

Miami-Dade County Aviation Department

Combined Financial Statements
and Other Financial Information

*Years ended September 30, 1999 and 1998
with Report of Independent Auditors*

Miami-Dade County Aviation Department

Combined Financial Statements
and Other Financial Information

Years ended September 30, 1999 and 1998

Contents

Report of Independent Auditors	1
Combined Financial Statements	
Combined Balance Sheets	3
Combined Statements of Operations and Retained Earnings.....	4
Combined Statements of Cash Flows.....	5
Notes to Combined Financial Statements	7
Other Financial Information	
Combined Schedule of Cash Receipts and Disbursements of the Airports—Revenue Accounts	34

Report of Independent Auditors

Honorable Mayor and Members of the
Board of County Commissioners
Miami-Dade County
Miami, Florida

We have audited the accompanying combined financial statements of the Miami-Dade County Aviation Department (the “Aviation Department”) as of and for the years ended September 30, 1999 and 1998, as listed in the table of contents. These combined financial statements are the responsibility of the Aviation Department’s management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards 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 provide a reasonable basis for our opinion.

As discussed in Note 1, the accompanying combined financial statements present only the Miami-Dade County Aviation Department and are not intended to present fairly the financial position of Miami-Dade County, Florida, and the results of its operations and the cash flows of its proprietary fund types in conformity with generally accepted accounting principles.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Miami-Dade County Aviation Department as of September 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2000, on our consideration of Miami-Dade County Aviation 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.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The other financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

Ernst & Young LLP

January 5, 2000

Miami-Dade County Aviation Department

Combined Balance Sheets

	September 30,	
	1999	1998
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 83,828	\$ 73,574
Investments, including interest receivable	12,439	99
Accounts receivable, less allowance for doubtful accounts of \$5,739 in 1999 and \$6,975 in 1998	26,997	26,667
Inventories, prepaid expenses and deferred charges	7,397	7,467
Total current assets	<u>130,661</u>	<u>107,807</u>
Restricted assets:		
Cash and cash equivalents	181,451	141,827
Investments, including interest receivable	138,704	120,340
Government grants receivable	3,478	9,720
Passenger facility charges receivable	5,016	4,665
Total restricted assets	<u>328,649</u>	<u>276,552</u>
Property and equipment, net	2,217,735	2,182,689
Other assets	15,852	16,514
Total assets	<u>\$2,692,897</u>	<u>\$2,583,562</u>
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 51,205	\$ 46,412
Security deposits	9,186	9,003
Environmental remediation liability—current	39,510	29,879
Due to other County funds	1,163	324
Total current liabilities	<u>101,064</u>	<u>85,618</u>
Current liabilities payable from restricted assets:		
Accounts and contracts payable and other liabilities	38,718	34,244
Bonds payable within one year:		
Trust Agreement Aviation Revenue Bonds	48,065	45,770
Aviation Facilities Bonds	6,105	5,680
Interest payable	190	191
Total current liabilities payable from restricted assets	<u>93,078</u>	<u>85,885</u>
Bonds payable after one year:		
Trust Agreement Aviation Revenue Bonds	1,390,862	1,285,694
Aviation Facilities Bonds	256,601	262,482
Total bonds payable after one year	<u>1,647,463</u>	<u>1,548,176</u>
Deferred rental income	81	120
Deferred passenger facility charges	105,323	61,967
Environmental remediation liability, net of current portion	87,311	95,575
Total long-term liabilities	<u>1,840,178</u>	<u>1,705,838</u>
Total liabilities	<u>2,034,320</u>	<u>1,877,341</u>
Equity:		
Contributions	338,036	342,760
Retained earnings:		
Reserved for debt service and Airport maintenance	59,159	50,903
Unreserved	261,382	312,558
Total retained earnings	<u>320,541</u>	<u>363,461</u>
Total equity	<u>658,577</u>	<u>706,221</u>
Total liabilities and equity	<u>\$2,692,897</u>	<u>\$2,583,562</u>

