FINANCIAL
section

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Independent Auditors' Report

Honorable Alex Penelas, 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 & Sewer Department of Miami-Dade County, Florida (the Department), as of and for the years ended September 30, 2002 and 2001, 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 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 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 audits 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, 2002 and 2001 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 of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2002 and 2001, and the changes in its financial position and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, the Department has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement 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 34*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of October 1, 2001 As discussed in note 1 to the financial statements, the Department also adopted GASB

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Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as of October 1, 2000.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2003 on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 20 through 23 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Department. The accompanying introductory section supplementary financial data, and statistical section 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 audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

KPMG LLP

January 24, 2003

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, 2002. 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, 2002 and 2001 is shown in the following page. Total net assets as of September 30, 2002, were $2.2 billion. The Department's net assets increased from last year by $20.3 million, or by 1%, primarily due to capital contributions of $57.2 million offsetting a loss before contributions and transfers (excess of expenses over revenues) of $3.8 million and transfers to County's General Fund of $33 million. The unrestricted portion of net assets (available to meet ongoing and future obligations of the Department) had a decrease of $42.6 million, or 15.3%, from fiscal year 2001.

The above loss before contributions and transfers was caused by a combination of decreased revenues and increased expenses. Operating revenues decreased by $6.5 million, or by 1.8%, primarily attributable to a decrease in water rate and a decline in the demand for water. Interest income also decreased by $27.4 million from last year due to a decrease in market yield for the short and medium term investments which account for the majority of the Department's portfolio.

Operating and maintenance expenses increased by $16.7 million, or by 9.2% from the previous year. Increased employee compensation, security services and property insurance expenses made up the majority

of the increase. The $5.4 million increase in depreciation expense was offset by a reduction of $2.4 million in interest expense, net of capitalized interest.

SUMMARY OF NET ASSETS	2002 (in thousands)	2001 (in thousands)
Current and Other Assets	$1,120,808	$1,161,416
Capital Assets	2,932,784	2,890,506
Total Assets	4,053,592	4,051,922
Long-term Liabilities	1,718,391	1,732,952
Other liabilities	174,976	179,058
Total Liabilities	1,893,367	1,912,010
Net Assets:		
Invested in capital assets, net of debt	1,586,602	1,562,617
Restricted	337,273	298,345
Unrestricted	236,350	278,950
Total Net Assets	$2,160,225	$2,139,912

SUMMARY OF CHANGES IN NET ASSETS	2002	2001
Water operating revenues	$ 151,095	$ 154,309
Wastewater operating revenues	203,012	206,314
Interest Income	32,820	60,233
Other nonoperating revenues	1,480	1,511
Total revenues	388,407	422,367
Operating & maintenance expenses	196,872	180,219
Depreciation	114,642	109,270
Interest expense	79,846	82,288
Other nonoperating expenses	876	876
Total expenses	392,236	372,653
Excess (deficiency) before contributions and transfers	(3,829)	49,714
Capital Contributions	57,177	47,574
Transfers to County's General Fund	(33,035)	(25,547)
Increase in net assets	20,313	71,741
Net assets at beginning of year	2,139,912	2,068,171
Net assets at end of year	$2,160,225	$2,139,912

The Board of County Commissioners has approved a restructuring of the Department's service rates for fiscal year 2003. Management believes that the retail rate structure will be revenue neutral while encouraging water conservation.

CAPITAL ASSETS

The following table summarizes the Department's capital assets, net of accumulated depreciation, for the years ended September 30, 2002 and 2001 (in thousands). Total capital assets increased by $42.3 million, or 1.5%, over last year. This increase is due to capital additions, net of plant retirements, of $156.9 million

offset by $114.6 million for depreciation. Additional information in changes in capital assets can be found in Note 4 to the financial statements.

	2002	2001
Land	$ 30,390	$ 30,390
Structures and improvements	2,230,037	2,186,577
Equipment	326,757	324,869
Construction work in progress	345,600	348,670
Total capital assets	$2,932,784	$2,890,506

This year's major expenditures in capital assets included:

Water projects:

- Transmission mains, meters and services ($35.2 million)
- Treatment facilities ($20.7 million)
- General building improvements ($16 million)
- Computer systems ($6.1 million)
- Transportation equipment ($3.4 million)
- System wide improvements ($3 million)
- Fire hydrants ($2.5 million)
- Pumping facilities ($2.1 million)
- Wellfields ($1.8 million)

Wastewater projects:

- Gravity mains and services ($15.5 million)
- Infiltration and inflow reduction program ($11.6 million)
- Treatment facilities ($9.9 million)
- Pump stations ($9.6 million)
- Force mains ($3.1 million)

Budgeted capital expenditures for fiscal year 2003 amount to $254.9 million and include $110.4 million in water projects and $144.5 million in wastewater projects.

LONG-TERM DEBT

Long-term debt outstanding (including current portion) at September 30, 2002 and 2001 is presented in the following table (in thousands). The year 2002 shows a decrease of $12.9 million from the previous year.

	2002	2001
Revenue Bonds	$1,581,183	$1,607,766
State Loan Obligations	146,965	133,130
Notes payable	941	1,118
Total long-term debt	$1,729,089	$1,742,014

During 2002 additional state revolving fund loan commitments were obtained in amount of $32.9 million. Draws made on state revolving fund commitments and recorded as debt, including capitalized interest, were $22.4 million in 2002. Current long-term debt maturities were met in amount of $37.3 million. An existing swap agreement relating to the Series 1993 Bonds was amended to increase the related notional

amount from $114.5 million to $200 million, as well as amend the payment calculation basis. Additional long-term debt details can be found in Note 5 to the financial statements.

