contributed to the plan, and the net OPEB obligation for fiscal years 2011, 2010 and 2009 were as follows (dollars in thousands):

	2011	2010	2009
Annual OPEB cost	$ 2,372	$ 2,222	$ 2,148
Percentage of Annual OPEB Cost Contributed	68.7%	68.0%	75.1%
Net OPEB Obligation	$ 3,300	$ 2,557	$ 1,845

FUNDED STATUS AND FUNDING PROGRESS

The schedule below shows the balance of the County's actuarial accrued liability (AAL), all of which was unfunded as of September 30, 2011 and 2010. An estimated 9% of this liability can be attributed to the Department (dollar amounts in thousands).

	2011	2010
Actuarial Valuation Date	10/01/2010	10/01/2009
Actuarial Value of Assets (a)	0	0
Actuarial Accrued Liability (AAL) (b)	$ 297,218	$ 281,470
Unfunded AAL (UAAL) (b-a)	$ 279,218	$ 281,470
Funded Ratio (a/b)	0%	0%
Estimated Covered Payroll (c)	$1,620,593	$1,573,391
UAAL as % of Covered Payroll ([b-a]/c)	18%	18%

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 by the County are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as required supplementary information, provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ACTUARIAL METHODS AND ASSUMPTION

Projections of benefits are based on the substantive plan (the Plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the County and the plan member 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.

The actuarial cost method used in the valuation to determine the Actuarial Accrued Liability (AAL) and the Actuarial Required Contribution (ARC) was the Projected Unit Credit Method with service prorated. Under this method, the total present value of benefits is determined by projecting the benefit to be paid after the expected retirement date (or other event) and discounting those amounts to the valuation date. The normal cost is computed by dividing the total present value of benefits by the participant's total service (actual plus expected service) at retirement. The AAL under this method represents the total present value of benefits multiplied by the ratio of the participant's actual service to date and divided by expected service at retirement. The AAL for participants currently receiving payments and deferred vested participants is calculated as the actuarial present value of future benefits expected to be paid. No normal cost for these participants is payable. The AAL and normal cost were calculated at the measurement date, which is the beginning of the applicable fiscal year using standard actuarial techniques.

The following summarizes other significant methods and assumptions used in valuing the AAL and benefits under the plan.

Actual valuation date	10/1/2010
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Actuarial Assumptions:	
Discount rate	4.75%
Payroll growth assumption	3.00%
Inflation rate	3.00%
Health care trend rates	11% initial to 5.25%
Mortality table	RP 2000*

*Prepared by the Department of Treasury under the Retirement Protection Act of 1994.

Further, the valuation assumes that the County will continue to fund the liability on a pay-as-you-go basis and that the County's policy is that its per-capita contribution for retiree benefits will remain at the 2008 level. As a result, the retiree contributions will be increased to the extent necessary so that they are sufficient to provide for the difference between gross costs and the fixed County contributions.

16. SUBSEQUENT EVENTS

On September 22, 2011, the Board of County Commissioners adopted a County Budget Ordinance that maintains the average water and sewer retail customer rates unchanged effective October 1, 2011. The Miami-Dade County Water Conservation Surcharge for retail water customers with consumption on the fourth tier of the usage structure continues to be in effect to encourage water conservation. In addition, the County Ordinance maintained the per thousand gallons water wholesale rate flat and increased the sewer wholesale rate per thousand gallons per cost of service agreement. The City of Hialeah water wholesale rate per thousand gallons increased to account for the fourth year of the five-year phase-out of the transmission credit. Other miscellaneous fees and charges increased effective October 1, 2011.

Required Supplementary Information

Schedule of Funding Progress
Postemployment Healthcare Plan
Miami-Dade County*
(dollar amount in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Estimated Covered Payroll (c)	UAAL as % of Covered Payroll ([b-a]/c)
10/1/2010	$ 0	$ 297,218	$ 297,218	0%	$ 1,620,593	18%
10/1/2009	0	281,470	281,470	0%	1,573,391	18%
10/1/2008	0	255,259	255,259	0%	1,527,564	17%
10/1/2007	0	242,331	242,331	0%	1,483,072	16%

* This schedule shows the balance of the County's actuarial accrued liability (AAL). An estimated 9% of this liability can be attributed to the Department.

INDEPENDENT AUDITORS' 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 Carlos A. Giminez, Mayor, and
Honorable Chairperson and Members
Board of County Commissioners
Miami-Dade County, Florida

We have audited the financial statements of Miami-Dade Water and Sewer Department, a department of Miami-Dade County, Florida (the Department) as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated January 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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.

