

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

SINGLE AUDIT REPORTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

**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.....	31-32
Schedule of Expenditures of Federal Awards	33
Notes to Schedule of Expenditures of Federal Awards.....	34
Summary Schedule of Prior Audit Findings	35
Schedule of Findings and Questioned Costs	36-37

INDEPENDENT AUDITORS' REPORT

Honorable Carlos A. Gimenez, 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, 2012 and 2011 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 audits provide 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, 2012 and 2011 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, 2012 and 2011 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2013, 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 an opinion on the financial statements that collectively comprise the Department's basic financial statements as a whole. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133)* is presented for purposes of additional analysis 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. The information 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.

Marcum LLP

Miami, FL
February 4, 2013

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, 2012. 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; notes to the financial statements; and required supplementary information.

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 may 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, 2012, 2011 and 2010 is shown on the following page. The unrestricted portion of net assets (available to meet ongoing and future obligations of the Department) increased by \$18.7 million, or 4.5% in 2012. In 2011, unrestricted net assets had an increase of \$33.5 million, or 8.8%.

Total expenses decreased by \$2.9 million, or by 0.5%, in 2012, and decreased by \$4.5 million or by 0.8% in 2011. The 2012 decrease is primarily due to a decreased level of administrative support charges and outside consultants. The 2011 decrease is primarily due to a decreased level of employee salaries and administrative reimbursement charges.

Total net assets as of September 30, 2012, were approximately \$2.2 billion. The Department's total net assets increased by \$36.7 million, or by 1.7%, from prior year which is primarily due to a decrease in non-operating expenses as a result of a decrease in the County General Fund transfer. In 2011, net assets decreased by \$8.4 million, or by 0.4% from the prior year. The decrease is primarily due to an increase in non-operating expenses as a result of a County General Fund transfer.

Management's Discussion & Analysis

	(In thousands)		
<u>SUMMARY OF NET ASSETS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current and Other Assets	\$ 959,592	\$ 1,018,250	\$ 1,226,842
Capital Assets, net	3,473,954	3,434,125	3,286,107
Total Assets	<u>4,433,546</u>	<u>4,452,375</u>	<u>4,512,949</u>
Long-term Liabilities	2,006,909	2,039,700	2,084,569
Current Liabilities	203,362	226,054	233,367
Total Liabilities	<u>2,210,271</u>	<u>2,265,754</u>	<u>2,317,936</u>
Net Assets:			
Invested in capital assets, net of related debt	1,567,455	1,530,096	1,535,755
Restricted	223,887	243,292	279,576
Unrestricted	431,933	413,233	379,683
Total Net Assets	<u>\$ 2,223,275</u>	<u>\$ 2,186,621</u>	<u>\$ 2,195,014</u>
 <u>SUMMARY OF CHANGES IN NET ASSETS</u>			
Water operating revenues	\$ 251,130	\$ 253,696	\$ 245,122
Wastewater operating revenues	285,172	291,964	273,273
Interest Income	21,797	6,193	18,160
Other nonoperating revenues	28,375	19,326	22,678
Total revenues	<u>586,474</u>	<u>571,179</u>	<u>559,233</u>
Water source of supply	10,705	13,558	12,354
Water power and pumping	1,798	1,942	2,002
Water treatment	59,811	62,138	61,967
Water transmission and distribution	27,423	27,929	28,459
Wastewater collection system	20,150	20,385	21,523
Wastewater pumping	34,085	30,950	29,916
Wastewater treatment	74,367	72,512	68,043
Customer accounting	7,299	7,410	8,915
Customer service	16,275	16,821	19,088
General and Administrative	73,164	79,165	97,364
Depreciation	163,315	159,158	160,469
Interest expense	85,478	85,511	71,229
Other nonoperating expenses	4,106	3,429	4,091
Total expenses	<u>577,976</u>	<u>580,908</u>	<u>585,420</u>
Income (loss) before contributions and transfers	8,498	(9,729)	(26,187)
Capital contributions	28,156	33,556	30,487
Transfers to County's General Fund	-	(32,220)	-
Increase (Decrease) in net assets	<u>36,654</u>	<u>(8,393)</u>	<u>4,300</u>
Net assets at beginning of year	<u>2,186,621</u>	<u>2,195,014</u>	<u>2,190,714</u>
Net assets at end of year	<u>\$ 2,223,275</u>	<u>\$ 2,186,621</u>	<u>\$ 2,195,014</u>