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

Miami-Dade County Aviation Department

Combined Statements of Operations and Retained Earnings

	Year ended September 30	
	1999	1998
	<i>(In Thousands)</i>	
Operating revenue:		
Aviation fees	\$171,935	\$165,986
Rentals	101,968	103,235
Commercial Operations:		
Management agreements	112,686	127,029
Concessions	63,612	56,222
Other	1,682	573
Total operating revenue	451,883	453,045
Operating expenses:		
Operating expenses	182,330	185,729
Operating expenses for environmental remediation	9,981	9,915
Operating expenses under management agreements	60,342	71,370
Operating expenses under operating agreements	21,278	19,148
General and administrative expenses	31,929	31,425
Total operating expenses	305,860	317,587
Operating income before depreciation and amortization	146,023	135,458
Depreciation and amortization	105,165	97,829
Operating income	40,858	37,629
Nonoperating revenue (expense):		
Passenger facility charges	–	24,603
Environmental cost recovery	20,343	–
Loss on disposition of project costs	(45,383)	–
Interest expense (net)	(93,278)	(88,836)
Investment income:		
Current investments	6,968	3,812
Restricted investments	16,299	20,648
Other revenue	200	5,516
Total nonoperating expense	(94,851)	(34,257)
Net (loss) income	(53,993)	3,372
Add depreciation on fixed assets funded by grants from government agencies:		
Depreciation for the years ended September 30, 1999 and 1998	11,073	8,805
Cumulative effect of change in accounting for depreciation on fixed assets funded by grants from government agencies (Note 2)	–	62,290
(Decrease) increase in retained earnings	(42,920)	74,467
Retained earnings, beginning of year	363,461	288,994
Retained earnings, end of year	\$320,541	\$363,461

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

Miami-Dade County Aviation Department

Combined Statements of Cash Flows

	Year ended September 30	
	1999	1998
	<i>(In Thousands)</i>	
Operating activities		
Cash received from customers and tenants	\$453,988	\$446,941
Cash paid to suppliers for goods and services	(153,362)	(182,724)
Cash paid to employees for services	(136,683)	(137,653)
Net cash provided by operating activities	163,943	126,564
Capital and related financing activities		
Proceeds from sale of revenue bonds	148,804	433,085
Principal paid on revenue bonds	(46,797)	(297,086)
Interest paid on revenue bonds	(93,278)	(91,268)
Purchase and construction of property and equipment (including capitalized interest)	(185,610)	(194,474)
Capital contributed by federal and state governments	6,349	22,921
Passenger facility charges	43,356	34,212
Proceeds from environmental reimbursements	20,343	-
Net cash used by capital and related financing activities	(106,833)	(92,610)
Investing activities		
Purchase of investment securities	(494,865)	(352,865)
Proceeds from sale and maturities of investment securities	464,052	362,155
Interest and dividends on investments	23,381	25,345
Proceeds from insurance claim	200	5,516
Net cash (used) provided by investing activities	(7,232)	40,151
Net increase in cash and cash equivalents	49,878	74,105
Cash and cash equivalents, beginning of year	215,401	141,296
Cash and cash equivalents, end of year	\$265,279	\$215,401
Cash and Cash Equivalent Reconciliation		
Current Assets	\$ 83,828	\$ 73,574
Restricted Assets	181,451	141,827
Cash and Cash Equivalent at September 30, 1999	\$265,279	\$215,401

Continued on next page.

Miami-Dade County Aviation Department

Combined Statements of Cash Flows (continued)

	Year ended September 30	
	1999	1998
	<i>(In Thousands)</i>	
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 40,858	\$ 37,629
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	105,165	97,829
Provision for uncollectible accounts	3,906	3,668
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	1,655	(10,171)
Decrease in inventories, prepaid expenses, deferred charges and other assets	731	5,529
(Decrease) increase in accounts payable and accrued liabilities	9,277	(12,870)
Increase in security deposits	183	2,150
(Decrease) in due to other County funds	839	(2,281)
Decrease in deferred rental income	(39)	(39)
Increase in other liabilities	1,368	5,120
Total adjustments	123,085	88,935
Net cash provided by operating activities	\$163,943	\$126,564
Noncash investing, capital, and financing activities		
Loss on disposition of project costs	\$ 45,383	\$ -

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

Miami-Dade County Aviation Department

Notes to Combined Financial Statements

Years ended September 30, 1999 and 1998

1. General

Description

Miami-Dade County (the “County”) is a chartered political subdivision of the State of Florida and is granted home rule county powers by the Constitution of the State of Florida and Florida Statutes. The Board of County Commissioners (the “Board”) is the legislative and governing body of the County. The Miami-Dade County Aviation Department (the “Aviation Department”) is included as an enterprise fund in the County’s comprehensive annual financial report as part of the County reporting entity.

Pursuant to the general laws of Florida, the County owns Miami International Airport (the “Airport”), four general aviation airports, and one training and transition airport (the “Airports”), all of which are operated by the Aviation Department.

Basis of Presentation

The Aviation Department operates as an enterprise fund of the County. An enterprise fund is used to account for the financing of services to the general public, since substantially all of the costs involved are paid in the form of charges by users of such services.

