

financial
section

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable Carlos Alvarez, Mayor, and
Honorable Chairperson and Members
Board of County Commissioners
Miami-Dade County, Florida

We have audited the accompanying financial statements of the Miami-Dade Water and Sewer Department of Miami-Dade County, Florida (the Department) as of and for the year ended September 30, 2004 as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 & Sewer Department of Miami-Dade County, Florida and do not purport to, and do not, present fairly the financial position of Miami-Dade County, Florida as of September 30, 2004 and 2003 and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Department as of September 30, 2004 and 2003, and changes in its financial position and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2005 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Rachlin Cohen & Holtz LLP

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Honorable Carlos Alvarez, Mayor, and
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Management's Discussion and Analysis on pages 24 through 27, is not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Department. The introductory section, supplementary financial data, and statistical tables are presented for purposes of additional analysis and are not a required part of the financial statements of the Department. The supplementary financial data has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements of the Department. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Rachlin Cohen & Holtz LLP

Miami, Florida
January 7, 2005

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 (the Department) for the fiscal year ended September 30, 2004. The MD&A represents management's examination and analysis of the Department's financial condition and performance. It should be read in conjunction with the financial information of the transmittal letter in the introductory section and the financial statements in the financial section of this report. The financial statements include balance sheets; statements of revenues, expenses and changes in net assets; statements of cash flows; and notes to the financial statements.

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

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

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

The notes to the financial statements provide required disclosures and other information that are essential to a 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, 2004 and 2003 is shown in the following page. Total net assets as of September 30, 2004, were \$2.1 billion. The Department's Total Net Assets decreased by \$29.6 million, or by 1.4%, from last year. The decrease was primarily due to the \$72.6 million deficiency before contributions, as expenses and transfers to the County's General Fund were greater than revenues during 2004. The deficiency was reduced by the \$42.9 million capital contributions, resulting in the \$29.6 million decrease in net assets for the year. The unrestricted portion of net assets (available to meet ongoing and future obligations of the Department) had a decrease of \$17.6 million, or 9.4%, from fiscal year 2003.

The deficiency before contributions was caused by a combination of decreased interest income and increased expenses. Interest income decreased by \$17.4 million, or by 66.4%, primarily attributable to a decrease in the fair value of the Department's participating securities arising from an increase in the market yields for those securities in fiscal year 2004, as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Operating and maintenance expenses increased by \$14.5 million, or by 6.6% from the previous year. An increased employee level of compensation with related fringe benefits, other personnel expenses, outside

Management's Discussion & Analysis

services, chemicals, utilities and communications, vehicle expenses and fuel expenses made up the majority of the increase. Depreciation expense increased by \$5.0 million from last year and minor reductions were reflected in the transfers to the County's General Fund and interest expense compared to last year.

	(in thousands)	
SUMMARY OF NET ASSETS	2004	2003
Current and Other Assets	\$1,008,886	\$1,041,813
Capital Assets, net	<u>2,965,096</u>	<u>2,960,469</u>
Total Assets	<u>3,973,982</u>	<u>4,002,282</u>
Long-term Liabilities	1,681,362	1,690,817
Other liabilities	<u>176,470</u>	<u>165,671</u>
Total Liabilities	<u>1,857,832</u>	<u>1,856,488</u>
Net Assets:		
Invested in capital assets, net of debt	1,640,651	1,585,586
Restricted	306,469	373,628
Unrestricted	<u>169,030</u>	<u>186,580</u>
Total Net Assets	<u>\$2,116,150</u>	<u>\$2,145,794</u>
SUMMARY OF CHANGES IN NET ASSETS	2004	2003
Water operating revenues	\$ 170,091	\$ 154,756
Wastewater operating revenues	215,482	207,346
Interest Income	8,785	26,153
Other nonoperating revenues	<u>326</u>	<u>2,330</u>
Total revenues	<u>394,684</u>	<u>390,585</u>
Operating & maintenance expenses	232,913	218,391
Depreciation	122,800	117,780
Interest expense	72,781	75,473
Other nonoperating expenses	871	876
Transfers to County's General Fund	<u>37,899</u>	<u>39,996</u>
Total expenses	<u>467,264</u>	<u>452,516</u>
Deficiency before contributions	(72,580)	(61,931)
Capital Contributions	<u>42,936</u>	<u>47,500</u>
Decrease in net assets	<u>(29,644)</u>	<u>(14,431)</u>
Net assets at beginning of year	<u>2,145,794</u>	<u>2,160,225</u>
Net assets at end of year	<u>\$2,116,150</u>	<u>\$2,145,794</u>

CAPITAL ASSETS

The following table summarizes the Department's capital assets, net of accumulated depreciation, for the fiscal years ended September 30, 2004 and 2003 (in thousands). Total capital assets increased by \$4.6 million, or 0.16%, over the previous year. This increase is due to capital additions, net of plant retirements, of \$114.4 million offset by \$109.8 million for depreciation. Additional information in changes in capital assets can be found in Note 4 to the financial statements.

Management's Discussion & Analysis

	2004	2003
Land	\$ 34,774	\$ 34,519
Structures and improvements	2,241,033	2,259,057
Equipment	333,607	326,558
Construction work in progress	355,682	340,335
Total capital assets	<u>\$2,965,096</u>	<u>\$2,960,469</u>

This year's major expenditures in capital assets included:

Water projects:

- Transmission mains, meters and services (\$29.9 million)
- Treatment facilities (\$12.1 million)
- System wide improvements (\$5.4 million)
- Construction equipment (\$3.4 million)
- Computer systems (\$2.5 million)
- General building improvements (\$2.1 million)
- Transportation equipment (\$2.1 million)

Wastewater projects:

- Treatment facilities (\$15.9 million)
- Pump stations (\$8.5 million)
- Force mains (\$8.2 million)
- Infiltration and inflow reduction program (\$6.6 million)
- Gravity mains and services (\$3.5 million)

Budgeted capital expenditures for fiscal year 2005 amount to \$206.9 million and include \$76.4 million in water projects and \$130.5 million in wastewater projects.

LONG-TERM DEBT

Long-term debt outstanding (including current portion) at September 30, 2004 and 2003 is presented in the following table (in thousands). The year 2004 shows a decrease of \$32.1 million from the previous year.

	2004	2003
Revenue Bonds	\$1,523,497	\$1,553,293
State Loan Obligations	144,618	146,699
Notes payable	539	754
Total long-term debt	<u>\$1,668,654</u>	<u>\$1,700,746</u>

During 2004 various amendments to the state revolving fund loan agreements reduced the related commitments by \$7.7 million. Draws made on state revolving fund commitments and recorded as debt, including capitalized interest, were \$7.3 million in 2004. Current long-term debt maturities were met in amount of \$40.8 million. Additional long-term debt details can be found in Note 5 to the financial statements.

In October 2003, the Department refunded its Dade County Revenue Refunded Bond, Series 1993 by issuing the Water and Sewer System Revenue Refunding Bond, Series 2003, taking advantage of low interest rates. By issuing these bonds, the Department saved over \$18.5 million (or 7.23% of the refunded bonds) in net present value savings in interest costs.

Management's Discussion & Analysis

In March 2004, the Department sold a swap option to a financial institution in connection with the Water and Sewer System Revenue Bonds Series 1995 (Series 1995 Bonds), whereby it received an upfront aggregate payment of approximately \$26 million (present value savings if the bonds were refunded in today's market). If the option is exercised, the Department would be required to refund all or a portion of the callable Series 1995 Bonds on the first call date and enter into an interest rate swap or buy back the option. This transaction will enable the Department to refund the Series 1995 Bonds for savings.

The Department is required to maintain rates and charges sufficient to meet two sets of debt service coverage requirements. First, adjusted annual net operating revenues must equal or exceed 110 percent of the debt service on revenue bonds. Primary debt service coverage ratio for the year was 1.57, which is greater than the required level of 1.10. Second, adjusted net operating revenues, after payment of revenue bond debt service, must be at least equal to 115 percent of the debt service for the state loan obligations. The Department met the secondary debt service coverage with a ratio of 3.8, which is greater than the required ratio of 1.15.