Management's Discussion & Analysis

CAPITAL ASSETS

The following table summarizes the Department's capital assets, net of accumulated depreciation, for the fiscal years ended September 30, 2012, 2011 and 2010 (in thousands). Total capital assets increased by \$39.8 million, or 1.2%, in 2012. This increase is due to capital additions, net of plant retirements of \$158.3 million, offset by \$150.4 million net increase in accumulated depreciation. Total capital assets increased by \$148.0 million, or 4.3%, in 2011. This increase was due to capital additions, net of plant retirements of \$121.3 million, offset by \$148.3 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)		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land	\$ 50,373	\$ 47,520	\$ 44,650
Structures and improvements (net)	2,314,517	2,320,810	2,384,935
Equipment (net)	219,006	221,521	213,214
Construction work in progress	890,058	844,274	643,309
Total capital assets	<u>\$ 3,473,954</u>	<u>\$ 3,434,125</u>	<u>\$ 3,286,108</u>

This year's major expenditures in capital assets included:

Water projects:

- Transmission mains, meters and services (\$37.7 million)
- Treatment facilities and equipment (\$29.9 million)
- Hydrants (\$1.9 million)
- Pumping facilities (\$1.8 million)
- Meters (\$1.2 million)

Wastewater projects:

- Treatment facilities (\$47.1 million)
- Force mains (\$28.7 million)
- Pump stations (\$10.7 million)
- Gravity mains and services (\$7.7 million)
- Infiltration and inflow reduction program (\$5.7 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, 2012, 2011 and 2010 is presented in the following table (in thousands). The year 2012 shows a decrease of \$32.1 million from the previous year, and 2011 shows an decrease of \$43.3 million from 2010.

	(In thousands)		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenue Bonds	\$ 1,880,872	\$ 1,932,611	\$ 1,980,844
State Loan Obligations	143,843	124,163	119,255
Total long-term debt	<u>\$ 2,024,715</u>	<u>\$ 2,056,774</u>	<u>\$ 2,100,099</u>

Management's Discussion & Analysis

During 2012, draws made on state revolving loan commitments, recorded as debt, including capitalized interest, totaled \$30.9 million. Current long-term debt maturities were met in the amount of \$61.5 million. Additional long-term debt details can be found in Note 7 on page 17 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 1.54 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 4.53 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

	September 30,	(In thousands)	
		<u>2012</u>	<u>2011</u>
ASSETS			
<i>CURRENT ASSETS:</i>			
Cash and cash equivalents		\$ 61,287	\$ 49,783
Investments		18,884	35,878
Accounts receivable (net of allowance for uncollectible accounts of \$17.6 million in 2012 and \$19.3 million in 2011)		103,282	106,978
Inventory of materials and supplies		36,719	34,638
Other current assets		3,110	3,526
Restricted cash and cash equivalents		<u>132,906</u>	<u>154,041</u>
Total current assets		<u>356,188</u>	<u>384,844</u>
<i>NON-CURRENT RESTRICTED ASSETS:</i>			
Cash and cash equivalents		199,039	132,228
Investment derivative instrument		51,098	29,590
Investments		186,605	316,510
Long-term receivable - General Fund		25,000	
Grants receivable		<u>204</u>	<u>125</u>
Total restricted assets		<u>461,946</u>	<u>478,453</u>
<i>OTHER ASSETS:</i>			
Deferred debt issue costs, net		25,086	27,067
Other deferred charges, net		<u>116,373</u>	<u>127,886</u>
Total other assets		<u>141,459</u>	<u>154,953</u>
<i>CAPITAL ASSETS:</i>			
Land		50,373	47,520
Structures and Improvements		4,012,486	3,895,888
Equipment		<u>950,014</u>	<u>924,973</u>
Utility plant in service before depreciation		5,012,873	4,868,381
Less accumulated depreciation		<u>(2,428,977)</u>	<u>(2,278,530)</u>
Net utility plant in service		2,583,896	2,589,851
Construction work in progress		<u>890,058</u>	<u>844,274</u>
Total capital assets		<u>3,473,954</u>	<u>3,434,125</u>
Total non-current assets		<u>4,077,359</u>	<u>4,067,531</u>
Total assets		<u>\$ 4,433,547</u>	<u>\$ 4,452,375</u>

(Continued)