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 1.72, 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 subordinate obligations which include the state loan obligations. The Department met the secondary debt service coverage with a ratio of 5.8, which is greater than the required ratio of 1.15.

In November 2002, Moody's Investors Service, a leading global credit rating firm, assigned a rating of Aaa/VMIG 1 to the Miami-Dade Water and Sewer Department's nearly $420 million 1994 variable rate revenue bonds. The "Aaa" rating is indicative of investment vehicles which are "judged to be of the best quality" and are generally referred to as "gilt-edged", according to Moody's website. The "VMIG 1" rating "denotes superior credit quality," also according to Moody's website. Both ratings are the highest issued by Moody's. This action was taken by Moody's in response to the replacement of the liquidity provider for the variable rate bonds. It is the third such upgrade taken by well-known bond-rating agencies over the last three years, and the second year in a row where Moody's upgraded its ratings on the Department's bonds.

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.

September 30,	2002	2001
	(In thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 76,623**	$ 51,015
Investments	**141,487**	213,909
Accounts receivable (net of allowance for uncollectible accounts of $20.8 million in 2002 and $20.6 million in 2001)	**72,615**	72,644
Inventory of materials and supplies	**20,592**	19,131
Total current assets	**311,317**	356,699
NONCURRENT ASSETS:		
RESTRICTED ASSETS:		
Cash and cash equivalents	**158,186**	77,658
Investments	**630,245**	706,210
Contracts receivable	**466**	947
EPA grants receivable	**76**	-
Total restricted assets	**788,973**	784,815
DEFERRED CHARGES:		
Deferred debt issue costs, net	**16,764**	17,461
Other deferred charges, net	**3,754**	2,441
Total deferred charges	**20,518**	19,902
CAPITAL ASSETS:		
Land	**30,390**	30,390
Structures and improvements	**2,941,007**	2,832,835
Equipment	**678,474**	639,954
Utility plant in service before depreciation	**3,649,871**	3,503,179
Less accumulated depreciation	**1,062,687**	961,343
Net utility plant in service	**2,587,184**	2,541,836
Construction work in progress	**345,600**	348,670
Total capital assets	**2,932,784**	2,890,506
Total noncurrent assets	**3,742,275**	3,695,223
Total assets	**$ 4,053,592**	$ 4,051,922

(Continued)

(Continued) September 30,	2002	2001
	(In thousands)	
LIABILITIES		
CURRENT LIABILITIES (PAYABLE FROM CURRENT ASSETS):		
Accounts payable and accrued expenses	**$ 37,293**	$ 36,613
Customer and developer deposits	**15,979**	17,856
Current portion of long-term debt	**7,622**	6,142
Accrued interest payable	**730**	1,072
Rebatable arbitrage earnings	**2,348**	4,903
Liability for compensated absences	**6,842**	6,307
Other liabilities	**573**	569
Total current liabilities (payable from current assets)	**71,387**	73,462
CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS):		
Accounts payable and accrued expenses	**15,718**	17,568
Retainage payable	**7,413**	8,166
Current portion of long-term debt	**32,921**	31,335
Accrued interest payable	**44,322**	45,027
Liability for self-insurance	**3,215**	3,500
Total current liabilities (payable from restricted assets)	**103,589**	105,596
NONCURRENT LIABILITIES:		
Revenue bonds payable, net	**1,551,263**	1,579,151
State loan obligations, net	**136,529**	124,444
Notes payable, net	**754**	942
Liability for self-insurance	**15,782**	15,452
Liability for compensated absences	**14,063**	12,963
Total noncurrent liabilities	**1,718,391**	1,732,952
Total liabilities	**1,893,367**	1,912,010
NET ASSETS		
Invested in capital assets, net of related debt	**1,586,602**	1,562,617
Restricted for:		
Capital projects	**170,471**	132,975
Debt service	**166,802**	165,370
Unrestricted	**236,350**	278,950
Total net assets	**2,160,225**	2,139,912
Total liabilities and net assets	**$ 4,053,592**	$ 4,051,922

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,	2002	2001
	(In thousands)	
OPERATING REVENUES:		
Water	**$ 151,095**	$ 154,309
Wastewater	**203,012**	206,314
Total operating revenues	**354,107**	360,623
OPERATING AND MAINTENANCE EXPENSES:		
Water source of supply	**4,728**	4,771
Water power and pumping	**1,803**	1,558
Water purification	**34,466**	32,640
Water transmission and distribution	**19,357**	18,229
Wastewater collection system	**12,793**	12,935
Wastewater pumping	**22,828**	20,709
Wastewater treatment	**43,086**	40,707
Customer accounting	**7,090**	6,407
Customer service	**14,993**	14,790
General and administrative	**35,728**	27,473
Total operating and maintenance expenses	**196,872**	180,219
Operating income before depreciation	**157,235**	180,404
DEPRECIATION	**114,642**	109,270
Operating income	**42,593**	71,134
NON-OPERATING REVENUES (EXPENSES):		
Interest income	**32,820**	60,233
Interest expense	**(79,846)**	(82,288)
Amortization of debt issue costs	**(876)**	(876)
Operating grants	**1,480**	1,511
Income (loss) before contributions and transfers	**(3,829)**	49,714
Capital contributions	**57,177**	47,574
Transfers to County's General Fund	**(33,035)**	(25,547)
Increase in net assets	**20,313**	71,741
Net assets at beginning of year	**2,139,912**	2,068,171
Net assets at end of year	**$ 2,160,225**	$ 2,139,912