REQUEST FOR INFORMATION

Questions concerning this report or requests for additional information should be directed to Dana M. Moss, Sr., Assistant Director - Finance at 786-552-8104 or at his office located at 3071 S.W. 38th Ave., Miami, Florida 33146.

Balance Sheets

	September 30,	<u>2004</u>	<u>2003</u>
			(In thousands)
ASSETS			
<i>CURRENT ASSETS:</i>			
Cash and cash equivalents	\$	65,822	\$ 44,581
Investments		96,537	115,660
Accounts receivable (net of allowance for uncollectible accounts of \$23.1 million in 2004 and \$20.8 million in 2003)		75,013	71,947
Inventory of materials and supplies		22,402	20,078
Restricted cash and cash equivalents		91,957	88,113
Total current assets		351,731	340,379
<i>NONCURRENT ASSETS:</i>			
<i>RESTRICTED ASSETS:</i>			
Cash and cash equivalents		157,267	250,398
Investments		481,140	429,483
Contracts receivable		176	294
Total restricted assets		638,583	680,175
<i>OTHER ASSETS:</i>			
Deferred debt issue costs, net		15,209	15,888
Other deferred charges, net		3,363	3,075
Long-term receivable		-	2,296
Total other assets		18,572	21,259
<i>CAPITAL ASSETS:</i>			
Land		34,774	34,519
Structures and improvements		3,092,038	3,038,441
Equipment		755,902	710,751
Utility plant in service before depreciation		3,882,714	3,783,711
Less accumulated depreciation		1,273,300	1,163,577
Net utility plant in service		2,609,414	2,620,134
Construction work in progress		355,682	340,335
Total capital assets		2,965,096	2,960,469
Total noncurrent assets		3,622,251	3,661,903
Total assets		\$ 3,973,982	\$ 4,002,282

(Continued)

Balance Sheets

(Continued)	September 30,	<u>2004</u>	<u>2003</u>
			(In thousands)
LIABILITIES			
<i>CURRENT LIABILITIES (PAYABLE FROM UNRESTRICTED CURRENT ASSETS):</i>			
Accounts payable and accrued expenses	\$	46,155	\$ 41,853
Customer and developer deposits		17,271	16,350
Current portion of long-term debt		7,477	7,695
Current portion of swap option		888	-
Accrued interest payable		351	561
Rebatable arbitrage earnings		541	3,103
Liability for compensated absences		8,279	7,402
Other liabilities		3,552	594
Total current liabilities (payable from unrestricted current assets)		84,514	77,558
<i>CURRENT LIABILITIES (PAYABLE FROM RESTRICTED CURRENT ASSETS):</i>			
Accounts payable and accrued expenses		12,502	11,100
Retainage payable		4,468	4,329
Current portion of long-term debt		27,021	33,743
Accrued interest payable		41,824	34,708
Liability for self-insurance		6,141	4,233
Total current liabilities (payable from restricted current assets)		91,956	88,113
<i>NONCURRENT LIABILITIES:</i>			
Revenue bonds payable, net		1,499,782	1,522,018
State loan obligations, net		134,029	136,734
Notes payable, net		345	556
Liability for self-insurance		5,095	15,782
Liability for compensated absences		17,552	15,727
Liability for swap option		24,559	-
Total noncurrent liabilities		1,681,362	1,690,817
Total liabilities		1,857,832	1,856,488
NET ASSETS			
Invested in capital assets, net of related debt		1,640,651	1,585,586
Restricted for:			
Capital projects		177,600	205,697
Debt service		128,869	167,931
Unrestricted		169,030	186,580
Total net assets		2,116,150	2,145,794
Total liabilities and net assets		\$ 3,973,982	\$ 4,002,282

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

Statements of Revenues, Expenses and Changes in Net Assets

	For the years ended September 30,	<u>2004</u>	<u>2003</u>
			(In thousands)
<i>OPERATING REVENUES:</i>			
Water		\$ 170,091	\$ 154,756
Wastewater		<u>215,482</u>	<u>207,346</u>
Total operating revenues		<u>385,573</u>	<u>362,102</u>
 <i>OPERATING AND MAINTENANCE EXPENSES:</i>			
Water source of supply		5,110	5,248
Water power and pumping		2,257	2,670
Water purification		40,660	38,412
Water transmission and distribution		21,452	21,086
Wastewater collection system		14,534	13,193
Wastewater pumping		23,838	23,115
Wastewater treatment		48,851	48,579
Customer accounting		6,867	4,573
Customer service		15,638	15,342
General and administrative		<u>53,706</u>	<u>46,173</u>
Total operating and maintenance expenses		<u>232,913</u>	<u>218,391</u>
 Operating income before depreciation		152,660	143,711
 <i>DEPRECIATION</i>		<u>122,800</u>	<u>117,780</u>
Operating income		29,860	25,931
 <i>NON-OPERATING REVENUES (EXPENSES):</i>			
Interest income		8,785	26,153
Interest expense		(72,781)	(75,473)
Amortization of debt issue costs		(871)	(876)
Operating grants		326	79
Other revenues		-	2,251
Transfers to County's General Fund		<u>(37,899)</u>	<u>(39,996)</u>
Loss before contributions		(72,580)	(61,931)
Capital contributions		<u>42,936</u>	<u>47,500</u>
Decrease in net assets		(29,644)	(14,431)
Net assets at beginning of year		<u>2,145,794</u>	<u>2,160,225</u>
Net assets at end of year		<u><u>\$ 2,116,150</u></u>	<u><u>\$ 2,145,794</u></u>

Statements of Cash Flows

For the years ended September 30,	<u>2004</u>	<u>2003</u>
	(In thousands)	
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>		
Cash received from customers	\$ 388,595	\$ 360,888
Cash paid to suppliers for goods and services	(120,735)	(101,101)
Cash paid to employees for services	(123,570)	(110,169)
Net cash provided by operating activities	<u>144,290</u>	<u>149,618</u>
<i>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</i>		
Operating grants received	165	1,311
Transfers to County's General Fund	(37,899)	(37,745)
Net cash used in non-capital financing activities	<u>(37,734)</u>	<u>(36,434)</u>
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</i>		
Proceeds from bond issues, loan agreements and notes	35,710	9,784
Principal payments - bonds, loans and notes	(40,887)	(40,158)
Interest paid	(74,825)	(95,771)
Proceeds from sale of property, plant and equipment	-	14
Acquisition and construction of capital assets	(106,846)	(123,599)
Contributions received	36,066	31,332
Net cash used in capital and related financing activities	<u>(150,782)</u>	<u>(218,398)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>		
Purchase of investment securities	(373,911)	(737,705)
Proceeds from sale and maturity of investment securities	334,692	965,776
Interest on investments	15,399	25,426
Net cash provided by (used in) investing activities	<u>(23,820)</u>	<u>253,497</u>
Net (decrease) increase in cash and cash equivalents	(68,046)	148,283
Cash and cash equivalents at beginning of year	<u>383,092</u>	<u>234,809</u>
Cash and cash equivalents at end of year	<u>\$ 315,046</u>	<u>\$ 383,092</u>

(Continued)

Statements of Cash Flows

(Continued)	For the years ended September 30,	<u>2004</u>	<u>2003</u>
			(In thousands)
<i>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>			
Operating income	\$	29,860	\$ 25,931
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		122,800	117,780
Provision for uncollectible accounts		2,297	30
Amortization of deferred charges		296	296
(Increase) decrease in assets:			
Accounts receivable		(7,468)	(2,888)
Inventory of materials and supplies		(2,324)	514
Other deferred charges		449	382
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		4,302	4,560
Customer and developer deposits		932	(81)
Accrued interest payable		(210)	(169)
Liability for compensated absences		2,702	2,224
Other liabilities		(567)	21
Liability for self-insurance		(8,779)	1,018
Net cash provided by operating activities	\$	144,290	\$ 149,618

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Property, plant and equipment contributions were received in amounts of \$7.0 million and \$16.4 million in fiscal years 2004 and 2003, respectively.