Balance Sheets

(Continued)	September 30,	(In thousands)	
		2012	2011
LIABILITIES			
<i>CURRENT LIABILITIES (PAYABLE FROM UNRESTRICTED CURRENT ASSETS):</i>			
Accounts payable and accrued expenses		\$ 40,781	\$ 40,948
Customer and developer deposits		11,175	11,129
Current portion of long-term debt		6,848	7,652
Rebatable arbitrage earnings		1,899	1,949
Liability for compensated absences		9,542	10,280
Other liabilities		212	222
Total current liabilities (payable from unrestricted current assets)		70,457	72,180
 <i>CURRENT LIABILITIES (PAYABLE FROM RESTRICTED CURRENT ASSETS):</i>			
Accounts payable and accrued expenses		18,004	31,306
Retainage payable		8,849	19,022
Current portion of long-term debt		57,280	53,841
Accrued interest payable		47,191	48,332
Liability for self-insurance		1,582	1,373
Total current liabilities (payable from restricted current assets)		132,906	153,874
Total current liabilities		203,363	226,054
 <i>NON-CURRENT LIABILITIES:</i>			
Revenue bonds payable, net		1,826,222	1,882,336
State loan obligations, net		134,365	112,944
Liability for self-insurance		1,970	1,837
Liability for compensated absences		29,810	27,969
Liability for post-employment benefits		4,004	3,300
Deferred revenues		10,538	11,314
Total non-current liabilities		2,006,909	2,039,700
Total liabilities		2,210,272	2,265,754
 NET ASSETS			
Invested in capital assets, net of related debt		1,567,455	1,530,096
Restricted for:			
Capital projects		109,528	132,705
Debt service		114,359	110,587
Unrestricted		431,933	413,233
Total net assets		2,223,275	2,186,621
Total liabilities and net assets		\$ 4,433,547	\$ 4,452,375

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

Statements of Revenues, Expenses, and Changes in Net Assets

	(In thousands)	
For the years ended September 30,	<u>2012</u>	<u>2011</u>
<i>OPERATING REVENUES:</i>		
Water	\$ 251,130	\$ 253,696
Wastewater	<u>285,172</u>	<u>291,964</u>
Total operating revenues	<u>536,302</u>	<u>545,660</u>
 <i>OPERATING AND MAINTENANCE EXPENSES:</i>		
Water source of supply	10,705	13,558
Water power and pumping	1,798	1,942
Water treatment	59,811	62,138
Water transmission and distribution	27,423	27,929
Wastewater collection system	20,150	20,385
Wastewater pumping	34,085	30,950
Wastewater treatment	74,367	72,512
Customer accounting	7,299	7,410
Customer service	16,275	16,821
General and administrative	<u>73,164</u>	<u>79,165</u>
Total operating and maintenance expenses	<u>325,077</u>	<u>332,810</u>
Operating income before depreciation	211,225	212,850
 <i>DEPRECIATION</i>	 <u>163,315</u>	 <u>159,158</u>
Operating income	47,910	53,692
 <i>NON-OPERATING REVENUES (EXPENSES):</i>		
Investment income	21,797	6,193
Interest expense	(85,478)	(85,511)
Amortization of debt issue costs	(2,970)	(2,618)
Operating grants	2,541	1,806
Customer connection fees	20,509	13,933
Other revenues	5,325	3,587
Other expenses	<u>(1,136)</u>	<u>(811)</u>
Income (loss) before contributions and transfers	8,498	(9,729)
Capital contributions	28,156	33,556
Transfers to County's General Fund	<u>-</u>	<u>(32,220)</u>
Increase (Decrease) in net assets	36,654	(8,393)
Net assets at beginning of year	<u>2,186,621</u>	<u>2,195,014</u>
Net assets at end of year	<u>\$ 2,223,275</u>	<u>\$ 2,186,621</u>

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

Statements of Cash Flows

	(In thousands)	
For the years ended September 30,	2012	2011
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>		
Cash received from customers	\$ 563,600	\$ 553,361
Cash paid to suppliers for goods and services	(141,556)	(141,917)
Cash paid to employees for services	(179,430)	(181,472)
Net cash provided by operating activities	242,614	229,972
<i>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</i>		
Operating grants received	2,541	1,806
Transfers to County's General Fund	-	(32,220)
Loan to County's General Fund	(25,000)	-
Net cash used in non-capital financing activities	(22,459)	(30,414)
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</i>		
Proceeds from bond issues, loan agreements and notes	30,909	15,781
Principal payments - bond, loans and notes	(61,504)	(58,908)
Bond issue costs	(966)	(1,178)
Interest paid	(87,158)	(79,650)
Acquisition and construction of capital assets	(191,395)	(277,703)
Net cash used in capital and related financing activities	(310,114)	(401,658)
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>		
Purchase of investment securities	(272,346)	(392,283)
Proceeds from sale and maturity of investment securities	417,626	607,351
Interest on investments	1,859	3,321
Net cash provided by investing activities	147,139	218,389
Net increase in cash and cash equivalents	57,180	16,289
Cash and cash equivalents at beginning of year	336,052	319,763
Cash and cash equivalents at end of year	\$ 393,232	\$ 336,052

(Continued)