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

For the years ended September 30,	2002	2001
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	**$ 354,085**	$ 364,943
Cash paid to suppliers for goods and services	**(99,099)**	(88,153)
Cash paid to employees for services	**(99,625)**	(96,346)
Net cash provided by operating activities	**155,361**	180,444
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating grants received	**1,128**	358
Transfers to County's General Fund	**(33,035)**	(25,547)
Net cash used in non-capital financing activities	**(31,907)**	(25,189)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from bond issues, loan agreements and notes	**21,488**	18,928
Principal payments - bonds, loans and notes	**(37,249)**	(34,148)
Interest paid	**(88,407)**	(87,273)
Proceeds from sale of property, plant and equipment	**57**	168
Acquisition and construction of capital assets	**(129,507)**	(159,850)
Contributions received	**37,649**	32,561
Net cash used in capital and related financing activities	**(195,969)**	(229,614)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	**(938,468)**	(1,283,720)
Proceeds from sale and maturity of investment securities	**1,083,188**	1,372,463
Interest on investments	**33,931**	56,151
Net cash provided by investing activities	**178,651**	144,894
Net increase in cash and cash equivalents	**106,136**	70,535
Cash and cash equivalents at beginning of year	**128,673**	58,138
Cash and cash equivalents at end of year	**$ 234,809**	$ 128,673

(Continued)

(Continued) For the years ended September 30,	2002	2001
	(In thousands)	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	**$ 42,593**	$ 71,134
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	**114,642**	109,270
Provision for uncollectible accounts	**1,239**	-
Amortization of deferred charges	**173**	-
(Increase) decrease in assets:		
Accounts receivable	**(907)**	2,721
Inventory of materials and supplies	**(1,461)**	1,278
Other deferred charges	**(4)**	(1,678)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	**682**	(447)
Customer and developer deposits	**(2,939)**	149
Accrued interest payable	**(341)**	3
Liability for compensated absences	**1,635**	1,265
Other liabilities	**4**	(236)
Liability for self-insurance	**45**	(3,015)
Net cash provided by operating activities	**$ 155,361**	$ 180,444

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Property, plant and equipment contributions were received in amounts of $19.9 million and $14.9 million in fiscal years 2002 and 2001, respectively.

The (decrease) increase in the fair value of investments were ($1.4) million and $4.8 million in fiscal years 2002 and 2001, respectively.

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

SEPTEMBER 30, 2002 AND 2001

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 intersystem 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. The financial statements for the year ended September 30, 2001 were restated to conform with the above GASB 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 $21.8 million and $23 million as of September 30, 2002 and 2001, 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 each of the fiscal years ended September 30, 2002 and 2001, respectively. The Department utilizes the composite straight-line depreciation method with normal retirements charged to accumulated depreciation, and no 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	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.

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, 2002 and 2001 was $90.5 million and $89.5 million, respectively. Of these amounts, $10.6 million and $7.2 million were capitalized in fiscal years 2002 and 2001, respectively, net of interest earned on construction funds from tax-exempt borrowings of $3.6 million and $7.2 million in fiscal years 2002 and 2001, respectively.

The Department enters into interest rate swap agreements to modify interest rates on outstanding debt. The only related amounts recorded in the financial statements are the net interest expense along with amortization of fees paid or received resulting from these agreements.

BOND DISCOUNT AND ISSUANCE COSTS

Discounts 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.

INVENTORY

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

CAPITAL CONTRIBUTIONS

Effective October 1, 2000, the Department adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* which requires 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 $19.9 million and $2.6 million as of September 30, 2002 and 2001, respectively. The bank balances at local depositories were $25.8 million and $8.8 million as of September 30, 2002 and 2001, 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.

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 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, bankers' acceptances 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, 2002 and 2001, including cash equivalents in the amount of $214.2 million and $126 million, respectively, are shown in the following table (in thousands).

	2002 Fair Value	2001 Fair Value
U.S. government and agency securities	$402,861	$ 442,375
Certificate of deposit	3,015	-
Commercial paper	290,399	236,884
Bankers acceptances	-	9,985
GIC	189,537	303,792
LGSF pool	100,153	53,050
Total investments	$985,965	$1,046,086

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, 2002 and 2001 are presented in the following table (in thousands):

	2002	2001
Restricted Assets		
Debt Service	$211,125	$210,397
Construction	395,358	417,936
Renewal and Replacement	68,778	69,599
Plant Expansion	94,625	67,389
Self-Insurance	19,087	19,494
Total Assets	$788,973	$784,815

4. CAPITAL ASSETS

Capital asset activity during fiscal years 2001 and 2002 was as follows (in thousands):

	Balance 9/30/00	2001 Additions	2001 Deletions	Balance 9/30/01	2002 Additions	2002 Deletions	Balance 09/30/02
Capital assets, not being depreciated:							
Land	$ 30,390	-	-	30,390	-	-	30,390
Construction work in progress	338,861	182,383	(172,574)	348,670	156,977	(160,047)	345,600
Total capital assets, not being depreciated	369,251	182,383	(172,574)	379,060	156,977	(160,047)	375,990
Capital assets, being depreciated:							
Structures and improvements	2,689,373	149,680	(6,218)	2,832,835	116,964	(8,792)	2,941,007
Equipment	624,127	22,894	(7,067)	639,954	43,083	(4,563)	678,474
Total capital assets, being depreciated	3,313,500	172,574	(13,285)	3,472,789	160,047	(13,355)	3,619,481
Less accumulated depreciation:							
Structures and improvements	(582,183)	(70,293)	6,218	(646,258)	(73,508)	8,796	(710,970)
Equipment	(283,007)	(38,977)	6,899	(315,085)	(41,134)	4,502	(351,717)
Total accumulated depreciation	(865,190)	(109,270)	13,117	(961,343)	(114,642)	13,298	(1,062,687)
Total capital assets, being depreciated, net	2,448,310	63,304	(168)	2,511,446	45,405	(57)	2,556,794
Total capital assets, net	$ 2,817,561	245,687	(172,742)	2,890,506	202,382	(160,104)	2,932,784

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, 2002.