The accompanying financial statements of the Aviation Department represent the combined operations of the Port Authority Properties and Non-Port Authority Properties, described below, which are operated under various agreements and bond indentures. The accompanying financial statements are therefore referred to as the Combined Financial Statements of the Aviation Department (the “Combined Financial Statements”).

Classification of Airport Properties

The County has utilized various methods and revenue sources to secure the financing of construction and improvements of the Airports. Such financing arrangements have resulted in the classification of properties as “Port Authority Properties” and “Non-Port Authority Properties” as follows:

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

1. General (continued)

Port Authority Properties

Port Authority Properties consist of all land and the facilities at the Airports which were acquired or constructed with government grants, passenger facility charges, and proceeds of Revenue Bonds (the "Revenue Bonds") issued by the County under the terms of the 1954 Trust Agreement, as amended by supplemental agreements (the "Trust Agreement"). Such properties have been designated as "Port Authority Properties." The Revenue Bonds are payable solely from and are collateralized by a pledge of Net Revenues, as defined, from Port Authority Properties. In accordance with the terms of the Trust Agreement, assets, liabilities, and net revenues of Port Authority Properties are internally segregated to properly identify sources and uses of funds (see Note 5).

Non-Port Authority Properties

Non-Port Authority Properties consist of certain buildings, structures and other facilities at the Airports which were constructed or acquired by tenant financing, government grants and proceeds from Special Revenue and Aviation Facilities Variable Rate Demand Bonds ("Aviation Facilities Bonds") not issued by the County under the Trust Agreement. Such properties have been designated as "Non-Port Authority Properties." The revenues derived from operating such facilities are not pledged for repayment of the Revenue Bonds. The Board of County Commissioners has adopted a series of resolutions creating a separate internal fund, known as the Miami-Dade County Aviation Development Fund (the "Aviation Development Fund"), to separately account for all assets, operations, and the related debt service and repairs and maintenance of certain Non-Port Authority Properties, including all facilities financed through the issuance of Aviation Facilities Bonds (see Note 5). Aviation Facilities Bonds are payable solely from and collateralized by a pledge of Net Revenues on specific aviation facilities not financed under the provisions of the Trust Agreement, as defined in the last of the series of resolutions (the "Master Resolution").

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

1. General (continued)

Authority to Fix Rates

Under the provisions of the Trust Agreement and the Master Resolution, the Aviation Department is required to maintain, charge and collect rates and charges for the use and services provided by Port Authority Properties and Non-Port Authority Properties, which will provide revenues sufficient to:

- pay Current Expenses, as defined in the Trust Agreement and the Master Resolution
- make deposits to the Reserve Maintenance Fund (the “Reserve Maintenance Account”) and the Renewal and Replacement Fund (the “Renewal and Replacement Account”) recommended by the Consulting Engineers and the Supervising Architects, respectively
- make deposits to the Interest and Sinking Fund (the “Sinking Fund Account”) comprised of the Bond Service Account, the Reserve Account and the Redemption Account of not less than 120% of the Principal and Interest requirements of the Trust Agreement Aviation Revenue Bonds and not less than 110% of the Aviation Facilities Bonds for the current fiscal year, as defined in the Trust Agreement and the Master Resolution, respectively

Any remaining balance (after meeting the requirements noted above) relating to the Port Authority Properties is deposited to the Improvement Fund (the “Improvement Account”), as defined in the Trust Agreement (see “Agreements with Airlines”).

Agreements with Airlines

The County has entered into agreements (the “Airline Agreements”) with various airlines using the Airport which, among other things, provide for the establishment and adjustment of certain landing fees for aircraft landing at the Airport. The original Airline Agreements entered into prior to the date of the Trust Agreement had significantly restricted the County in its imposition of landing charges payable by such airlines. As a result of these restrictions and in order to provide sufficient revenues to the County as required by the Trust Agreement, the original Airline Agreements were amended in 1974 to provide for a Supplemental Landing Charge which may be adjusted by the County when needed to assure that sufficient revenues are generated to meet the

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

1. General (continued)

rate covenant requirements of the Trust Agreement and the earnings requirements for the issuance of additional bonds to fund airports' improvements. All provisions of the Airline Agreements which restricted the County in its imposition of basic landing charges expired on April 30, 1987. The County now has the right to increase or decrease basic landing charges to meet the Trust Agreement requirements and other funding requirements of the airport system.