Statements of Cash Flows

(Continued)	For the years ended September 30,	(In thousands)	
		<u>2012</u>	<u>2011</u>
<i>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>			
Operating income		\$ 47,910	\$ 53,692
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		163,315	159,158
Provision for uncollectible accounts		2,198	2,175
Amortization of deferred charges		77	-
Amortization of deferred revenues		(776)	530
Non-operating other, net		24,696	16,708
Increase (decrease) in assets:			
Accounts Receivable		1,498	(6,640)
Inventory of materials and supplies		(2,081)	(3,815)
Other current assets		416	5,977
Contracts receivable		(27)	404
Other deferred charges		3,370	2,894
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		(167)	3,128
Customer and developer deposits		46	(3,483)
Liability for compensated absences		1,103	35
Other liabilities		(10)	(2,029)
Liability for other post-employment benefits		704	743
Liability for self-insurance		342	495
		<u> </u>	<u> </u>
Net cash provided by operating activities		<u>\$ 242,614</u>	<u>\$ 229,972</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Property, plant and equipment contributions were received in amounts of \$28.2 million and \$33.6 million in fiscal years 2012 and 2011, respectively.

The change in the fair value of investments was a \$1.4 million decrease and a \$0.6 million decrease in fiscal year 2012 and 2011, respectively.

The change in the fair value of swaps was a \$21.5 million increase and a \$3.8 million increase in fiscal year 2012 and 2011, respectively.

	(In thousands)	
	<u>2012</u>	<u>2011</u>
<i>RECONCILIATION OF CASH AND CASH EQUIVALENTS AT END OF YEAR</i>		
Unrestricted Current Cash and Cash Equivalents	\$ 61,287	\$ 49,783
Restricted Current Cash and Cash Equivalents	132,906	154,041
Restricted Noncurrent Cash and Cash Equivalents	199,039	132,228
Total cash and cash equivalents at end of year	<u>\$ 393,232</u>	<u>\$ 336,052</u>

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

Notes to Financial Statements

SEPTEMBER 30, 2012 AND 2011

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 \$33.2 million and \$35.0 million as of September 30, 2012 and 2011, 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% for fiscal years ended September 30, 2012 and 2011. 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

Total depreciation expense for the fiscal years ended September 30, 2012 and 2011 was \$163.3 million and \$159.2 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. For fiscal year 2012, no intangible assets met the threshold for recording.

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, 2012 and 2011 was \$92.6 million and \$93.5 million, respectively. Interest in the amount of, \$7.1 million and \$8.0 million was capitalized in fiscal years 2012 and 2011, respectively, net of interest earned on construction funds from tax-exempt borrowing of \$0.6 million and \$1.1 million in fiscal years 2012 and 2011, 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, 2011, the Department adopted GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, which requires recognition, measurement and disclosure of information regarding derivative instruments entered into by the Department and reported at fair value. GASB Statement 64 amends GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

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.

Notes to Financial Statements

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 \$314.4 million and \$320.5 million as of September 30, 2012 and 2011, respectively. The bank balances at local depositories were \$328.2 million and \$329.3 million as of September 30, 2012 and 2011, 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, 2012 was approximately \$322.2 million.

INVESTMENTS

The Department's investments at September 30, 2012 and 2011, are shown in the following table (in thousands).

	Fair Value	
	2012	2011
Federal Home Loan Mortgage Corporation	\$ 66,637	\$ 93,605
Federal Home Loan Bank	65,247	104,698
Federal Farm Credit Bank	49,333	70,511
Federal National Mortgage Association	65,602	61,740
Treasury Notes	22,232	16,244
Interest Bearing	7,425	12,844
Total Investments	\$ 276,476	\$ 359,642

CREDIT RISK

The Policy, minimizes credit risk by restricting authorized investments to: Local Government Surplus Funds Trust Fund, 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

Notes to Financial Statements

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, 2012 and 2011.

	<u>Credit Ratings</u>	
	2012	2011
Federal Home Loan Mortgage Corporation	AA+/A-1+	AA+/Aaa/AAA
Federal Home Loan Bank	AA+/A-1+	AA+/Aaa/AAA
Federal Farm Credit Bank	AA+/A-1+	AA+/Aaa/AAA
Federal National Mortgage	AA+/A-1+	AA+/Aaa/AAA
Time Deposits	N/A	N/A
Treasury Notes	AA+/A-1+	AA+
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, 2012 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 Funds 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.