The (decrease) increase in the fair value of investments were (\$8.8 million) and \$4.3 million in fiscal years 2004 and 2003, respectively.

\$248.9 million of Miami-Dade County Water and Sewer System Revenue Refunding Bonds, Series 2003 were issued to refund \$257.1 million of Dade County Water and Sewer System Revenue Refunding Bonds, Series 1993.

Notes to Financial Statements

SEPTEMBER 30, 2004 AND 2003**1. SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES***BASIS OF ACCOUNTING AND PRESENTATION*

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.

During fiscal year 2002, the Department adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements: No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and No. 34*; and No. 38, *Certain Financial Statement Note Disclosures*.

These GASB statements required the presentation of a Management's Discussion and Analysis which precedes the financial statements, in addition to several changes to the financial statements such as: (1) the classification of the Equity section of the balance sheet into Net Assets with categories of Invested in capital assets, net of related debt, Restricted and Unrestricted; (2) the statement of revenues, expenses and changes in net assets formatted to report changes in net assets in place of changes in retained earnings; and (3) additional note disclosures to the financial statements.

APPLICATION OF FASB STANDARDS

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, offers the option of following all Financial Accounting Standards Board (FASB) standards issued after November 30, 1989, unless the latter conflict with or contradict GASB pronouncements, or not following FASB standards issued after such date. The Department elected the option not to follow FASB standards.

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 not related 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 \$26.4 million and \$25.1 million as of September 30, 2004 and 2003, respectively.

CAPITAL ASSETS

Property acquired with an initial individual cost of \$750 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 3.2% and 3.1% for the fiscal years ended September 30, 2004 and 2003, respectively. The Department utilizes the composite straight-line depreciation method with normal retirements charged to accumulated depreciation, and no gain

Notes to Financial Statements

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:

	<u>Water System</u>	<u>Wastewater System</u>
	(Years)	
Structures and improvements	50	15-50
Equipment	3-30	3-20
Transmission mains and accessories	50-100	25-100

INVESTMENTS

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 market.

The Local Government Surplus Funds Trust Fund Investment Pool (LGSF Pool) is governed by Chapter 19-7 of the Florida Administrative Code, which identifies the Rules of the State Board of Administration (SBA) for the administration of the LGSF Pool. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the SBA. The LGSF Pool is a "2a-7 like" pool, and its account balance (amortized cost) can be used as fair value for financial reporting. The reported value of the LGSF Pool is the same as the fair value of the pool shares.

All other investments are carried at fair value. The net increase in the fair value of investments is included as part of interest income in the accompanying statements of revenues, expenses and changes in net assets.

INVENTORY

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

STATEMENTS OF CASH FLOWS

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.

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, 2004 and 2003 was \$85.1 million and \$88.2 million, respectively. Of these amounts, \$12.3 million and \$12.7 million were capitalized in fiscal years 2004 and 2003, respectively, net of interest earned on construction funds from tax-exempt borrowings of \$2.2 million and \$2.9 million in fiscal years 2004 and 2003, 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 and will amortize the upfront payment shown as net of interest expense in the financial statements.

During fiscal year 2003 the Department adopted the provisions of GASB Technical Bulletin No. 2003-1 (T.B. 2003-1), *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, which requires new disclosure requirements related to derivatives such as interest rate swap agreements and swap options.

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 since the results are not significantly different from the interest method of amortization. Bond issuance costs are capitalized and amortized over the life of the bonds in a manner similar to discounts and premiums.

CAPITAL CONTRIBUTIONS

Effective October 1, 2000, the Department adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which requires

Notes to Financial Statements

recognition of external capital contributions to proprietary funds as revenues, not contributed capital.

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.

PENSION PLAN

The Department contributes to the Florida Retirement System, a cost-sharing multi-employer plan. Contributions are expensed as incurred.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

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 \$14.7 million and \$0.05 million as of September 30, 2004 and 2003, respectively. The bank balances at local depositories were \$24.4 million and \$5.4 million as of September 30, 2004 and 2003, 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.

Cash on hand and cash held by other parties as of September 30, 2004 were approximately \$0.17 million.

INVESTMENTS

Department investments are made by the County in accordance with the provisions of Chapter 125.31 Florida Statutes and County Ordinance 84-47, "Investment and Reinvestment of Surplus Funds". Authorized investments include obligations of the U.S. Treasury, its agencies and instrumentalities, commercial paper, bankers' acceptances, repurchase agreements, certificates of deposit and the Local Government Surplus Funds Trust Fund Investment Pool.

Investments can be grouped into three categories, based on who holds the securities, to give an indication of the

Notes to Financial Statements

level of risk assumed by the entity at year-end: (1) insured or registered, or securities held by the entity or its agent in the entity's name; (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name; or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

Investments classified as U.S. government and agency securities, commercial paper, and certificates of deposit were held by the Department's custodial bank in the Department's name, falling under the first risk category described above.

Guaranteed investment contracts (GIC) are not subject to credit risk classification 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. The Local Government Surplus Funds Trust Fund Investment Pool (LGSF Pool) is also not subject to credit risk classification because it is a "2a-7 like" pool.

The Department's investments at September 30, 2004 and 2003, including cash equivalents in the amount of \$297 million and \$382.5 million, respectively, are shown in the following table (in thousands):

	2004 Fair Value	2003 Fair Value
U.S. government and agency securities	\$457,405	\$322,079
Money market	282	-
Commercial paper	47,813	67,235
GIC	80,584	180,916
LGSF pool	291,764	357,380
Total investments	<u>\$877,848</u>	<u>\$927,610</u>

3. 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 on Governmental Accounting (NCGA) *Statement No. 1: Governmental Accounting and Financial Reporting Principles* and, therefore, are not funds for financial reporting purposes, but are maintained as separate accounts. Restricted assets at September 30, 2004 and 2003 are presented in the following table (in thousands):

	2004	2003
Restricted Assets		
Debt Service	\$175,598	\$202,638
Construction	455,193	350,147
Renewal and Replacement	70,948	77,371
Plant Expansion	17,565	118,024
Self-Insurance	11,236	20,108
Total Assets	<u>\$730,540</u>	<u>\$768,288</u>

4. CAPITAL ASSETS

Capital asset activity during fiscal years 2003 and 2004 was as follows (in thousands):

	Balance 9/30/02	2003		Balance 9/30/03	2004		Balance 09/30/04
		Additions	Deletions		Additions	Deletions	
Capital assets, not being depreciated:							
Land	\$ 30,390	4,129	-	34,519	255	-	34,774
Construction work in progress	345,600	136,318	(141,583)	340,335	128,244	(112,897)	355,682
Total capital assets, not being depreciated	375,990	140,447	(141,583)	374,854	128,499	(112,897)	390,456
Capital assets, being depreciated:							
Structures and improvements	2,941,007	104,784	(7,350)	3,038,441	59,271	(5,674)	3,092,038
Equipment	678,474	42,218	(9,941)	710,751	53,626	(8,475)	755,902
Total capital assets, being depreciated	3,619,481	147,002	(17,291)	3,749,192	112,897	(14,149)	3,847,940
Less accumulated depreciation:							
Structures and improvements	(710,970)	(75,763)	7,349	(779,384)	(77,296)	5,675	(851,005)
Equipment	(351,717)	(42,017)	9,541	(384,193)	(45,504)	7,402	(422,295)
Total accumulated depreciation	(1,062,687)	(117,780)	16,890	(1,163,577)	(122,800)	13,077	(1,273,300)
Total capital assets, being depreciated, net	2,556,794	29,222	(401)	2,585,615	(9,903)	(1,072)	2,574,640
Total capital assets, net	\$ 2,932,784	169,669	(141,984)	2,960,469	118,596	(113,969)	2,965,096

Notes to Financial Statements

5. LONG-TERM DEBT

Long-term debt includes various bonds, loans and notes payable 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 below. See Note 3, 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, 2004.