Pursuant to the requirements of the Airline Agreements, deposits in the Improvement Account in excess of \$1 million in any fiscal year (which can be used for any airport-related purpose) are to be transferred to the Revenue Fund (the "Revenue Account") and to be taken into consideration in determining landing fees for the next fiscal year, unless otherwise agreed to by the airlines. At September 30, 1999 and 1998 these excess deposits, which are transferred to the Revenue Account annually during the following January, were approximately \$19,250,000 and \$20,441,000, respectively.

Relationship with Other County Departments

The Aviation Department pays directly for most services provided by several other County departments such as Fire, Police, Legal, and General Services Administration. The total cost to the Department for these services was approximately \$46,727,000 and \$46,857,000 during the fiscal years ended September 30, 1999 and 1998, respectively.

In addition, the Aviation Department reimburses the General Fund of the County for its portion of the direct administrative service cost of several County departments, such as Audit and Management Services, Board of County Commissioners, Clerk of the Courts, Computer Services and Information Systems, County Manager, Fire, Police, Personnel and others. In 1996, an internal study was conducted by the County to determine the appropriate method as a basis to establish the indirect administrative services cost reimbursement for the year ended September 30, 1996 and subsequent years. For the fiscal years ended September 30, 1999 and 1998, the Aviation Department recorded an expense in the amount of \$8,682,000 and \$8,185,000, respectively, for the indirect administrative services cost reimbursement in accordance with the formula developed as a result of the study.

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

2. Summary of Significant Accounting Policies

Basis of Accounting

The Combined Financial Statements are presented on the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded when incurred.

Cash and Cash Equivalents

The Aviation Department considers all highly liquid investments (including restricted assets), with a maturity of three months or less when purchased, to be cash equivalents.

Investments

Investments consist primarily of U.S. Government Securities and are carried at fair value based on quoted market prices.

Grants from Government Agencies

Grants received for the acquisition or construction of capital assets are recorded as contributions when earned. Grants are earned when costs relating to such capital assets, which are reimbursable under the terms of the grants, have been incurred.

Passenger Facility Charges

The Federal Aviation Administration (“FAA”) authorized the Aviation Department to impose a Passenger Facility Charge (“PFC”) of \$3.00 per passenger commencing November 1, 1994. The net receipts from PFCs are restricted to be used for funding FAA “approved capital projects”. PFC revenue is reported as nonoperating at the time related qualifying expenditures are incurred. Unexpended PFCs are reported as deferred revenues. The Aviation Department has been authorized to collect PFCs on all enplaning revenue generating passengers in the aggregate amount of \$380,196,000 including interest, of which \$183,896,200 has been collected as of September 30, 1999.

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Inventories

Inventories are valued at cost using the first-in/first-out (“FIFO”) method.

Property and Equipment

Property and equipment are recorded at cost, except for contributions by third parties, which are recorded at fair value at the date of contribution. Such assets are depreciated on the straight-line method over their estimated useful lives as follows:

	<u>Years</u>
Hangars and buildings	40
Runways, aprons and taxiways, and field improvements	30
Paved roads and parking areas	20
Automotive, field and building equipment, and furniture and fixtures	5-16
Water and sewer systems	40

The Aviation Department capitalizes interest costs as part of the cost of constructing specified qualifying assets. In situations involving qualifying assets financed with the proceeds of tax-exempt debt, the amount of interest capitalized is reduced by any interest income earned on the temporary investment of such monies. Interest is capitalized throughout the construction period.

Depreciation of Fixed Assets Funded by Grants from Government Agencies

During 1998, the Aviation Department changed the method used to account for depreciation on fixed assets funded by grants from government agencies (“contributed fixed assets”) from one generally accepted accounting principle to another generally accepted accounting principle. Prior to 1998, depreciation on contributed fixed assets was a component of the statement of operations and was subsequently closed to retained earnings. Beginning in 1998, depreciation expense on contributed fixed assets is added back to net income or loss and closed directly to contributed capital. The Aviation Department believes that this is a preferable method of accounting for proper matching of the depreciation of these contributed fixed assets with contributed capital.

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Unrestricted Assets

All revenues derived from the operations of the Port Authority Properties are deposited in the Revenue Account and are used for the payment of Current Expenses. At the end of each month, after providing a reserve for Current Expenses, the balance of monies in the Revenue Account is deposited to the credit of the Sinking Fund Account and then to the Reserve Maintenance Account. Any monies remaining after meeting these requirements are deposited to the credit of the Improvement Account. Monies deposited in the Improvement Account may be disbursed for any Airport or Airport-related purpose authorized by the Trust Agreement. Assets of the Revenue and Improvement Accounts are classified as unrestricted.