Notes to Financial Statements

As of September 30, 2012 and 2011, the following issuers held 5% or more of the investment portfolio:

	% of Portfolio	
	2012	2011
Federal Home Loan Mortgage Corporation	24.10	26.03
Federal Home Loan Bank	23.60	29.11
Federal Farm Credit Bank	17.84	19.61
Federal National Mortgage Association	23.73	17.17
Treasury Notes	8.04	-
Interest Bearing	2.69	8.17

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, 2012 and 2011 the County had the following investments with the respective weighted average maturity in years.

	Weighted Average in Years	
	2012	2011
Federal Home Loan Mortgage Corporation	1.06	0.42
Federal Home Loan Bank	0.38	0.39
Federal Farm Credit Bank	1.28	-
Federal National Mortgage Association	1.16	0.88
Treasury Notes	0.38	0.34

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, 2012 and 2011 were as follows (in thousands):

	2012	2011
Trade Accounts	\$ 111,588	\$ 115,753
Non-retail accounts	9,286	10,384
Other County funds	25,014	92
Gross receivables	145,888	126,229
Less: allowance for doubtful accounts	(17,606)	(19,251)
Net receivables	<u>\$ 128,282</u>	<u>\$ 106,978</u>

On September 22, 2011, the Department signed a Memorandum of Understanding (MOU) establishing a \$25 million loan to the County's General Fund as adopted in the fiscal year 2011-2012 Budget Ordinance.

The Department transferred \$25 million cash to the General Fund and booked a receivable from the County. The term of this loan will be five years, no interest, with repayments of \$5 million per year to begin at the end of fiscal year 2013-2014.

4. OTHER CURRENT ASSETS

Other current assets at September 30, 2012 and 2011 were as follows (in thousands):

	2012	2011
Beginning Balance	\$ 3,526	\$ 9,503
Prepaid Expenses	7	2
Advance to City of Hialeah	19,535	9,538
Grant Receipts	1,117	1,880
Construction in Progress	(21,075)	(17,397)
Ending Balance	<u>\$ 3,110</u>	<u>\$ 3,526</u>

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 in 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 2012, an additional \$19.5 million was contributed to the City of Hialeah. As of September 30, 2012, the Department has contributed \$38.6 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 ac-

counts. Restricted assets at September 30, 2012 and 2011 are represented in the following table (in thousands):

	2012	2011
Debt Service	\$ 160,554	\$ 156,886
Construction	146,529	215,077
Renewal and Replacement	68,464	75,257
Plant Expansion	79,068	87,263
Self-Insurance	5,144	4,715
Other	135,093	63,706
Total Restricted Assets	\$ 594,852	\$ 602,904

6. CAPITAL ASSETS

Capital asset activity during fiscal years 2012 and 2011 was as follows (in thousands):

	Balance 09/30/10	2011		Balance 09/30/11	2012		Balance 09/30/12
		Additions	Deletions		Additions	Deletions	
Capital Assets, not being depreciated:							
Land	\$ 44,650	\$ 2,870	\$ -	\$ 47,520	\$ 2,853	\$ -	\$ 50,373
Construction work in progress	643,309	307,439	(106,474)	844,274	188,696	(142,912)	890,058
Total capital assets, not being depreciated	687,959	310,309	(106,474)	891,794	191,549	(142,912)	940,431
Capital Assets, being depreciated							
Structures and improvements	3,844,833	60,056	(9,001)	3,895,888	121,728	(5,130)	4,012,486
Equipment	883,520	47,303	(5,850)	924,973	35,343	(10,302)	950,014
Total capital assets, being depreciated	4,728,353	107,359	(14,851)	4,820,861	157,071	(15,432)	4,962,500
Less accumulated depreciation:							
Structures and improvements	(1,459,895)	(121,644)	6,459	(1,575,080)	(126,458)	3,569	(1,697,969)
Equipment	(670,309)	(37,515)	4,374	(703,450)	(36,855)	9,297	(731,008)
Total accumulated depreciation	(2,130,204)	(159,159)	10,833	(2,278,530)	(163,313)	12,866	(2,428,977)
Total capital assets, being depreciated, net	2,598,149	(51,800)	(4,018)	2,542,331	(6,242)	(2,566)	2,533,523
Total capital assets, net	\$ 3,286,108	\$ 258,509	\$ (110,492)	\$ 3,434,125	\$ 185,307	\$ (145,478)	\$ 3,473,954

7. 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 19. 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, 2012.

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 2012.

Notes to Financial Statements

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 2012.

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 2012.

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 2012.

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 2012.

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 2012.

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 2012.