MARCUMGROUP
MEMBER

Marcum LLP ▪ One Southeast Third Avenue ▪ Tenth Floor ▪ Miami, Florida 33131 ▪ **Phone** 305.995.9600 ▪ **Fax** 305.995.9601
marcumllp.com

A *significant 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2011-1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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.*

The Department's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, Board of County Commissioners, management and regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Marcum LLP

Miami, FL
January 23, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Carlos A. Giminez, Mayor, and
Honorable Chairperson and Members
Board of County Commissioners
Miami-Dade County, Florida

Compliance

We have audited the Miami-Dade Water and Sewer Department, a department of Miami-Dade County, Florida (the Department) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Department's major federal program for the year ended September 30, 2011. The Department's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2011.

MARCUMGROUP
MEMBER

Marcum LLP ▪ One Southeast Third Avenue ▪ Tenth Floor ▪ Miami, Florida 33131 ▪ **Phone** 305.995.9600 ▪ **Fax** 305.995.9601
marcumllp.com

Internal Control Over Compliance

Management of the Department, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Miami-Dade Water and Sewer Department, a department of Miami-Dade County, Florida as of and for the fiscal year ended September 30, 2011 and have issued our report dated January 23, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements 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 basic financial statements taken as a whole.

This report is intended solely for the information and use of the Mayor, Board of County Commissioners, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Marcum LLP

Miami, FL
January 23, 2012

MIAMI-DADE WATER AND SEWER DEPARTMENT

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2011

Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Contract/ Pass-Through Grantor's Number	Expenditures
Federal awards			
U.S. Environmental Protection Agency (E.P.A)			
Office of Water			
Passed-through Florida Department of Environmental Protection			
Program: Capitalization Grants for Clean Water			
State Revolving Fund**	66.458	WW377900	15,636,400
Program: Capitalization Grants for Drinking Water			
State Revolving Fund**	66.468	DW-130201	140,960
Office of the Chief Financial Officer			
Program: Congressionally Manadated Projects			
Congressional Earmarks	66.202	XP97481303-1	1,159,832
Total Expenditures of Federal Awards			$ 16,937,192

** Although the CFDA number identifies the programs as being '**Recovery**', the funding received is not ARRA funded. Therefore, the programs are not identified as such.

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all Federal award programs of the Miami-Dade Water and Sewer Department (Department) for the year ended September 30, 2011. The Department's reporting entity is defined in Note (1) to the Department's financial statements.

2. BASIS OF ACCOUNTING

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparations of the financial statements.

3. U.S. ENVIRONMENTAL PROTECTION AGENCY (EPA) AND FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION PROGRAMS

The Florida State Revolving Fund program was established to provide low interest loans for water and wastewater projects. The loans are scheduled to be repaid over twenty years. Currently, the loan's effective interest rate is approximately 3.2 percent. As this is a loan program, an accrued (deferred) revenue balance is not presented. The total loan commitment is reported in place of the grant award. Federal receipts and expenditures reflect activity in the loan balances. The aggregate outstanding balance of these loans at September 30, 2011 is approximately $124,162,195.

The Infrastructure Studies program, authorized by the Appropriations Act of 1999 and 2002, is comprised of the following grant:

- Grant XP97481303-1: The Water and Wastewater Headworks Improvements programs consist of design and construction of water and wastewater infrastructure improvements for specified projects. EPA is financing 54.25% of the costs of these improvements.

PRIOR YEAR COMMENTS AND STATUS

FINANCIAL STATEMENT FINDINGS

There were no significant deficiencies or material weaknesses or material noncompliance reported in the fiscal year ended September 30, 2010.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

The following addresses the status of the Federal Award finding reported in the fiscal year ended September 30, 2010 Schedule of Findings and Questioned Costs:

Matters that are not repeated in the accompanying schedule of findings and questioned costs:

- 2010-1 – Internal Control over Preparation of SEFA

MIAMI-DADE WATER AND SEWER DEPARTMENT
(A DEPARTMENT OF MIAMI-DADE COUNTY, FLORIDA)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	*Unqualified Opinion*
Internal control over financial reporting:	
Material weakness(es) identified?	___ yes _X_ no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_X_ yes ___ none reported
Non-compliance material to financial statements noted?	___ yes _X_ no

Federal Awards Programs

Internal control over the major federal awards program:	
Material weakness(es) identified?	___ yes _X_ no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___ yes _X_ none reported
Type of auditor's report issued on compliance for the major federal awards program:	*Unqualified Opinion*
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	___ yes _X_ no

Identification of major federal awards program:

Federal Awards Program	Federal CFDA No.
Capitalization Grants for Clean Water State Revolving Fund	66.458

Dollar threshold used to distinguish between Type A and Type B programs:	$508,116
Auditee qualified as low-risk auditee for audit of federal awards programs?	_X_ yes ___ no