All revenues derived from the operations of the Non-Port Authority Properties under the provisions of the Master Resolution are deposited in the Aviation Development Fund (the "Aviation Development Account") and are used for the payment of Current Expenses. At the end of each month, after providing a reserve for Current Expenses, the balance of monies in the Aviation Development Account is deposited to the credit of the Sinking Fund Account and then to the Renewal and Replacement Account. Funds in excess of the Renewal and Replacement Account requirements are transferred to the Aviation Development Account.

Restricted Assets and Reserves

Assets required to be reserved for airport maintenance and debt service pursuant to the Trust Agreement and Master Resolution are classified as restricted assets and are not available for payment of Current Expenses. In accordance with the terms of the Trust Agreement, assets of the Reserve Maintenance Account are restricted for unusual or extraordinary maintenance or repairs, renewals and replacements, the cost of replacing equipment, and premiums on insurance required to be carried under the provisions of the Trust Agreement and are not available for the payment of Current Expenses. In addition, in accordance with the terms of the Master Resolution, monies held for the credit of the Renewal and Replacement Account can be disbursed only for the cost of unusual periodic or extraordinary maintenance or repairs, the cost of periodic renewals and replacements, the cost of acquiring, installing or replacing equipment, and professional service expenses related to the foregoing.

Unexpended PFC revenue and accumulated interest earnings, are restricted to be used on FAA approved capital projects and are classified as restricted assets.

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Reserves for debt service and airport maintenance segregate a portion of retained earnings equal to the difference between restricted assets earmarked for debt service and reserve maintenance/renewal and replacement, and current liabilities payable from these restricted assets (see Note 6).

Revenue Classifications

The components of the major revenue captions are:

Aviation Fees—landing fees, concourse use charges, loading bridge use charges, baggage claim use charges, screening fees, airplane parking fees and other similar facilities and service use fees and charges.

Rentals—rentals of land, buildings and machinery and equipment.

Management Agreements—revenues from the sale of food and beverages (through April 1998), publications, gifts and sundries, and revenues from automotive parking fees, pharmacy facilities, baggage services, child care facilities, special services lounges, the Airport Hotel, Fuel Farm, and the Top of the Port Restaurant.

Concessions—revenues from the sale of duty-free merchandise, food and beverages (commencing May 1998), rent-a-car companies and various services provided by terminal complex concessionaires.

Compensated Absences

The Aviation Department records a liability for compensated absences including salary and salary-related payments, social security and Medicare taxes, as earned by employees.

Environmental Remediation

Environmental remediation expenses that relate to current operations are expensed or capitalized as appropriate. Environmental remediation expenses that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments or remedial efforts are probable, and the Aviation Department's share of the amount can be reasonably estimated.

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Refundings Resulting in the Defeasance of Debt

The Aviation Department conforms to the requirements of Governmental Accounting Standards Board (“GASB”) Statement No. 23 (“Statement No. 23”), *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. Pursuant to Statement No. 23, for current and advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense using the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter. The difference in these amounts, to the extent unamortized, is accounted for as an element of the carrying cost of the related debt.

Application of FASB Pronouncements to Proprietary Funds

The Aviation Department elected not to apply Financial Accounting Standards Board (“FASB”) statements and interpretations issued subsequent to November 30, 1989.

Reclassifications

Certain amounts for the prior year have been reclassified to conform with current year presentation.

3. Cash and Investments

At September 30, total unrestricted and restricted cash and cash equivalents and investments were composed of the following (*in thousands*):

	<u>1999</u>	<u>1998</u>
Cash and cash equivalents	\$265,279	\$215,401
Investments, including interest receivable	<u>151,143</u>	<u>120,439</u>
	<u>\$416,422</u>	<u>\$335,840</u>

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

3. Cash and Investments (continued)

Deposits—Public deposits in the State of Florida are collateralized under the provisions of Chapter 280, Florida Statutes. Losses to public depositors are covered by the sale of securities pledged as collateral and, if necessary, assessments against other qualified public depositories of the same type as the depository in default. Included in the balance of cash and cash equivalents are deposits which are deemed as insured and, therefore, not subject to classification by credit risk category under the provisions of GASB Statement No. 3 (“Statement No. 3”).

Investments—The Aviation Department’s investments are made by the County and the Trustees and/or Co-Trustees for the Revenue Bonds and Aviation Facilities Bonds in accordance with the provisions of Chapter 125.31(1) Florida Statutes, County Ordinance 84-47—Investment and Reinvestment of Surplus Funds, and applicable sections of the Trust Agreement and the Master Resolution.