Notes to Financial Statements

CHANGES IN LONG-TERM LIABILITIES

A summary of long-term liability activity during fiscal years 2011 and 2012 is presented in the following table (in thousands):

Description	Outstanding Rate	Balance 09/30/2010	2011		Balance 09/30/2011	2012		Balance 09/30/2012	Due in 2013
			Additions	Deletions		Additions	Deletions		
<i>Dade County Revenue Bonds</i>									
Series 1995	4.10%-6.25%	\$ 9,975	\$ -	\$ 4,835	\$ 5,140	\$ -	\$ 5,140	\$ -	\$ -
Series 1999A	5.00%-5.00%	150,000	-	-	150,000	-	-	150,000	-
Series 2003	2.00%-5.00%	115,450	-	28,540	86,910	-	29,725	57,185	31,065
Series 2007	4.00%-5.00%	344,120	-	10,715	333,405	-	11,200	322,205	11,695
Series 2008A & B	3.25%-5.25%	440,040	-	2,945	437,095	-	3,110	433,985	3,270
Series 2008C	4.00%-6.00%	306,415	-	1,000	305,415	-	1,000	304,415	5,985
Series 2010	2.00%-5.00%	594,330	-	-	594,330	-	100	594,230	2,635
Less: Unamortized Discount		(4,470)	-	(345)	(4,125)	-	(251)	(3,874)	-
Deferred amounts on refunding		(23,590)	-	(4,496)	(19,094)	-	(3,325)	(15,769)	-
Plus: Unamortized Premium		48,574	-	5,039	43,535	-	5,040	38,495	-
Total revenue bonds		\$ 1,980,844	\$ -	\$ 48,233	\$ 1,932,611	\$ -	\$ 51,739	\$ 1,880,872	\$ 54,650
<i>State Loan Obligations</i>									
State Revolving Fund	2.56%-4.17%	119,255	15,781	10,873	124,163	30,909	11,229	143,843	9,478
Total long-term debt		\$ 2,100,099	\$ 15,781	\$ 59,106	\$ 2,056,774	\$ 30,909	\$ 62,968	\$ 2,024,715	\$ 64,128
<i>Other liabilities</i>									
Compensated Absences		38,213	5,878	5,842	38,249	11,355	10,252	39,352	9,542
Self-Insurance		2,715	4,903	4,408	3,210	4,903	4,562	3,551	1,582
Other post-employment benefits		2,557	743	-	3,300	704	-	4,004	-
Deferred revenues		12,090	-	776	11,314	-	776	10,538	-
Total long-term liabilities		\$ 2,155,674	\$ 27,305	\$ 70,132	\$ 2,112,847	\$ 47,871	\$ 78,558	\$ 2,082,160	\$ 75,252

DEBT SERVICE REQUIREMENTS

As of September 30, 2012, the Department's debt service requirements to maturity for their term were as follows (in thousands):

Maturing in Fiscal Year	Revenue Bonds		State Loans		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Debt
2013	\$ 54,650	\$ 91,561	\$ 9,478	\$ 1,911	\$ 64,128	\$ 93,472	\$ 157,600
2014	57,115	89,096	11,391	2,362	68,506	91,458	159,964
2015	59,745	86,453	12,098	2,759	71,843	89,212	161,055
2016	62,640	83,572	11,145	2,448	73,785	86,020	159,805
2017	65,735	80,501	10,017	2,154	75,752	82,655	158,407
2018-2022	382,305	348,966	39,993	7,464	422,298	356,430	778,728
2023-2027	485,655	237,218	20,937	3,822	506,592	241,040	747,632
2028-2032	320,085	126,625	21,823	1,819	341,908	128,444	470,352
2033-2037	216,470	67,519	6,961	133	223,431	67,652	291,083
2038-2040	157,620	12,078	-	-	157,620	12,078	169,698
	\$ 1,862,020	\$ 1,223,589	\$ 143,843	\$ 24,872	\$ 2,005,863	\$ 1,248,461	\$ 3,254,324
Unamortized Discount, Deferred & Premium Amounts	18,852	-	-	-	18,852	-	18,852
Total	\$ 1,880,872	\$ 1,223,589	\$ 143,843	\$ 24,872	\$ 2,024,715	\$ 1,248,461	\$ 3,273,176

Notes to Financial Statements

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 2012.

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, 2012 are detailed in the following table (in thousands). Related payments of principal and interest are due through the year 2034.

<u>Loan #</u>	<u>Draws</u>	<u>Closed Out Date</u>
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	75,000	Active
130200	1,255	Active
130201	137	Active
	\$ 294,129	

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 2012.

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, 2012 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 had an adverse effect on the operation of the Utility.