DADE COUNTY REVENUE BONDS, SERIES 1994

On February 4, 1994, \$431.7 million of Dade County Water and Sewer System Revenue Bonds, Series 1994, with variable interest rates, were issued to finance capital improvements to the water and wastewater systems. The variable rate is set by the Remarketing Agent (Smith Barney Shearson Inc.) based on the weekly rate the bond is sold for in that time period.

The Series 1994 Revenue Bonds are collateralized by the net operating revenues of the Department and are due serially on the first Wednesday of October through the year 2022, with semi-annual interest due on the first Wednesday of April and October of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2004.

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.

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 2025 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 2004.

DADE COUNTY REVENUE BONDS, SERIES 1997

On January 30, 1997, \$437.2 million of Dade County Water and Sewer System Revenue Bonds, Series 1997 were issued to finance capital improvements to the water and wastewater systems.

The Series 1997 Revenue Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 through the year 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 2004.

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 the 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 2004.

DADE COUNTY REVENUE BONDS, SERIES 2003

On October 9, 2003, \$248.9 million of 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 the 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

Notes to Financial Statements

current year's debt service requirements were met in fiscal year 2004.

The Series 2003 Refunding Bonds proceeds of \$263.5 million were used to purchase \$263.5 million in U.S. Treasury securities. Those securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded obligations. Accordingly, these refunded obligations are considered to be defeased and the assets held in trust have not been included in the accompanying financial statements. Although the refunding resulted in a deferred charge of \$23.7 million, the Department reduced its aggregate debt service payments by \$19.5 million and received an economic gain of \$18.6 million. On November 14, 2003, the Department redeemed the outstanding principal amount of \$257.1 million of the County's Water and Sewer System Revenue Refunding Bonds, Series 1993.

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, 2004 are detailed in the following table (in thousands). Related payments of principal and interest are due through the year 2024.

<u>Loan #</u>	<u>Commitments</u>	<u>Draws to date</u>	<u>Closed out Loans</u>
375310	\$ 45,906	\$ 45,906	06/07/99
377400	36,402	36,402	06/07/99
377450	27,831	27,831	05/18/01
377470	11,959	11,959	08/21/00
377490	3,098	3,098	05/02/01
377500	25,874	25,874	12/01/03
377650	2,618	2,618	08/08/03
377670	3,604	3,604	10/27/03
377860	6,200	3,272	active
377870	6,093	4,445	active
37788P	3,252	3,252	active
37789A	845	845	active
37789L	12,798	2,270	active
300010	31,788	31,788	active
300080	4,691	4,691	04/28/03
	<u>\$222,959</u>	<u>\$207,855</u>	

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 2004.

NOTES PAYABLE

Outstanding notes payable represents a non-collateralized note issued in 1979 in connection with the acquisition of the North Miami sanitary sewage ocean outfall line. Such note is subordinate debt maturing in 2007.

INTEREST RATE SWAP AGREEMENTS

The Department is currently a party to three interest rate swap agreements: one swap relating to the Series 1994 Revenue Bonds, one swap relating to the Series 1995 Revenue Bonds and another swap relating to the Series 1997 Revenue Bonds. The debt service requirements to maturity presented in the above related table are shown net of these agreements.

Series 1994 Interest Rate Swap

The swap agreement relating to the Series 1994 Bonds is between the Department and AIG Financial Products Corporation, and it's a variable to fixed rate swap (bonds issued as variable, swapped to fixed rate mode). The Department's objective with this swap was to obtain a lower fixed rate than was available at the time of issuance of the related bonds.

Terms of the Agreement. The swap calculations are based on a notional amount which amortizes with the Series 1994 Bonds and is set at \$418.5 million for the current fiscal year. The Department owes interest to the counterparty, calculated at a 5.28% annual fixed rate on the notional amount, and in return the counterparty owes the Department interest at a variable rate that matches the variable rate payable on the bonds. The swap became effective on February 4, 1994 and it terminates on October 5, 2022, same date as for the Series 1994 Bonds.

Fair Value. As of September 30, 2004, based on an estimated mark-to-mid-market assessment, the swap had a

Notes to Financial Statements

negative fair value of \$100.9 million. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bond, creating a lower synthetic interest rate.

Credit Risk. AIG Financial Products Corporation is rated AAA by Fitch Ratings. The Department is not exposed to credit risk on this swap.

Basis Risk. Counterparty is paying the same variable rate as the Department's obligation to the bondholders. The Department is not exposed to basis risk. However, in the event that the variable rate index were no longer issued then the rate would convert to an alternate rate, based on a percentage of LIBOR. In that event, the Department would be exposed to basis risk.

Series 1995 Interest Rate Swap

The swap relating to the Series 1995 Bonds is between the Department and Merrill Lynch Capital Services, Inc., and it is a fixed to variable rate swap (bonds issued as fixed, swapped to variable after June 15, 2008; with option to terminate on such date). The Department entered in this interest rate swap to lower its overall cost of borrowing.

Terms of the Agreement. The swap became effective on December 15, 1993 and amended on August 26, 1998. It initially provided for the Department to receive payments at a fixed rate of 4.85% and to make payments at a variable rate based on the BMA index. The swap included an option, exercisable by the counterparty, for the Department to receive payments at a variable rate based on the BMA index and to make payments at a fixed rate of 4.40%.

This agreement was further amended on February 26, 2001 to provide for: (i) the extension of the termination date to June 15, 2020; (ii) the association of the swap with the Department's Series 1995 Bonds from the Series 1993 Refunding Bonds; (iii) an option in favor of the counterparty to terminate the agreement on June 15, 2008; (iv) an increased fixed rate of 4.902%; (v) an additional fixed rate of 0.323% which survives the one day termination option; and (vi) a notional amount declining from

\$215 million commencing September 25, 2015, to \$154 million as of September 19, 2019, in step with the Series 1995 Bonds.

On September 20, 2001, the counterparty exercised the option to receive payments from the Department at the fixed rate of 4.40% and make payments at a variable rate based on the BMA index. The net effect of the exercised option was for the Department to pay a fixed rate of 4.40% until June 15, 2008, and then a variable rate to the termination date. The Department receives from the counterparty a fixed rate of 5.225% of the notional amount.

Fair Value. As of September 30, 2004, based on an estimated mark-to-mid-market assessment, the fair value of the swap was a positive \$4.5 million.

Credit Risk. Merrill Lynch Capital Services, Inc. is rated A1 by Moody's Investor Service, Inc., and A+ by Standard and Poor's Rating Services. Credit risk is presumed to be minimal, or no greater than at the swap start date.

Termination Risk. Counterparty has the option to partially terminate the swap on June 15, 2008. No amounts shall be payable by either party in respect of such termination.

Interest Rate Risk. Through June 15, 2008, the Department receives a net payment of 0.825%, therefore there is no interest rate risk through that date. After June 15, 2008, should the counterparty exercise the option and terminate, the counterparty will pay the Department 0.323% on the notional amount until June 15, 2020. If the counterparty does not terminate on June 15, 2008; then the Department will make payments based on the BMA index, thereby the Department will be exposed to interest rate risk that short term interest rates will rise over the next twenty years to the point where the variable interest rates paid by the Department would exceed the new fixed rate received by the Department.

Rollover Risk. The Department is exposed to this kind of risk. Upon termination of the swap with the counterparty Merrill Lynch Capital Services, Inc., the Department will no longer realize the synthetic rate on the bonds and will be exposed to the full fixed rate on the bonds.

Notes to Financial Statements

Series 1997 Interest Rate Swap

The swap agreement relating to the Series 1997 Bonds is between the Department and RFPC Ltd., a division of Rice Financial Products Company. It is a variable to variable swap (bonds issued as fixed, enhanced by basis swap). The Department entered in this interest rate swap to lower its overall cost of borrowing.