The County is authorized to invest in 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. Securities underlying repurchase agreements are required to have a market value of at least 120% of the cost of repurchase agreements. Investments are carried at fair value plus accrued interest.

As required by Statement No. 3, the Aviation Department’s investments are categorized to provide an indication of the level of custodial credit risk assumed by the County, on behalf of the Aviation Department, at year-end. Category 1, as defined by Statement No. 3, includes investments that are insured or registered or for which the securities are held by the County or its agent in the County’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the County’s name. Under this category, the Aviation Department’s investments consist of U.S. Treasury securities backed by the full faith and credit of the U.S. Government, commercial paper, repurchase agreements and certificates of deposits. These securities are held by the Aviation Department’s Co-trustee in accordance with the terms of the Trust Agreement. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the County’s name. All of the investments of the Aviation Department are classified in Category 2 at September 30, 1999 and 1998.

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

3. Cash and Investments (continued)

Investments at September 30 are summarized as follows (*in thousands*):

	<u>1999</u>	<u>1998</u>
Unrestricted:		
U.S. Government securities	\$ 23,840	\$ 15,895
Commercial paper	<u>59,859</u>	<u>52,646</u>
	<u>83,699</u>	<u>68,541</u>
Restricted:		
U.S. Government securities	191,330	122,196
Commercial paper	92,198	86,992
Certificates of deposit	<u>34,136</u>	<u>48,828</u>
	<u>317,664</u>	<u>258,016</u>
Total cash equivalents and investments	<u><u>\$401,363</u></u>	<u><u>\$326,557</u></u>

Investments, as detailed above, are classified by financial statement line item based on maturity when purchased at September 30 as follows (*in thousands*):

	<u>1999</u>	<u>1998</u>
Investments classified as cash equivalents	\$253,525	\$209,537
Investments	<u>147,838</u>	<u>117,020</u>
	<u><u>\$401,363</u></u>	<u><u>\$326,557</u></u>

The above investments yielded effective interest rates of 5.16% and 5.69% at September 30, 1999 and 1998, respectively. Accrued interest receivable for investments as of September 30, 1999 and 1998, was approximately \$3,305,000 and \$3,419,000, respectively.

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

4. Property and Equipment

Property and equipment at September 30 is summarized as follows (*in thousands*):

	1999	1998
Hangars and buildings	\$1,953,205	\$1,855,112
Runways, aprons, taxiways and field improvements	532,503	527,107
Paved roads and parking areas	125,534	125,609
Automotive, field and building equipment, and furniture and fixtures	174,841	161,509
Water and sewer	39,317	18,467
Total	2,825,400	2,687,804
Less accumulated depreciation	(891,506)	(796,500)
Total	1,933,894	1,891,304
Land	78,190	78,190
Construction-in-progress	205,651	213,195
Total	\$2,217,735	\$2,182,689

Total interest costs incurred during the years ended September 30, 1999 and 1998 amounted to approximately \$100,663,000 and \$97,118,000, respectively. Of these amounts, approximately \$7,385,000 and \$8,282,000 were capitalized during 1999 and 1998, respectively.

Depreciation expense incurred during the years ended September 30, 1999 and 1998 amounted to approximately \$100,244,000 and \$93,124,000, respectively.

In 1998, the aviation industry witnessed significant changes, which caused the Aviation Department to undertake a comprehensive verification and revalidation study of its Capital Improvement Program (CIP). One of the major changes was the emergence of new, stronger, worldwide alliances of airlines, involving significant financial equity exchange between airline partners. The airlines within an alliance require closer proximity to maximize efficiency, render better services in transferring passengers and baggage and share ticket counters and gates. Based on the study, it was determined that certain existing terminal area that was previously programmed for major expansion would require minimum improvements. Accordingly, the Department canceled certain projects resulting in the write-off of programming and design costs of approximately \$36.8 million.

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

4. Property and Equipment (continued)

To accommodate the projected increase in demand for cargo facilities, the Aviation Department planned to finance and develop an additional cargo area to house various tenants and their operations. However, an economic feasibility analysis revealed that specific users could best develop facilities for their own operating use. As a result, the Aviation Department has written off approximately \$8.5 million of planning, programming and design costs for cargo area development.

5. Debt

Aviation Revenue Bonds

Revenue Bonds are issued to finance the construction of facilities at the Airports pursuant to the Trust Agreement and are payable solely from and are collateralized by a pledge of Net Revenues from Port Authority Properties, as defined in the Trust Agreement (see Note 1). The Revenue Bonds do not constitute a debt of the County or a pledge of the full faith and credit of the County.