During fiscal year 2010, Statement No. 53 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Derivative Instruments, (GASB

Notes to Financial Statements

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 09/28/12	Counterparty ⁽³⁾	Counterparty Ratings as of 09/28/12 ⁽¹⁾	Start Date	Termination Date	Counterparty Payment	County Payment	Fair Value at 09/28/12
Series 2007	\$ 200,000,000	Bank of New York Mellon ⁽²⁾	Guarantor-Aa1, AA-, AA-	07/18/02	10/01/26	Variable-USD-Libor-BBA+1.465%	Variable - (USD - SIFMA Municipal Swap Index/.0604)	\$ 14,370,402
Series 1999A	\$ 205,070,000	Bank of New York Mellon ⁽²⁾	Guarantor-Aa1, 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)	\$ 36,727,225

⁽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%.

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 change in fair value at September 30, 2012 was \$21.5 million. This change in fair value is reflected in the investment income line item of the statement of revenues expenses and changes in net assets. This increase brings the total fair value to \$51.1 million which is reflected in the Investment Derivative Instrument line item of the noncurrent asset section of the balance sheet.

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 above. 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.

Notes to Financial Statements

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, 2012, 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.

8. PAYABLES

Payables at September 30, 2012 and 2011 were as follows (in thousands):

	2012	2011
Other County funds	\$ 5,911	\$ 6,197
Vendors	20,553	25,549
Other governments	16,841	16,196
Salaries and benefits	9,645	8,239
Contractors	5,597	15,811
Other	238	262
Total payables	<u>\$ 58,785</u>	<u>\$ 72,254</u>

9. 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.

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 retire-

Notes to Financial Statements

ment 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, 2012 and 2011 was \$153.2 million and \$153.1 million, respectively, while the Department's total payroll was \$158.5 million and \$153.5 million for fiscal 2012 and 2011, respectively. Pension costs of the Department, as required and defined by Florida statute, ranged between 5.18% and 14.90% of gross salaries during fiscal years 2012 and 2011. For the years ended September 30, 2012, 2011, and 2010, the Department's actual contributions met all required contributions. These contributions aggregated \$7.7 million, \$14.4 million and \$16.6 million, respectively, which represented 5.0%, 9.4% and 10.0% of covered payroll, respectively, and 0.4%, 0.7% and 0.8% of the total contributions required of all participating agencies, respectively, for fiscal years 2012, 2011 and 2010.

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 contribution 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>.

10. 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 2012 and 2011 were as follows (in thousands):

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 3,210	\$ 2,715
Claims and changes in estimates	858	1,417
Less: Payments	<u>(517)</u>	<u>(922)</u>
Balance at end of year	<u>\$ 3,551</u>	<u>\$ 3,210</u>

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 \$1.7 million and \$1.6 million at September 30, 2012 and September 30, 2011, 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 \$5.2 million and \$4.8 million as of September 30, 2012 and 2011, respectively.

Notes to Financial Statements

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.

11. CONTRIBUTIONS

Contributions during fiscal years 2012 and 2011 are presented as follows (in thousands):

	2012	2011
Contributed Facilities		
Developers	<u>\$ 28,157</u>	<u>\$ 33,556</u>

12. 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, 2012 and 2011 (in thousands):

	2012	2011
Internal Services	\$ 16,496	\$ 12,618
General Fund	12,346	21,578
Finance	9,718	77
Information Technology	9,231	10,272
Public Works and Waste Mgmt	3,353	2,795
Permitting and Inspection Center	1,422	-
Other County Departments	5,420	8,048

In addition to the payments, the Department had related payables of \$5.9 million and \$6.2 million at September 30, 2012 and 2011, respectively. The Department also has receivables from other County departments amounting to \$25.1 million and \$0.1 million at September 30, 2012 and 2011, 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.

13. COMMITMENTS AND CONTINGENCIES

CONSTRUCTION

The Department had contractual commitments of \$237.3 million for plant and infrastructure construction at September 30, 2012.

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, 2012 and 2011, the Department recorded obligations to rebate approximately \$1.9 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.

Notes to Financial Statements

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 2012 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 project completion is anticipated prior to the ACO 2014 compliance date. The Department continues to be in compliance with all provisions of the ACO, and through fiscal year 2012 has not incurred any penalties for not completing tasks within deadlines.