DADE COUNTY REVENUE REFUNDING BONDS, SERIES 1993

On December 23, 1993, $409.4 million of Dade County Water and Sewer System Revenue Refunding Bonds, Series 1993 were issued to pay issuance costs and to refund or advance refund various obligations.

The Series 1993 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 current year's debt service requirements were met in fiscal year 2002.

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 2002.

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 2002.

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 2002.

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 2002.

CHANGES IN LONG-TERM LIABILITIES

A summary of the long-term liability activity during fiscal years 2001 and 2002 is presented in the following table (dollars in thousands):

Description	Outstanding Rate	Maturity Date	Balance 09/30/00	2001 Additions	2001 Reductions	Balance 09/30/01	2002 Additions	2002 Reductions	Balance 09/30/02	Due in 2003
Dade County Revenue Bonds										
Series 1993	4.40%-5.00%	2013	$ 332,475	-	17,570	314,905	-	18,445	296,460	19,260
Series 1994	Variable*	2022	421,255	-	625	420,630	-	660	419,970	695
Series 1995	4.10%-6.25%	2025	341,360	-	2,900	338,460	-	3,030	335,430	3,165
Series 1997	4.50%-6.25%	2026	431,320	-	6,170	425,150	-	6,480	418,670	6,800
Series 1999A	5.00%	2029	150,000	-	-	150,000	-	-	150,000	-
Less: Unamortized discount			(29,300)	-	(1,252)	(28,048)	-	(1,253)	(26,795)	-
Deferred amounts on refunding			(14,109)	-	(778)	(13,331)	-	(779)	(12,552)	-
Total revenue bonds			1,633,001	-	25,235	1,607,766	-	26,583	1,581,183	29,920
State Loan Obligations										
State Revolving Fund	2.56%-4.17%	2019	120,105	19,743	6,718	133,130	22,365	8,530	146,965	10,436
Notes Payable										
City of North Miami	6.00%	2007	1,284	-	166	1,118	-	177	941	187
Total long-term debt			1,754,390	19,743	32,119	1,742,014	22,365	35,290	1,729,089	40,543
Other liabilities:										
Compensated absences			18,005	7,158	5,893	19,270	7,942	6,307	20,905	6,842
Self-insurance			21,967	(765)	2,250	18,952	1,858	1,813	18,997	3,215
Total long-term liabilities			$ 1,794,362	26,136	40,262	1,780,236	32,165	43,410	1,768,991	50,600

* Variable rates range from .85%-2.15% and 1.85%-4.50% in fiscal years 2002 and 2001, respectively.

DEBT SERVICE REQUIREMENTS

The Department's debt service requirements to maturity, including current portion, at September 30, 2002 are as follows (in thousands):

Maturing in Fiscal Year	Revenue Bonds Principal	Revenue Bonds Interest	State Loans Principal	State Loans Interest	Notes Payable Principal	Notes Payable Interest	Total Principal	Total Interest	Total Debt
2003	$ 29,920	85,744	10,436	4,467	187	51	40,543	90,262	130,805
2004	31,275	84,345	10,802	4,254	199	40	42,276	88,639	130,915
2005	32,720	82,812	11,115	4,219	211	28	44,046	87,059	131,105
2006	34,270	81,157	11,565	3,639	224	15	46,059	84,811	130,870
2007	36,035	79,309	11,274	3,261	120	2	47,429	82,572	130,001
2008-2012	210,965	365,042	55,233	10,905	-	-	266,198	375,947	642,145
2013-2017	272,595	301,523	34,142	2,813	-	-	306,737	304,336	611,073
2018-2022	356,545	215,100	2,398	68	-	-	358,943	215,168	574,111
2023-2027	466,205	102,738	-	-	-	-	466,205	102,738	568,943
2028-2030	150,000	15,244	-	-	-	-	150,000	15,244	165,244
	1,620,530	1,413,014	146,965	33,626	941	136	1,768,436	1,446,776	3,215,212
Unamortized discount and deferred amounts	(39,347)	-	-	-	-	-	(39,347)	-	(39,347)
Total	$ 1,581,183	1,413,014	146,965	33,626	941	136	1,729,089	1,446,776	3,175,865

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, 2002 and repayment amounts as required by the loan agreements are detailed in the following table (in thousands):

Loan #	Commitments	Draws to date
375310	$ 45,906	$ 45,906
377400	36,402	36,402
377450	27,831	27,831
377470	11,959	11,959
377490	3,098	3,098
377500	28,523	23,738
377650	13,234	2,604
377670	10,251	3,103
377860	6,200	556
377870	6,093	3,286
37788P	18,269	3,252
300010	28,788	24,668
300080	5,498	4,291
	$242,052	$190,694

The Florida Department of Environmental Protection approved final amendments for loans #375310 and #377400 on June 7, 1999, for loan #377470 on August 21, 2000, for loan #377450 on May 18, 2001 and for loan #377490 on May 2, 2001. These loans are shown above but have been closed-out. Therefore, no further draws will be made against these specific loans, only payments.

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 agreement, were met in fiscal year 2002.