At September 30, 1999, the County has outstanding \$521,390,000 of Aviation Revenue Bonds issued prior to September 30, 1997, to provide funds for the payment of costs for certain airport improvements. The Aviation Revenue Bonds bear stated interest rates ranging from 5.25% to 6.1%, with \$88,270,000 due serially on October 1, 1999 through 2012, and \$433,120,000 due on October 1, in years ranging from 2012 to 2026.

At September 30, 1999, the County has outstanding \$397,405,000 of Revenue Refunding Bonds issued prior to September 30, 1997 to defease debt in order to take advantage of lower interest rates. The Revenue Refunding Bonds bear stated rates ranging from 4.3% to 8.8%, with \$345,670,000 due serially on October 1, 1999 through 2011, and \$51,735,000 due on October 1, in years ranging from 2009 to 2011.

In October 1998, the County issued \$150 million of Series 1998C Aviation Revenue Bonds of which the entire amount is outstanding at September 30, 1999, to provide funds for the construction of certain County Airport and Airport-related improvements. The Series 1998C Aviation Revenue Bonds bear weighted average interest rates ranging from 4.4% to 5.25 %, with \$56,655,000 due serially from October 1, 2009 to 2018, \$41,005,000 term bonds due October 1, 2023, and \$52,340,000 term bonds due October 1, 2028.

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

5. Debt (continued)

In July 1998, the County issued \$233,085,000 of Series 1998A and 1998B Revenue Refunding Bonds, of which \$220,330,000 is outstanding at September 30, 1999. The Series 1998A Bonds bear stated interest rates ranging from 4.10% to 5.25%, with \$99,815,000 due serially on October 1, 2000 through 2008, \$2,450,000 term bonds due October 1, 2018 and \$83,225,000 term bonds due October 1, 2024. The Series 1998B Bonds bear a stated interest rate ranging from 4.00% to 5.00%, with \$34,840,000 due serially on October 1, 2000 through 2006. The Series 1998A and 1998B Revenue Refunding Bonds were issued to completely or partially defease \$82,990,000 of Series U, \$43,460,000 of Series V, \$24 million of Series W, and \$80 million of Series 1995B, net of an unamortized discount of \$4,234,069 and unamortized bond issuance costs of \$962,380, plus accrued interest payable of \$3,588,210. The net proceeds of \$231,017,532, plus \$11,298,000 of debt service account monies were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust administered by an escrow agent to provide for the debt service payments including principal and interest on the defeased portions of the Series U, Series V, Series W and Series 1995B Bonds.

In October 1997, the County issued \$200 million of Series 1997B and 1997C Aviation Revenue Bonds, of which the entire amount is outstanding at September 30, 1999, to provide funds for the payment of costs for certain airport improvements. The Series 1997B Bonds bear stated interest rates ranging from 4.750% to 5.125%, with \$78,485,000 due serially on October 1, 2001 through 2015, \$15,550,000 term bonds due October 1, 2017, and \$42,795,000 term bonds due October 1, 2022. The Series 1997C Bonds bear stated interest rates of 5.125%, with \$63,170,000 in term bonds due October 1, 2027.

Aviation Facilities Bonds

Aviation Facilities Bonds are issued under the provisions of the Aviation Facilities Master Bond Resolution and Series Resolution. The Aviation Facilities Bonds are collateralized by the Net Revenues of Specific Aviation Facilities, as defined in the Master Resolution, not financed under the provision of the Trust Agreement. These Aviation Facilities are segregated for accounting purposes in the Aviation Development Fund. No revenues from Port Authority Properties are pledged as collateral for these bonds. The Aviation Facilities Bonds do not constitute a debt of the County or a pledge of the full faith and credit of the County.

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

5. Debt (continued)

In December 1984, the County issued \$43.1 million of Series A Aviation Facilities Bonds of which \$31.5 million is outstanding at September 30, 1999. The interest on the bonds is adjusted weekly to the rate, which under prevailing market conditions would be necessary to remarket the bonds at a price equal to par. The County has the option to convert the interest rate on the bonds to a fixed rate. As of September 30, 1999, the County has not exercised this option. The Series A Aviation Facilities Bonds are collateralized by a letter of credit for the payment of principal and interest of such bonds.

In November 1992, the County issued \$106.9 million of 1992 Series B Aviation Facilities Bonds, of which \$96,790,000 is outstanding at September 30, 1999, to provide funds for the construction of certain new cargo facilities. The 1992 Series B Aviation Facilities Bonds bear a weighted-average interest of 6.32% with \$13,765,000 due serially on October 1, 1994 through 2005, \$5,790,000 due on October 1, 2007, \$22,470,000 due on October 1, 2013 and \$54,765,000 due on October 1, 2022.