Terms of the Agreement. The swap became effective on August 27, 1998, and initially provided for the Department to pay BMA divided by 0.604 of the outstanding notional amount of \$114.5 million and the counterparty to pay the Department LIBOR + 1.28% of the outstanding notional amount, with such notional amount to be reduced each October 1, commencing on October 1, 2010 as set forth in a schedule attached to the confirmation.

The swap had a termination date of October 1, 2013. On July 18, 2002, said swap was amended to provide: (i) the association of the swap with the Department's Series 1997 Bonds from the Series 1993 Refunding Bonds; (ii) an increase of the notional amount from \$114.5 million to \$200 million to be reduced each October 1, commencing on October 1, 2021 as set forth in a predetermined reduction schedule; (iii) the extension of the termination date to October 1, 2026, and (iv) an increase to the constant from 1.28% to 1.455%.

Fair Value. As of September 30, 2004, based on an estimated mark-to-mid-market assessment, the fair value of the swap was a negative \$5.7 million.

Credit Risk. RFPC Ltd., a division of Rice Financial Products Company, is guaranteed by AMBAC, rated Aaa by Moody's Investor Service, Inc. and AAA by Standard and Poor's Ratings Services. Credit Risk is presumed to be minimal or no greater than at the swap start date.

Interest Rate Risk. The principal risk associated with the swap is the relationship between the tax-exempt and the taxable markets, specifically the changes in the ratio between tax-exempt and taxable interest rates. If federal income tax rates are reduced during the term of the transaction, BMA (the tax exempt interest rate) would rise to levels that trade closer to taxable rates, i.e. LIBOR, and

thus increase the payments owed by the Department to RFPC.

Basis Risk. LIBOR and BMA are independent variable rate indexes, the Department is exposed to basis risk.

Series 1995 Swap Option Agreement

Terms of the Agreement. On March 12, 2004, the Department entered into a swap option transaction that locked in the current interest rate savings associated with the Water and Sewer Revenue Bonds, Series 1995. The Department sold an option to a counterparty, Banc of America Securities, to cause the Department to issue variable rate bonds and then to swap the variable rate bonds to a fixed rate of 5.27%. In exchange for the option, the Department received approximately \$26 million and if the counterparty exercises the option on August 15, 2005, the Department will receive an additional \$10.9 million at the time of issuance of the variable rate bonds and variable to fixed rate swap.

Fair Value. As of September 30, 2004, based on an estimated mark-to-mid-market assessment, the fair value of the swap option was a negative \$26.9 million.

Interest Rate Risk. If interest rates on August 15, 2005 are lower than the interest rates on March 12, 2004, the date of execution, the counterparty can exercise the option and the Department will issue the variable rate bonds and variable to fixed rate swap on October 1, 2005.

Credit Risk. If the counterparty fails to fulfil its contractual obligations, the Department will be exposed to this risk. To mitigate this risk, the County maintains strict credit standards for the counterparty. The County requires all counterparties for longer term swaps to be rated in the double-A category by both Moody's and Standard & Poor's. In addition, the County's swap documents require counterparties to post collateral for the Department's benefit if they are downgraded below a designated threshold.

Basis Risk. The Department would be exposed to basis risk if the variable rate on the new variable rate bonds do not match the variable rate received on the swap. Should the variable rate the Department receives on the swap fall short of the variable rate on the new variable rate bonds, the expected savings will not be realized.

Notes to Financial Statements

CHANGES IN LONG-TERM LIABILITIES

A summary of the long-term liability activity during fiscal years 2003 and 2004 is presented in the following table (dollars in thousands):

Description	Outstanding Rate	Balance 09/30/02	2003		Balance 09/30/03	2004		Balance 09/30/04	Due in 2005
			Additions	Reductions		Additions	Reductions		
<i>Dade County Revenue Bonds</i>									
Series 1993	4.40%-5.00%	\$ 296,460	-	19,260	277,200	-	277,200	-	-
Series 1994	Variable*	419,970	-	695	419,275	-	735	418,540	780
Series 1995	4.10%-6.25%	335,430	-	3,165	332,265	-	3,305	328,960	3,455
Series 1997	4.50%-6.25%	418,670	-	6,800	411,870	-	7,110	404,760	7,435
Series 1999A	5.00%	150,000	-	-	150,000	-	-	150,000	-
Series 2003	2.00%-5.00%	-	-	-	-	248,890	-	248,890	12,045
Less: Unamortized Discount		(26,795)	-	(1,253)	(25,542)	-	(3,460)	(22,082)	-
Deferred amounts on refunding		(12,552)	-	(777)	(11,775)	(21,393)	(11,775)	(21,393)	-
Plus: Unamortized Premium		-	-	-	-	17,580	1,758	15,822	-
Total revenue bonds		1,581,183	-	27,890	1,553,293	245,077	274,873	1,523,497	23,715
<i>State Loan Obligations</i>									
State Revolving Fund	2.56%-4.17%	146,965	9,959	10,225	146,699	7,250	9,331	144,618	10,589
<i>Notes Payable</i>									
City of North Miami	6.00%	941	-	187	754	-	215	539	194
Total long-term debt		1,729,089	9,959	38,302	1,700,746	252,327	284,419	1,668,654	34,498
<i>Other liabilities</i>									
Compensated absences		20,905	9,066	6,842	23,129	10,104	7,402	25,831	8,279
Self-insurance		18,997	3,092	2,074	20,015	3,731	12,510	11,236	6,141
Swap option liability		-	-	-	-	26,012	565	25,447	-
Total long-term liabilities		\$ 1,768,991	22,117	47,218	1,743,890	292,174	304,896	1,731,168	48,918

* Variable rates range from 0.83%-1.66% and 0.65%-2.05% in fiscal years 2004 and 2003, respectively.

DEBT SERVICE REQUIREMENTS

As of September 30, 2004, the Department's debt service requirements to maturity and net swap payments, assuming current interest rates remain the same, for their term were as follows (in thousands). As rates vary, variable-rate bond interest payments and net swap payments will vary.

Maturing in Fiscal Year	Revenue Bonds			State Loans		Notes Payable		Total		
	Principal	Interest	Swaps**	Principal	Interest	Principal	Interest	Principal	Interest	Swaps**
2005	\$ 23,715	63,965	11,036	10,589	4,493	194	28	34,498	68,486	11,036
2006	31,510	62,883	11,008	10,846	4,236	224	15	42,580	67,134	11,008
2007	35,730	61,423	10,979	11,024	3,880	121	2	46,875	65,305	10,979
2008	39,235	59,693	9,240	10,703	3,522	-	-	49,938	63,215	9,240
2009	41,015	57,950	5,089	11,061	3,164	-	-	52,076	61,114	5,089
2010-2014	235,155	259,595	24,881	53,098	10,198	-	-	288,253	269,793	24,881
2015-2019	303,245	211,437	9,600	28,402	3,369	-	-	331,647	214,806	9,600
2020-2024	397,140	158,867	785	8,895	527	-	-	406,035	159,394	785
2025-2029	391,945	56,787	(4,064)	-	-	-	-	391,945	56,787	(4,064)
2030	52,460	1,312	-	-	-	-	-	52,460	1,312	-
	1,551,150	993,912	78,554	144,618	33,389	539	45	1,696,307	1,027,346	78,554
Unamortized Discount, Deferred & Premium Amounts	(27,653)	-	-	-	-	-	-	(27,653)	-	-
Total	\$ 1,523,497	993,912	78,554	144,618	33,389	539	45	1,668,654	1,027,346	78,554

**Net receipts are shown in ().

Notes to Financial Statements

6. RECEIVABLES

Receivables at September 30, 2004 and 2003, were as follows (in thousands):

	<u>2004</u>	<u>2003</u>
Trade accounts	\$87,124	\$80,342
Nonretail accounts	8,127	9,024
Other County funds	2,673	5,145
Other governments	216	529
Gross receivables	98,140	95,040
Less: allowance for doubtful accounts	(23,127)	(20,797)
Net receivables	<u>\$75,013</u>	<u>\$74,243</u>

7. PAYABLES

Payables at September 30, 2004 and 2003, were as follows (in thousands):

	<u>2004</u>	<u>2003</u>
Other County funds	\$11,772	\$14,304
Vendors	13,783	13,519
Other governments	16,295	10,912
Salaries and benefits	9,035	8,409
Contractors	7,530	5,590
Other	242	219
Total payables	<u>\$58,657</u>	<u>\$52,953</u>

8. 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 it 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.