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 two interest rate swap agreements relating to the Series 1993 Revenue Refunding Bonds and one swap relating to the Series 1994 Revenue Bonds. The first swap agreement relating to the Series 1993 Bonds became effective on August 26, 1998, and 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. It 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 amended on February 26, 2001 to provide for: the extension of the termination date to June 15, 2020; an option in favor of the counterparty to terminate the agreement on June 15, 2008; an increased fixed rate of 4.902%; an additional fixed rate of 0.323% which survives the termination option; and a notional amount declining from $215 million as of September 19, 2001, to $154 million as of September 19, 2019, in accordance with the schedule included in the amendment. On September 20, 2001, the counterparty exercised the option to receive payment from the Department at the fixed rate and to make payments on the basis of the variable rate.

For the second swap agreement relating to the Series 1993 Bonds, as amended on July 18, 2002, the counterparty pays the Department on the basis of the BMA index on an initial notional amount of $200 million. The Department pays the counterparty on the same notional amount based on the BMA index plus a calculated adjustment factor. The notional amount will be reduced on each October 1, commencing October 1, 2021 as set forth in a predetermined reduction schedule.

For the swap agreement relating to the Series 1994 Bonds, calculations are based on a notional amount that is specified in the calculation amount schedule incorporated in the bond documents. This notional amount, which changes periodically, is set at $420 million for the current fiscal year. The Department owes interest calculated at a 5.28% annual rate to the counterparty, and in return the counterparty owes the Department interest at a variable rate that matches the variable rate payable on the bonds.

On September 23, 1997, a settlement was reached between Smith Barney and the Securities and Exchange Commission regarding the interest rate swap transaction entered into in connection with the Series 1994 bonds. The settlement provided for a payment to the County in the amount of $2 million and the foregoing of future remarketing fees related to the swap in the amount of $3.1 million.

The Department continues to pay interest to the bondholders at the rates provided by each bond issue. However, during the term and for the notional amount of each interest rate swap agreement, the Department will effectively pay the rate established under the agreements. The debt service requirements to maturity presented in this note are shown net of these agreements.

If the counterparties to the swaps default, or if the swaps are terminated, the Department will be exposed to the rates established in each bond issue. A termination of any swap agreement may result in the Department making or receiving a termination payment. The counterparties to the interest rate swap agreements are large international brokerage and insurance firms and, accordingly, the Department believes there is little risk of counterparty nonperformance.

DEFEASED DEBT

On December 23, 1993, the Department defeased the bonds listed in the table below (in thousands). The proceeds of the new bond issue, Dade County Water and Sewer System Revenue Bonds, Series 1993, were invested in direct obligations of the U.S. government and 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.

	Final Maturity Defeased	Principal Amount Defeased	Principal Balance Sept. 30, 2002	Principal Balance Sept. 30, 2001
Dade County Water System Revenue Refunding Bonds, Series 1992	06/01/04	$36,245	Redeemed	$12,835
State Bond Loan, Srs. X	07/01/12	43,700	-	Redeemed

6. 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. The FRS is non-contributory 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.

Benefits under the plan 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.

The covered payroll for Department employees in the FRS for the years ended September 30, 2002 and 2001 was $99.3 million and $95.9 million, respectively, while the Department's total payroll was $102.9 million and $101.9 million for fiscal 2002 and 2001, respectively. Pension costs of the Department as required and defined by Florida statute ranged between 5.8% and 16.1% of gross salaries during fiscal 2002 and between 7.3% and 18.4% of gross salaries during fiscal 2001. For the years ended September 30, 2002, 2001, and 2000, the Department's actual contributions met all required contributions. These contributions aggregated $7.1 million, $8.4 million and $9 million, respectively, which represented 7.2%, 8.7% and 10.1% of covered payroll, respectively, and 0.4%, 0.5% and 0.4% of the total contributions required of all participating agencies, respectively, for fiscal years 2002, 2001 and 2000.

Ten-year historical trend information is presented in the FRS' June 30, 2002 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

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.

7. 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. During 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.

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 2002 and 2001 were as follows (in thousands):

	2002	2001
Balance at beginning of year	$12,743	$15,560
Claims and changes in estimates	1,256	(1,969)
Less: Payments	(478)	(848)
Balance at end of year	$13,521	$12,743

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 $5.5 million and $6.2 million as of September 30, 2002 and 2001, 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 $19 million as of September 30, 2002 and 2001.

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.

8. CONTRIBUTIONS

A schedule of contributions during fiscal years 2002 and 2001 is presented below (in thousands):

	2002	2001
Contributed Facilities		
Developers	$20,224	$14,737
Customers	8,815	5,334
Fire Hydrants	-	548
Connection charges	28,138	26,466
Other	-	489
Total additions	$57,177	$47,574

9. 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 charges for the years ended September 30, 2002 and 2001 (in thousands):

	2002	2001
General Services Administration	$15,063	$10,489
General Fund	10,737	10,588
Information Technology	6,695	8,473
Transportation	2,970	-
Solid Waste	2,107	1,417
Fire Rescue	1,504	24
Public Works	689	2,901
Other County Departments	3,569	3,545

In relation to the above payments, the Department had related payables of $7.9 million and $7.1 million at September 30, 2002 and 2001, respectively. The Department also had receivables from other County departments amounting to $4.3 million and $4.5 million at September 30, 2002 and 2001, respectively. The Department has every intention of paying the outstanding payables on a timely basis, and is confident it will collect the outstanding receivables.

In addition, the Department transferred $33 million and $25.5 million to the General Fund in fiscal years 2002 and 2001, 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.