14. 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) or the Public

Health Trust of Miami-Dade County, Florida, Defined Benefit Retirement Plan and pay required contributions. Refer to note 9, 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 three medical plans as follows:

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

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

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

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 15% of the cost for the AvMed POS plan and 33% for the AvMed HMO High and AvMed HMO Low plans. The post-65 retiree contributions also vary by plan and tier with the County contributing an average of 33% of the entire plan cost. 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 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 2012 and 2011, the Department contributed \$2.2 and \$1.6 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 un-

Notes to Financial Statements

funded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The Department's annual OPEB cost for fiscal years 2012 and 2011 is as follows (dollar amounts in thousands):

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 2,868	\$ 2,372
Interest on OPEB obligation	145	121
Adjustment of annual required contribution	<u>148</u>	<u>121</u>
Annual OPEB Cost	2,865	2,372
Contributions made	<u>2,161</u>	<u>1,629</u>
Increase in net OPEB obligation	704	743
Net OPEB obligation – beginning of year	<u>3,300</u>	<u>2,557</u>
Net OPEB obligation – end of year	<u>\$ 4,004</u>	<u>\$ 3,300</u>

The Department's annual OPEB cost, the percentage of annual cost contributed to the plan, and the net OPEB obligation for fiscal years 2012, 2011 and 2010 were as follows (dollars in thousands):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual OPEB cost	\$ 2,865	\$ 2,372	\$ 2,222
Percentage of Annual OPEB Cost Contributed	75.4%	68.7%	68.0%
Net OPEB Obligation	\$ 4,004	\$ 3,300	\$ 2,557

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, 2012 and 2011. An estimated 9% of this liability can be attributed to the Department (dollar amounts in thousands).

	<u>2012</u>	<u>2011</u>
Actuarial Valuation Date	10/01/2011	10/01/2010
Actuarial Value of Assets (a)	0	0
Actuarial Accrued Liability (AAL) (b)	\$ 362,669	\$ 297,218
Unfunded AAL (UAAL) (b-a)	\$ 362,669	\$ 297,218
Funded Ratio (a/b)	0%	0%
Estimated Covered Payroll (c)	\$1,661,941	\$1,620,593
UAAL as % of Covered Payroll ([b-a]/c)	22%	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.

Notes to Financial Statements

Actual valuation date	10/1/2011
Amortization method	Level percentage of payroll, closed
Remaining amortization period	26 years
Actuarial Assumptions:	
Discount rate	4.40%
Payroll growth assumption	3.00%
Inflation rate	3.00%
Health care trend rates	8% initial to 5% ultimate
Mortality table	RP 2000*

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

Further, the participation assumption used in the valuation (the assumed percentage of future retirees that participate and enroll in the health plan) is 20% for those prior to age 55 (50 if special risk) and 60% until age 65. Once reaching Medicare eligibility, the participation rate is assumed to be 20%.

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.

15. SUBSEQUENT EVENTS

On September 20, 2012, the Board of County Commissioners adopted a County Budget Ordinance that maintains the average water and sewer retail customer rates unchanged effective October 1, 2012. 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 and sewer wholesale rate flat per cost of service agreement. The City of Hialeah water wholesale rate per thousand gallons increased to account for the fifth year of the five-year phase-out of the transmission credit. Other miscellaneous fees and charges increased effective October 1, 2012.

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)
10/1/2011	\$ 0	\$ 362,669	\$ 362,669	0%	\$ 1,661,941	22%
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. Gimenez, 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, 2012, and have issued our report thereon dated February 4, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Miami-Dade Water and Sewer Department is responsible for establishing and maintaining effective 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.

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

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

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*.

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
February 4, 2013

**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. Gimenez, 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, 2012. 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, 2012.

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.

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
February 4, 2013

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity Number	Federal Expenditures
U.S. Environmental Protection Agency			
<u>Pass-Through the Florida Department of Environmental Protection</u>			
Capitalization Grants for Clean Water State Revolving Fund	66.458	WW377900	\$ 30,909,700
<u>Direct Program</u>			
Congressionally Mandated Projects	66.202		<u>824,141</u>
Total U.S. Environmental Protection Agency			<u>31,733,841</u>
Total Expenditures of Federal Awards			<u>\$ 31,733,841</u>

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

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, 2012. 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.

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

PRIOR YEAR COMMENTS AND STATUS

FINANCIAL STATEMENT FINDINGS

The following addresses the status of financial statement findings reported in the fiscal year September 30, 2011 schedule of findings:

Matter that is not repeated in the accompanying schedule of findings and questioned costs:

- 2011-1 Internal Control over reporting of Capital Assets

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There were no federal award findings and questioned costs reported in the fiscal year ended September 30, 2011 schedule of finding and questioned costs.

**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, 2012

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)? _____ yes X none reported
Non-compliance material to financial statements noted? _____ yes X no

Federal Awards Program

Internal control over the major federal award 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:

<u>Federal Awards Program</u>	<u>Federal CFDA No.</u>
Capitalization Grants for Clean Water State Revolving Fund	66.458

Dollar threshold used to distinguish between Type A and
Type B programs: \$ 300,000

Auditee qualified as low-risk auditee for audit of federal
awards programs? X yes _____ no

**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, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.