Benefits under the "FRS Pension Plan", a defined benefit program, vest after six years of service. Employees who retire at or after age 62, with six years of credited service, are entitled to an annual retirement benefit, payable monthly for life. The FRS also provides for early retirement at reduced benefits and death and disability benefits.

These benefit provisions and all other requirements are established by State of Florida statutes. Retirement benefits are pre-funded by employer contributions and participant contributions are not allowed.

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 covered payroll for Department employees in the FRS for the years ended September 30, 2004 and 2003 was \$120.6 million and \$107.6 million, respectively, while the Department's total payroll was \$119.4 million and \$111.1 million for fiscal 2004 and 2003, respectively. Pension costs of the Department as required and defined by Florida statute ranged between 7.4% and 18.5% of gross salaries during fiscal years 2004 and 2003. For the years ended September 30, 2004, 2003, and 2002, the Department's actual contributions met all required contributions. These contributions aggregated \$8.7 million, \$6.8 million and \$7.1 million, respectively, which represented 7.2%, 6.3% and 7.2% of covered payroll, respectively, and 0.4%, 0.4% and 0.4% of the total contributions required of all participating agencies, respectively, for fiscal years 2004, 2003 and 2002.

Ten-year historical trend information is presented in the FRS' June 30, 2004 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' annual report

Notes to Financial Statements

can be obtained by writing to the Department of Management Services, Division of Retirement, 2639 North Monroe Street, Building C, Tallahassee, FL 32399-1560 or by calling (850) 488-5706.

9. 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, provided by Section 706 of County Ordinance 78-82, as amended.

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 probable 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 liabilities 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 2004 and 2003 were as follows (in thousands):

	<u>2004</u>	<u>2003</u>
Balance at beginning of year	\$14,753	\$13,521
Claims and changes in estimates	(3,960)	2,129
Less: Payments	<u>(860)</u>	<u>(897)</u>
Balance at end of year	<u>\$9,933</u>	<u>\$14,753</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 \$1.3 million and \$5.3 million as of September 30, 2004 and 2003, 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 \$11.2 million and \$20 million as of September 30, 2004 and 2003, respectively.

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

The Department 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.

10. CONTRIBUTIONS

A schedule of contributions during fiscal years 2004 and 2003 is presented below (in thousands):

	<u>2004</u>	<u>2003</u>
Contributed Facilities		
Developers	\$8,230	\$16,709
Customers	2,099	1,922
Connection charges	32,607	28,744
Other	-	125
Total additions	<u>\$42,936</u>	<u>\$47,500</u>

11. 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

Notes to Financial Statements

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, 2004 and 2003 (in thousands):

	<u>2004</u>	<u>2003</u>
General Services Administration	\$14,501	\$11,997
General Fund	11,091	10,206
Information Technology	8,866	6,115
Parks and Recreation	6,215	4,967
Management and Budget	1,449	2,627
Solid Waste	1,321	1,931
Public Works	3,176	404
Other County Departments	2,754	3,265

In addition to the above payments, the Department had related payables of \$13 million and \$14.1 million at September 30, 2004 and 2003, respectively. The Department also had receivables from other County departments amounting to \$0.9 million and \$4.6 million at September 30, 2004 and 2003, 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 transferred \$37.9 million and \$40 million to the General Fund in fiscal years 2004 and 2003, respectively. The transfers to the General Fund have been classified in the financial statements as Transfers to County's General Fund.

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.

12. COMMITMENTS AND CONTINGENCIES

CONSTRUCTION

The Department had contractual commitments of \$31.6 million for plant and infrastructure construction at September 30, 2004.

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, 2004 and 2003, the Department recorded obligations to rebate approximately \$0.5 million and \$3.1 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 the bond issuance and each five years thereafter. The amount of the obligation, if any, will be determined based on actual interest earned.

SETTLEMENT AGREEMENTS

In 1993, the Department entered into a settlement agreement with the Florida Department of Environmental Protection (FDEP) resulting in very limited restrictions 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.

In December 1997, an Administrative Order on Consent (AOC) with the EPA became effective, which addressed alleged violations of federal and state laws regarding underground injection of treated wastewater. On April 16, 2002, the EPA notified the County that it

Notes to Financial Statements

was terminating the existing AOC effective August 1, 2002; based on the EPA's determination that the purpose of the decree had been fulfilled. The EPA further directed the County to negotiate a new consent order with the FDEP to address the continued use of the injection wells. The County negotiated a new consent order with the FDEP and on July 22, 2003, the Board of County Commissioners approved the draft consent order. On April 29, 2004, the Consent Order, 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 conduct hydrogeologic studies to determine the cause of any movement of fluid containing contaminants into the Upper Floridian aquifer, a portion of which is an underground source of drinking water. The consent order will require the County to expend approximately \$200 million related to the construction of treatment upgrades, in the near future.

13. SUBSEQUENT EVENTS

In September 2004, the Board of County Commissioners approved new miscellaneous fees and charges as part of the County Budget Ordinance effective October 1, 2004.

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Supplementary Financial Data

Bond Ordinance 93-134 requires the Department to establish certain restricted accounts to be used in accounting for proceeds and collateral pledged as a result of the debt. In many cases, the bond ordinance refers to the restricted accounts as “funds”. Such accounts are not “funds” as defined by *NCGA Statement 1: Governmental Accounting and Financial Reporting Principles* and, therefore, are not funds for financial reporting purposes.

Similarly, the Water and Wastewater Systems do not meet the above referenced definition and, therefore, combining statements are not presented. The following system schedules are furnished solely as supplementary information and are not required by GAAP.

Water System

Balance Sheets

	September 30,	<u>2004</u>	<u>2003</u>
			(In thousands)
ASSETS			
<i>CURRENT ASSETS:</i>			
Cash and cash equivalents	\$	43,218	\$ 23,695
Investments		65,967	101,770
Accounts receivable (net of allowance for uncollectible accounts of \$11.8 million in 2004 and \$10.7 million in 2003)		34,116	33,451
Inventory of materials and supplies		12,890	12,130
Restricted cash and cash equivalents		34,117	37,247
Total current assets		<u>190,308</u>	<u>208,293</u>
<i>NONCURRENT ASSETS:</i>			
<i>RESTRICTED ASSETS:</i>			
Cash and cash equivalents		49,309	119,954
Investments		202,628	166,123
Contracts receivable		29	147
Total restricted assets		<u>251,966</u>	<u>286,224</u>
<i>OTHER ASSETS:</i>			
Deferred debt issue costs, net		5,080	4,741
Other deferred charges, net		1,614	2,063
Long-term receivable		-	2,296
Total other assets		<u>6,694</u>	<u>9,100</u>
<i>CAPITAL ASSETS:</i>			
Land		12,453	12,324
Structures and improvements		1,138,439	1,119,439
Equipment		235,778	224,583
Utility plant in service before depreciation		1,386,670	1,356,346
Less accumulated depreciation		<u>334,629</u>	<u>305,446</u>
Net utility plant in service		1,052,041	1,050,900
Construction work in progress		165,271	138,686
Total capital assets		<u>1,217,312</u>	<u>1,189,586</u>
Total noncurrent assets		<u>1,475,972</u>	<u>1,484,910</u>
Total assets		<u>\$ 1,666,280</u>	<u>\$ 1,693,203</u>

(Continued)