10. COMMITMENTS AND CONTINGENCIES

CONSTRUCTION

The Department had contractual commitments of $44.1 million for plant and infrastructure construction at September 30, 2002.

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, 2002 and 2001, the Department has recorded obligations to rebate approximately $2.3 million and $4.9 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 the bond issuance and each five years thereafter. The ultimate amount of the obligation, if any, will be determined based on actual interest earned.

SETTLEMENT AGREEMENTS

In 1993, the County 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 addresses alleged violations of federal and state law regarding underground treated sewage injection wells

and effluent discharges at a Department wastewater treatment plant. As required by the AOC, the Department has been conducting hydrogeological studies to determine the nature of the concerns and take appropriate action, if necessary. A Consent Order with FDEP, which is intended to operate in conjunction with the AOC, was executed by the parties and became effective on March 1, 1999. This Consent Order serves as a mechanism by which the Department can obtain the permits needed to perform any work required by the AOC. Effective August 1, 2002, the AOC was terminated and the EPA asked the FDEP to address the compliance of the facility through a new Consent Order. At the present, the Department and the FDEP are negotiating a new Consent Order.

11. SUBSEQUENT EVENTS

New miscellaneous fees and charges, as well as revisions to the retail rate structure became effective October 1, 2002. Management believes that the retail rate structure will be revenue neutral, while making fundamental changes in the methods used to calculate customers' bills.

Church & Tower is a contractor which performed paving work for the Department under Contract # W-755 ("W-755"). The Department incurred expenses in the amount of $19 million in fiscal year 1997 and $18.2 million in fiscal year 1996 under W-755. The County and State Attorney's Office conducted investigations of all payments and outstanding invoices under W-755 due to detected discrepancies. As a result of these investigations and a non-binding mediation process, a settlement was approved in January 2003. Under the approved settlement, the Department will receive a net payment from Church & Tower in the amount of $2.3 million and Church & Tower will dismiss all claims, including $2.5 million relating to invoices which were frozen and unpaid.

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 financial statements are furnished solely as supplementary information and are not required by GAAP.

September 30,	2002	2001
	(In thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 72,888**	$ 47,566
Investments	**109,416**	181,311
Accounts receivable (net of allowance for uncollectible accounts of $9.9 million in 2002 and $9.8 million in 2001)	**35,874**	25,371
Inventory of materials and supplies	**12,360**	11,563
Total current assets	**230,538**	265,811
NONCURRENT ASSETS:		
RESTRICTED ASSETS:		
Cash and cash equivalents	**46,659**	27,489
Investments	**274,976**	284,855
Contracts receivable	**96**	577
Total restricted assets	**321,731**	312,921
DEFERRED CHARGES:		
Deferred debt issue costs, net	**5,049**	5,186
Other deferred charges, net	**2,445**	2,441
Total deferred charges	**7,494**	7,627
CAPITAL ASSETS:		
Land	**10,715**	10,715
Structures and improvements	**1,076,901**	1,042,025
Equipment	**213,098**	206,949
Utility plant in service before depreciation	**1,300,714**	1,259,689
Less accumulated depreciation	**282,360**	259,240
Net utility plant in service	**1,018,354**	1,000,449
Construction work in progress	**138,672**	109,123
Total capital assets	**1,157,026**	1,109,572
Total noncurrent assets	**1,486,251**	1,430,120
Total assets	**$ 1,716,789**	$ 1,695,931

(Continued)

(Continued) September 30,	2002	2001
	(In thousands)	
LIABILITIES		
CURRENT LIABILITIES (PAYABLE FROM CURRENT ASSETS):		
Accounts payable and accrued expenses	**$ 14,284**	$ 14,841
Customer and developer deposits	**10,806**	11,326
Current portion of long-term debt	**1,385**	230
Accrued interest payable	**279**	622
Rebatable arbitrage earnings	**1,452**	1,655
Liability for compensated absences	**2,136**	1,933
Other liabilities	**573**	569
Total current liabilities (payable from current assets)	**30,915**	31,176
CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS):		
Accounts payable and accrued expenses	**6,813**	9,049
Retainage payable	**3,116**	3,212
Current portion of long-term debt	**14,814**	14,157
Accrued interest payable	**12,281**	12,567
Liability for self-insurance	**3,215**	3,500
Total current liabilities (payable from restricted assets)	**40,239**	42,485
NONCURRENT LIABILITIES:		
Revenue bonds payable, net	**438,345**	452,242
State loan obligations, net	**28,397**	15,179
Liability for self-insurance	**15,782**	15,452
Liability for compensated absences	**5,344**	4,926
Total noncurrent liabilities	**487,868**	487,799
Total liabilities	**559,022**	561,460
NET ASSETS		
Invested in capital assets, net of related debt	**830,706**	793,636
Restricted for:		
Capital projects	**70,518**	51,458
Debt service	**58,760**	56,904
Unrestricted	**197,783**	232,473
Total net assets	**1,157,767**	1,134,471
Total liabilities and net assets	**$ 1,716,789**	$ 1,695,931