SECTION II – FINANCIAL STATEMENT FINDINGS

2011-1 INTERNAL CONTROL OVER REPORTING OF CAPITAL ASSETS

CONDITION

During our audit procedures performed for capital assets, we noted the following:

We noted an open projects report, on a project level from the Project Costing sub ledger, did not reconcile to the General Ledger Construction Work in Progress (CWIP) account balance. As a result, a detailed analysis of the CWIP account balance was done on a project basis. The results of the analysis showed the following:

- There is currently a balance of approximately $27M which the Department believes represents closed projects that are still currently included as part of the CWIP balance in the fixed asset module, which should possibly be reported as completed projects and not as CWIP.
- We noted that for construction projects that were being completed as part of the Miami-Dade County General Obligation Bond Program (GOB), when the Department received GOB reimbursement amounts these receipts were being recorded to contra asset accounts that offset construction costs. This resulted in an understatement of total construction expenses as well as related capital contribution revenues by approximately $21.9M.
- We noted that the Department had recorded costs related to an ongoing study for a Wastewater Facilities Master Plan as an individual capital asset at a value of approximately $4M. Based on discussions with the Department, we determined that there should not have been an asset created for this Master Plan but instead the costs of the project should remain in CWIP until the completion of the specifically identified construction projects that came about as a result of the study, at which time the cost of the study should be captured as part of the total project cost.
- We noted in one instance where there was approximately $2.7M of capitalized interest that was being charged to a project subsequent to the project being closed.

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2011-1 INTERNAL CONTROL OVER REPORTING OF CAPITAL ASSETS (CONTINUED)

CONDITION (CONTINUED)

- We noted that in two instances, projects were being transferred out of CWIP to depreciable asset categories in fiscal years that were later than their actual in-service dates. The impact to depreciation expense was not considered to be material to the financial statements, however, we did note that during the current fiscal year, prior to the audit, the Department recorded approximately $3M in accelerated depreciation expense in order to properly account for other projects that had not been closed out on a timely basis.

CRITERIA

The establishment and maintenance of accurate accounting records for capital assets are necessary to help ensure that the Department's capital assets are properly reported and safeguarded from loss or misuse. CWIP is a major category of capital assets which is used to record costs incurred to acquire or construct a capital asset before it is ready to be placed into service. When the capital asset construction is complete, the asset should be reclassified to the appropriate capital asset category and depreciation should commence.

CAUSE

A lack of proper internal controls over the recording of transactions and maintenance procedures to ensure that capital asset records are properly maintained and recorded resulted in the conditions noted above.

EFFECT

Inaccurate reporting of capital assets could result from the conditions noted above.

RECOMMENDATION

We recommend that a detailed review of the CWIP balance be done on a project-by-project basis in order to determine what should or should not be in CWIP at a point in time. This review should be facilitated by proper and frequent communications between project managers and the finance department regarding the status of construction projects.

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2011-1 INTERNAL CONTROL OVER REPORTING OF CAPITAL ASSETS (CONTINUED)

RECOMMENDATION (CONTINUED)

This will ensure that if projects are completed and removed from CWIP that no additional costs can be charged to that project and depreciation can commence at the correct point in time. Procedures should also be implemented to ensure that CWIP is monitored and completed projects are transferred out to their appropriate capital asset category. We also recommend that procedures be implemented to ensure that GOB reimbursement projects are properly recorded.

VIEWS OF RESPONSIBLE AND PLANNED CORRECTIVE ACTIONS

Miami-Dade Water & Sewer Department (the Department) concurs with the auditor's finding and recommendations. For clarification purposes, the Department has and does perform a CWIP reconciliation from the general ledger to the sub-general ledger by construction fund balances' agreeing the current month's activity to the year-to-date (and/or inception-to-date) sub-ledger fund activity balances and to the General Ledger. This reconciliation is done on a summary basis due to the vast number of transactions. The issue described by the external auditors relates to a reconciliation of the CWIP account balance on an individual project basis to the sub-ledger and not to the General Ledger. This particular reconciliation noted errors with converted data from the Legacy System to Enterprise Resource Planning System (ERP).

The Department continually reviews and incorporates the industry standards regarding the proper recording of capital transactions. During the past few years, certain transactions have been adjusted to properly reflect the recording of capital transactions. This year, given the budget crises experienced in the County, capital projects were scrutinized, resulting in a greater proportion of projects being closed during fiscal year 2011. The additional scrutiny during the review of capital assets by the Department prompted closer communication with relevant staff managing the financial progress of the projects. These reviews and the increased communication between the Department's Asset Management unit, Capital Planning and Coordination section, and project managers will lead to timely recording of assets, and result in better decision making relating to the capitalization of costs.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.