Water System

Balance Sheets

(Continued)	September 30,	2004	2003
			(In thousands)
LIABILITIES			
<i>CURRENT LIABILITIES (PAYABLE FROM UNRESTRICTED CURRENT ASSETS):</i>			
Accounts payable and accrued expenses	\$	18,445	\$ 17,217
Customer and developer deposits		12,433	11,293
Current portion of long-term debt		1,091	1,017
Current portion of swap option		141	-
Accrued interest payable		204	326
Rebatable arbitrage earnings		86	1,878
Liability for compensated absences		2,879	2,664
Other liabilities		2,488	594
Total current liabilities (payable from unrestricted current assets)		37,767	34,989
<i>CURRENT LIABILITIES (PAYABLE FROM RESTRICTED CURRENT ASSETS):</i>			
Accounts payable and accrued expenses		4,729	4,936
Retainage payable		2,170	2,075
Current portion of long-term debt		10,466	15,688
Accrued interest payable		10,610	10,315
Liability for self-insurance		6,141	4,233
Total current liabilities (payable from restricted current assets)		34,116	37,247
<i>NONCURRENT LIABILITIES:</i>			
Revenue bonds payable, net		413,491	423,784
State loan obligations, net		33,180	31,697
Liability for self-insurance		5,095	15,782
Liability for compensated absences		6,463	5,660
Liability for swap option		3,898	-
Total noncurrent liabilities		462,127	476,923
Total liabilities		534,010	549,159
NET ASSETS			
Invested in capital assets, net of related debt		915,479	844,753
Restricted for:			
Capital projects		52,795	88,951
Debt service		43,391	59,169
Unrestricted		120,605	151,171
Total net assets		1,132,270	1,144,044
Total liabilities and net assets		\$ 1,666,280	\$ 1,693,203

Water System

Schedules of Revenues, Expenses and Changes in Net Assets

	For the years ended September 30,	<u>2004</u>	<u>2003</u>
		(In thousands)	
<i>OPERATING REVENUES:</i>			
Retail		\$ 137,739	\$ 124,409
Wholesale		22,122	20,045
Other revenues		<u>10,230</u>	<u>10,302</u>
Total operating revenues		<u>170,091</u>	<u>154,756</u>
<i>OPERATING AND MAINTENANCE EXPENSES:</i>			
Source of supply		5,110	5,248
Power and pumping		2,257	2,670
Purification		40,660	38,412
Transmission and distribution		21,452	21,086
Customer accounting		3,735	3,390
Customer service		8,811	8,745
General and administrative		<u>20,349</u>	<u>15,183</u>
Total operating and maintenance expenses		<u>102,374</u>	<u>94,734</u>
Operating income before depreciation		67,717	60,022
<i>DEPRECIATION</i>		<u>34,251</u>	<u>32,371</u>
Operating income		33,466	27,651
<i>NON-OPERATING REVENUES (EXPENSES):</i>			
Interest income		4,016	13,027
Interest expense		(19,353)	(20,731)
Amortization of debt issue costs		(304)	(308)
Operating grants		326	79
Other revenues		-	2,251
Transfers to County's General Fund		<u>(11,865)</u>	<u>(13,146)</u>
Income before contributions and transfers		6,286	8,823
Capital contributions		14,245	17,726
Transfer (from) reserves		<u>(32,305)</u>	<u>(40,272)</u>
Decrease in net assets		(11,774)	(13,723)
Net assets at beginning of year		<u>1,144,044</u>	<u>1,157,767</u>
Net assets at end of year		<u>\$ 1,132,270</u>	<u>\$ 1,144,044</u>

Water System

Schedules of Cash Flows

For the years ended September 30,	<u>2004</u>	<u>2003</u>
	(In thousands)	
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>		
Cash received from customers	\$ 175,942	\$ 156,404
Cash paid to suppliers for goods and services	(65,614)	(46,860)
Cash paid to employees for services	(49,427)	(45,114)
Transfer (from) reserves	<u>(32,305)</u>	<u>(40,272)</u>
Net cash provided by operating activities	<u>28,596</u>	<u>24,158</u>
<i>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</i>		
Operating grants received	165	1,311
Transfers to County's General Fund	<u>(11,865)</u>	<u>(10,896)</u>
Net cash used in non-capital financing activities	<u>(11,700)</u>	<u>(9,585)</u>
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</i>		
Proceeds from bond issues, loan agreements and notes	9,924	4,520
Principal payments - bonds, loans and notes	(16,871)	(16,093)
Interest paid	(26,765)	(26,292)
Proceeds from sale of property, plant and equipment	-	7
Acquisition and construction of capital assets	(50,570)	(52,515)
Contributions received	<u>9,271</u>	<u>7,197</u>
Net cash used in capital and related financing activities	<u>(75,011)</u>	<u>(83,176)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>		
Purchase of investment securities	(127,878)	(253,162)
Proceeds from sale and maturity of investment securities	124,941	370,077
Interest on investments	<u>6,800</u>	<u>13,037</u>
Net cash provided by investing activities	<u>3,863</u>	<u>129,952</u>
Net (decrease) increase in cash and cash equivalents	(54,252)	61,349
Cash and cash equivalents at beginning of year	<u>180,896</u>	<u>119,547</u>
Cash and cash equivalents at end of year	<u>\$ 126,644</u>	<u>\$ 180,896</u>

(Continued)

Water System

Schedules of Cash Flows

(Continued)	For the years ended September 30,	<u>2004</u>	<u>2003</u>
		(In thousands)	
<i>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>			
Operating income	\$	33,466	\$ 27,651
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		34,251	32,371
Provision for uncollectible accounts		1,130	800
Transfer (from) reserves		(32,305)	(40,272)
(Increase) decrease in assets:			
Accounts receivable		(1,682)	(1,902)
Inventory of materials and supplies		(760)	230
Other deferred charges		449	382
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		1,228	2,933
Customer and developer deposits		1,151	35
Accrued interest payable		(122)	47
Liability for compensated absences		1,018	844
Other liabilities		(449)	21
Liability for self-insurance		<u>(8,779)</u>	<u>1,018</u>
Net cash provided by operating activities	\$	<u>28,596</u>	\$ <u>24,158</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Property, plant and equipment contributions were received in amounts of \$5.1 million and \$10.5 million in fiscal years 2004 and 2003, respectively.

The (decrease) increase in the fair value of investments were (\$4.1 million) and \$2.1million in fiscal years 2004 and 2003, respectively.

\$248.9 million of Miami-Dade County Water and Sewer System Revenue Refunding Bonds, Series 2003 were issued to refund \$257.1 million of Dade County Water and Sewer System Revenue Refunding Bonds, Series 1993.

Water System

Schedule of Operating and Maintenance Expenses

Budget and Actual

For the year ended September 30, 2004

(In thousands)

	<u>Budget</u>	<u>Actual</u>	Variance under (over)
Source of supply	\$ 5,807	\$ 5,110	\$ 697
Power and pumping	2,223	2,257	(34)
Purification	37,616	40,660	(3,044)
Transmission and distribution	20,133	21,452	(1,319)
Customer accounting	3,899	3,735	164
Customer service	10,222	8,811	1,411
General and administrative	<u>20,953</u>	<u>20,349</u>	<u>604</u>
Totals	<u>\$ 100,853</u>	<u>\$ 102,374</u>	<u>\$ (1,521)</u>

Wastewater System

Balance Sheets

	September 30,	<u>2004</u>	<u>2003</u>
			(In thousands)
ASSETS			
<i>CURRENT ASSETS:</i>			
Cash and cash equivalents	\$	22,604	\$ 20,886
Investments		30,570	13,890
Accounts receivable (net of allowance for uncollectible accounts of \$11.3 million in 2004 and \$10.1 million in 2003)		40,897	38,496
Inventory of materials and supplies		9,512	7,948
Restricted cash and cash equivalents		57,840	50,866
Total current assets		161,423	132,086
<i>NONCURRENT ASSETS:</i>			
<i>RESTRICTED ASSETS:</i>			
Cash and cash equivalents		107,958	130,444
Investments		278,512	263,360
Contracts receivable		147	147
Total restricted assets		386,617	393,951
<i>OTHER ASSETS:</i>			
Deferred debt issue costs, net		10,129	11,147
Other deferred charges, net		1,749	1,012
Total other assets		11,878	12,159
<i>CAPITAL ASSETS:</i>			
Land		22,321	22,195
Structures and improvements		1,953,599	1,919,002
Equipment		520,124	486,168
Utility plant in service before depreciation		2,496,044	2,427,365
Less accumulated depreciation		938,671	858,131
Net utility plant in service		1,557,373	1,569,234
Construction work in progress		190,411	201,649
Total capital assets		1,747,784	1,770,883
Total noncurrent assets		2,146,279	2,176,993
Total assets		\$ 2,307,702	\$ 2,309,079