Statements of Revenues, Expenses and Changes in Net Assets

For the years ended September 30,	2002	2001
	(In thousands)	
OPERATING REVENUES:		
Retail	**$ 121,632**	$ 124,473
Wholesale	**20,236**	20,311
Other revenues	**9,227**	9,525
Total operating revenues	**151,095**	154,309
OPERATING AND MAINTENANCE EXPENSES:		
Source of supply	**4,728**	4,771
Power and pumping	**1,803**	1,558
Purification	**34,466**	32,640
Transmission and distribution	**19,357**	18,229
Customer accounting	**4,032**	4,001
Customer service	**8,546**	8,430
General and administrative	**11,412**	9,430
Total operating and maintenance expenses	**84,344**	79,059
Operating income before depreciation	**66,751**	75,250
DEPRECIATION	**32,347**	30,916
Operating income	**34,404**	44,334
NON-OPERATING REVENUES (EXPENSES):		
Interest income	**16,943**	32,560
Interest expense	**(21,089)**	(20,932)
Amortization of debt issue costs	**(308)**	(308)
Operating grants	**1,447**	916
Income before contributions and transfers	**31,397**	56,570
Capital contributions	**21,168**	15,199
Transfers to County's General Fund	**(10,855)**	(8,235)
Increase in net assets	**41,710**	63,534
Net assets at beginning of year	**1,134,471**	1,086,369
Transfer (from) to reserves	**(18,414)**	(15,432)
Net assets at end of year	**$ 1,157,767**	$ 1,134,471

Statements of Cash Flows

For the years ended September 30,	2002	2001
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	**$ 142,185**	$ 159,385
Cash paid to suppliers for goods and services	**(47,733)**	(44,959)
Cash paid to employees for services	**(39,948)**	(40,150)
Transfer (from) to reserves	**(18,414)**	(15,432)
Net cash provided by operating activities	**36,090**	58,844
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating grants received	**554**	358
Transfers to County's General Fund	**(10,855)**	(8,235)
Net cash used in non-capital financing activities	**(10,301)**	(7,877)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from bond issues, loan agreements and notes	**13,873**	10,596
Principal payments - bonds, loans and notes	**(14,289)**	(13,419)
Interest paid	**(22,363)**	(21,988)
Proceeds from sale of property, plant and equipment	**29**	84
Acquisition and construction of capital assets	**(66,272)**	(65,430)
Contributions received	**9,212**	7,369
Net cash used in capital and related financing activities	**(79,810)**	(82,788)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	**(580,590)**	(458,647)
Proceeds from sale and maturity of investment securities	**659,424**	500,196
Interest on investments	**19,679**	30,275
Net cash provided by investing activities	**98,513**	71,824
Net increase in cash and cash equivalents	**44,492**	40,003
Cash and cash equivalents at beginning of year	**75,055**	35,052
Cash and cash equivalents at end of year	**$ 119,547**	$ 75,055

(Continued)

(Continued) For the years ended September 30,	2002	2001
	(In thousands)	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	**$ 34,404**	$ 44,334
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	**32,347**	30,916
Provision for uncollectible accounts	**697**	-
Transfer (from) to reserves	**(18,414)**	(15,432)
(Increase) decrease in assets:		
Accounts receivable	**(10,331)**	3,171
Inventory of materials and supplies	**(797)**	1,021
Other deferred charges	**(4)**	(1,678)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	**(556)**	(826)
Customer and developer deposits	**(1,583)**	157
Accrued interest payable	**(343)**	(2)
Liability for compensated absences	**621**	434
Other liabilities	**4**	(236)
Liability for self-insurance	**45**	(3,015)
Net cash provided by operating activities	**$ 36,090**	$ 58,844

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Property, plant and equipment contributions were received in amounts of $12.4 million and $7.8 million in fiscal years 2002 and 2001, respectively.

The (decrease) increase in the fair value of investments were ($723,998) and $2.4 million in fiscal years 2002 and 2001, respectively.

WATER SYSTEM
Schedule of Operating and Maintenance Expenses

Budget and Actual

For the year ended September 30, 2002

(In thousands)

	Budget	Actual	Variance favorable (unfavorable)
Source of supply	$ 5,983	$ 4,728	$ 1,255
Power and pumping	2,392	1,803	589
Purification	39,117	34,466	4,651
Transmission and distribution	21,926	19,357	2,569
Customer accounting	4,094	4,032	62
Customer service	11,334	8,546	2,788
General and administrative	15,470	11,412	4,058
Totals	$ 100,316	$ 84,344	$ 15,972

September 30,	2002	2001
	(In thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 3,735**	$ 3,449
Investments	**32,071**	32,598
Accounts receivable (net of allowance for uncollectible accounts of $10.9 million in 2002 and $10.8 million in 2001)	**36,741**	47,273
Inventory of materials and supplies	**8,232**	7,568
Total current assets	**80,779**	90,888
NONCURRENT ASSETS:		
RESTRICTED ASSETS:		
Cash and cash equivalents	**111,527**	50,169
Investments	**355,269**	421,355
Contracts receivable	**370**	370
EPA grants receivable	**76**	-
Total restricted assets	**467,242**	471,894
DEFERRED CHARGES:		
Deferred debt issue costs, net	**11,715**	12,275
Other deferred charges, net	**1,309**	-
Total deferred charges	**13,024**	12,275
CAPITAL ASSETS:		
Land	**19,675**	19,675
Structures and improvements	**1,864,106**	1,790,810
Equipment	**465,376**	433,005
Utility plant in service before depreciation	**2,349,157**	2,243,490
Less accumulated depreciation	**780,327**	702,103
Net utility plant in service	**1,568,830**	1,541,387
Construction work in progress	**206,928**	239,547
Total capital assets	**1,775,758**	1,780,934
Total noncurrent assets	**2,256,024**	2,265,103
Total assets	**$ 2,336,803**	$ 2,355,991

(Continued)