(Continued)

Wastewater System

Balance Sheets

(Continued)	September 30,	2004	2003
			(In thousands)
LIABILITIES			
<i>CURRENT LIABILITIES (PAYABLE FROM UNRESTRICTED CURRENT ASSETS):</i>			
Accounts payable and accrued expenses	\$	27,710	\$ 24,636
Customer and developer deposits		4,838	5,057
Current portion of long-term debt		6,386	6,678
Current portion of swap option		747	-
Accrued interest payable		147	235
Rebatable arbitrage earnings		455	1,225
Liability for compensated absences		5,400	4,738
Other liabilities		<u>1,064</u>	<u>-</u>
Total current liabilities (payable from unrestricted current assets)		<u>46,747</u>	<u>42,569</u>
<i>CURRENT LIABILITIES (PAYABLE FROM RESTRICTED CURRENT ASSETS):</i>			
Accounts payable and accrued expenses		7,773	6,164
Retainage payable		2,298	2,254
Current portion of long-term debt		16,555	18,055
Accrued interest payable		<u>31,214</u>	<u>24,393</u>
Total current liabilities (payable from restricted current assets)		<u>57,840</u>	<u>50,866</u>
<i>NONCURRENT LIABILITIES:</i>			
Revenue bonds payable, net		1,086,291	1,098,234
State loan obligations, net		100,849	105,037
Notes payable, net		345	556
Liability for compensated absences		11,089	10,067
Liability for swap option		<u>20,661</u>	<u>-</u>
Total noncurrent liabilities		<u>1,219,235</u>	<u>1,213,894</u>
Total liabilities		<u>1,323,822</u>	<u>1,307,329</u>
NET ASSETS			
Invested in capital assets, net of related debt		725,172	740,833
Restricted for:			
Capital projects		124,805	116,746
Debt service		85,478	108,762
Unrestricted		<u>48,425</u>	<u>35,409</u>
Total net assets		<u>983,880</u>	<u>1,001,750</u>
Total liabilities and net assets		<u>\$ 2,307,702</u>	<u>\$ 2,309,079</u>

Wastewater System

Schedules of Revenues, Expenses and Changes in Net Assets

	For the years ended September 30,	<u>2004</u>	<u>2003</u>
		(In thousands)	
<i>OPERATING REVENUES:</i>			
Retail	\$	157,437	\$ 149,301
Wholesale		49,379	49,520
Other revenues		<u>8,666</u>	<u>8,525</u>
Total operating revenues		<u>215,482</u>	<u>207,346</u>
<i>OPERATING AND MAINTENANCE EXPENSES:</i>			
Collection system		14,534	13,193
Pumping		23,838	23,115
Treatment		48,851	48,579
Customer accounting		3,132	1,183
Customer service		6,827	6,597
General and administrative		<u>33,357</u>	<u>30,990</u>
Total operating and maintenance expenses		<u>130,539</u>	<u>123,657</u>
Operating income before depreciation		84,943	83,689
<i>DEPRECIATION</i>		<u>88,549</u>	<u>85,409</u>
Operating loss		(3,606)	(1,720)
<i>NON-OPERATING REVENUES (EXPENSES):</i>			
Interest income		4,769	13,126
Interest expense		(53,428)	(54,742)
Amortization of debt issue costs		(567)	(568)
Operating grants		-	-
Transfers to County's General Fund		<u>(26,034)</u>	<u>(26,850)</u>
Loss before contributions and transfers		(78,866)	(70,754)
Capital contributions		28,691	29,774
Transfer from reserves		<u>32,305</u>	<u>40,272</u>
Decrease in net assets		(17,870)	(708)
Net assets at beginning of year		<u>1,001,750</u>	<u>1,002,458</u>
Net assets at end of year		<u>\$ 983,880</u>	<u>\$ 1,001,750</u>

Wastewater System

Schedules of Cash Flows

For the years ended September 30,	<u>2004</u>	<u>2003</u>
	(In thousands)	
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>		
Cash received from customers	\$ 212,653	\$ 204,484
Cash paid to suppliers for goods and services	(55,121)	(54,241)
Cash paid to employees for services	(74,143)	(65,055)
Transfer from reserves	<u>32,305</u>	<u>40,272</u>
Net cash provided by operating activities	<u>115,694</u>	<u>125,460</u>
<i>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</i>		
Transfers to County's General Fund	<u>(26,034)</u>	<u>(26,849)</u>
Net cash used in non-capital financing activities	<u>(26,034)</u>	<u>(26,849)</u>
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</i>		
Proceeds from bond issues, loan agreements and notes	25,786	5,264
Principal payments - bonds, loans and notes	(24,016)	(24,065)
Interest paid	(48,060)	(69,479)
Proceeds from sale of property, plant and equipment	-	7
Acquisition and construction of capital assets	(56,276)	(71,084)
Contributions received	<u>26,795</u>	<u>24,135</u>
Net cash used in capital and related financing activities	<u>(75,771)</u>	<u>(135,222)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>		
Purchase of investment securities	(246,033)	(484,543)
Proceeds from sale and maturity of investment securities	209,751	595,699
Interest on investments	<u>8,599</u>	<u>12,389</u>
Net cash provided by (used in) investing activities	<u>(27,683)</u>	<u>123,545</u>
Net (decrease) increase in cash and cash equivalents	(13,794)	86,934
Cash and cash equivalents at beginning of year	<u>202,196</u>	<u>115,262</u>
Cash and cash equivalents at end of year	<u>\$ 188,402</u>	<u>\$ 202,196</u>

(Continued)

Wastewater System

Schedules of Cash Flows

(Continued)	For the years ended September 30,	<u>2004</u>	<u>2003</u>
		(In thousands)	
<i>RECONCILLATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>			
Operating income (loss)	\$	(3,606)	\$ (1,720)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation		88,549	85,409
Provision for uncollectible accounts		1,167	(770)
Amortization of deferred charges		296	296
Transfer from reserves		32,305	40,272
(Increase) decrease in assets:			
Accounts receivable		(5,786)	(986)
Inventory of materials and supplies		(1,564)	284
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		3,074	1,627
Customer and developer deposits		(219)	(116)
Accrued interest payable		(88)	(216)
Liability for compensated absences		1,684	1,380
Other liabilities		<u>(118)</u>	<u>-</u>
Net cash provided by operating activities	\$	115,694	\$ 125,460

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Property, plant and equipment contributions were received in amounts of \$1.9 million and \$5.9 million in fiscal years 2004 and 2003, respectively.

The (decrease) increase in the fair value of investments were (\$4.7 million) and \$2.2 million in fiscal years 2004 and 2003, respectively.

\$248.9 million of Miami-Dade County Water and Sewer System Revenue Refunding Bonds, Series 2003 were issued to refund \$257.1 million of Dade County Water and Sewer System Revenue Refunding Bonds, Series 1993.

Wastewater System

Schedule of Operating and Maintenance Expenses

Budget and Actual

For the year ended September 30, 2004

(In thousands)

	<u>Budget</u>	<u>Actual</u>	Variance under <u>(over)</u>
Collection system	\$ 13,694	\$ 14,534	\$ (840)
Pumping	23,079	23,838	(759)
Treatment	46,631	48,851	(2,220)
Customer accounting	7,711	3,132	4,579
Customer service	3,071	6,827	(3,756)
General and administrative	<u>30,207</u>	<u>33,357</u>	<u>(3,150)</u>
Totals	<u>\$ 124,393</u>	<u>\$ 130,539</u>	<u>\$ (6,146)</u>