(Continued) September 30,	2002	2001
	(In thousands)	
LIABILITIES		
CURRENT LIABILITIES (PAYABLE FROM CURRENT ASSETS):		
Accounts payable and accrued expenses	**$ 23,009**	$ 21,772
Customer and developer deposits	**5,173**	6,530
Current portion of long-term debt	**6,237**	5,912
Accrued interest payable	**451**	450
Rebatable arbitrage earnings	**896**	3,248
Liability for compensated absences	**4,706**	4,374
Total current liabilities (payable from current assets)	**40,472**	42,286
CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS):		
Accounts payable and accrued expenses	**8,905**	8,519
Retainage payable	**4,297**	4,954
Current portion of long-term debt	**18,107**	17,178
Accrued interest payable	**32,041**	32,460
Total current liabilities (payable from restricted assets)	**63,350**	63,111
NONCURRENT LIABILITIES:		
Revenue bonds payable, net	**1,112,918**	1,126,909
State loan obligations, net	**108,132**	109,265
Notes payable, net	**754**	942
Liability for compensated absences	**8,719**	8,037
Total noncurrent liabilities	**1,230,523**	1,245,153
Total liabilities	**1,334,345**	1,350,550
NET ASSETS		
Invested in capital assets, net of related debt	**755,896**	768,981
Restricted for:		
Capital projects	**99,953**	81,517
Debt service	**108,042**	108,466
Unrestricted	**38,567**	46,477
Total net assets	**1,002,458**	1,005,441
Total liabilities and net assets	**$ 2,336,803**	$ 2,355,991

Statements of Revenues, Expenses and Changes in Net Assets

For the years ended September 30,	2002	2001
	(In thousands)	
OPERATING REVENUES:		
Retail	**$ 142,334**	$ 144,801
Wholesale	**52,909**	54,075
Other revenues	**7,769**	7,438
Total operating revenues	**203,012**	206,314
OPERATING AND MAINTENANCE EXPENSES:		
Collection system	**12,793**	12,935
Pumping	**22,828**	20,709
Treatment	**43,086**	40,707
Customer accounting	**3,058**	2,406
Customer service	**6,447**	6,360
General and administrative	**24,316**	18,043
Total operating and maintenance expenses	**112,528**	101,160
Operating income before depreciation	**90,484**	105,154
DEPRECIATION	**82,295**	78,354
Operating income	**8,189**	26,800
NON-OPERATING REVENUES (EXPENSES):		
Interest income	**15,877**	27,673
Interest expense	**(58,757)**	(61,356)
Amortization of debt issue costs	**(568)**	(568)
Operating grants	**33**	595
Loss before contributions and transfers	**(35,226)**	(6,856)
Capital contributions	**36,009**	32,375
Transfers to County's General Fund	**(22,180)**	(17,312)
Increase (decrease) in net assets	**(21,397)**	8,207
Net assets at beginning of year	**1,005,441**	981,802
Transfer from (to) reserves	**18,414**	15,432
Net assets at end of year	**$ 1,002,458**	$ 1,005,441

Statements of Cash Flows

For the years ended September 30,	2002	2001
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	**$ 211,900**	$ 205,558
Cash paid to suppliers for goods and services	**(51,366)**	(43,194)
Cash paid to employees for services	**(59,677)**	(56,196)
Transfer from (to) reserves	**18,414**	15,432
Net cash provided by operating activities	**119,271**	121,600
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating grants received	**574**	-
Transfers to County's General Fund	**(22,180)**	(17,312)
Net cash used in non-capital financing activities	**(21,606)**	(17,312)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from bond issues, loan agreements and notes	**7,615**	8,332
Principal payments - bonds, loans and notes	**(22,960)**	(20,729)
Interest paid	**(66,044)**	(65,285)
Proceeds from sale of property, plant and equipment	**28**	84
Acquisition and construction of capital assets	**(63,235)**	(94,420)
Contributions received	**28,437**	25,192
Net cash used in capital and related financing activities	**(116,159)**	(146,826)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	**(357,878)**	(825,073)
Proceeds from sale and maturity of investment securities	**423,764**	872,267
Interest on investments	**14,252**	25,876
Net cash provided by investing activities	**80,138**	73,070
Net increase in cash and cash equivalents	**61,644**	30,532
Cash and cash equivalents at beginning of year	**53,618**	23,086
Cash and cash equivalents at end of year	**$ 115,262**	$ 53,618

(Continued)

(Continued) For the years ended September 30,	2002	2001
	(In thousands)	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	**$ 8,189**	$ 26,800
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	**82,295**	78,354
Provision for uncollectible accounts	**542**	-
Amortization of deferred charges	**173**	-
Transfer from (to) reserves	**18,414**	15,432
(Increase) decrease in assets:		
Accounts receivable	**9,424**	(450)
Inventory of materials and supplies	**(664)**	257
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	**1,238**	379
Customer and developer deposits	**(1,356)**	(8)
Accrued interest payable	**2**	5
Liability for compensated absences	**1,014**	831
Net cash provided by operating activities	**$ 119,271**	$ 121,600

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Property, plant and equipment contributions were received in amounts of $7.5 million and $7.1 million in fiscal years 2002 and 2001, respectively.

The (decrease) increase in the fair value of investments were ($664,196) and $2.4 million in fiscal years 2002 and 2001, respectively.

Schedule of Operating and Maintenance Expenses

Budget and Actual

For the year ended September 30, 2002

(In thousands)

	Budget	Actual	Variance favorable (unfavorable)
Collection system	$ 14,830	$ 12,793	$ 2,037
Pumping	23,529	22,828	701
Treatment	44,320	43,086	1,234
Customer accounting	3,031	3,058	(27)
Customer service	8,552	6,447	2,105
General and administrative	25,275	24,316	959
Totals	$ 119,537	$ 112,528	$ 7,009