In July 1994, the County issued \$139,995,000 of 1994 Series C Aviation Facilities Bonds, of which \$137,800,000 is outstanding at September 30, 1999, to finance certain aviation facilities at the Airport. The 1994 Series C Aviation Facilities Bonds bear stated interest rates ranging from 5.37% to 6.2% with \$67,705,000 due serially on October 1, 1999 through 2016, \$30,350,000 due on October 1, 2020, and \$39,745,000 due on October 1, 2024.

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

5. Debt (continued)

Maturities of Bonds Payable

The annual debt service requirements are as follows (*in thousands*):

<u>Year ending September 30</u>	<u>Aviation Revenue Bonds Principal</u>	<u>Aviation Facility Bonds Principal</u>	<u>Interest</u>
2000	\$ 48,065	\$ 6,105	\$ 98,001
2001	50,615	6,560	95,112
2002	53,335	7,120	92,018
2003	56,215	7,605	88,732
2004	59,335	8,220	85,174
2005-2009	321,360	52,820	364,137
2010-2014	194,440	45,105	274,203
2015-2019	227,705	62,595	202,761
2020-2024	298,155	69,960	110,073
2025-2029	179,900		18,038
	<u>\$1,489,125</u>	<u>\$266,090</u>	<u>\$1,428,249</u>
Less unamortized discount and deferred loss on defeased debt	<u>(50,198)</u>	<u>(3,384)</u>	
	<u>\$1,438,927</u>	<u>\$262,706</u>	
Weighted-average interest rate	<u>5.47%</u>	<u>6.07%</u>	

The interest requirements on the Aviation Facilities Bonds in the above table assumes interest in future years will be paid at the same rate as the weighted average rate for the year ended September 30, 1999 for the Series A Bonds.

Bond discounts are deducted from the face amount of bonds payable and are amortized as additional interest expense on the bonds outstanding method which approximates the interest method.

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

5. Debt (continued)

Defeased Debt

The County defeased certain series of Revenue Bonds by placing the proceeds of the new bond issues in irrevocable trusts. Such proceeds are invested in direct obligations of the U.S. Government and will provide for all future debt service payments on the old bonds. At September 30, 1999, \$121.4 million of bonds outstanding is considered defeased as follows:

Revenue Bonds	Date of Defeasance	Maturity Date	Amount Defeased	Outstanding at September 30, 1999
Series C	August 1985	October 1, 2007	\$35,705,000	\$ 17,400,000
Series W	July 1998	October 1, 2002	24,000,000	24,000,000
Series 1995B	July 1998	October 1, 2005	80,000,000	80,000,000
				<u>\$121,400,000</u>

6. Restricted Assets and Reserves

A summary of restricted assets at September 30 is as follows (*in thousands*):

	1999	1998
Construction Account	\$215,052	\$173,854
Bond Service and Reserve Account	87,421	84,313
Reserve Maintenance/Renewal and Replacement Account	26,176	18,385
	<u>\$328,649</u>	<u>\$276,552</u>

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

6. Restricted Assets and Reserves (continued)

A summary of retained earnings reserved for debt service and reserve maintenance at September 30 is as follows (*in thousands*):

	1999	1998
Debt service	\$33,141	\$32,732
Reserve Maintenance/Renewal and Replacement Account	26,018	18,171
	\$59,159	\$50,903

7. Contributed Capital

During the years ended September 30, 1999 and 1998 contributed capital changed as follows (*in thousands*):

	1999	1998
Contributed capital, beginning of the year	\$342,760	\$390,934
Federal and state government-capital grants	6,349	22,921
Cumulative effect of change in accounting principle	–	(62,290)
Depreciation on assets funded by capital grants	(11,073)	(8,805)
Contributed capital, end of the year	\$338,036	\$342,760

As discussed in Note 2, during 1998 the Aviation Department changed its method of accounting for depreciation on fixed assets funded by grants from government agencies. This was accounted for as a cumulative effect of a change in accounting principle during 1998.

8. Management, Operating, Concession, and Lease Agreements

Management Agreements

Certain properties are provided under management agreements with nationally recognized firms or local firms with expertise in their areas of service. Among these properties are the food and beverage facilities (through April 1998), public parking, newsstand facilities, gift shop facilities, pharmacy, sundries and lunch counters, special service lounges, fuel farm, baggage checkroom

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

8. Management, Operating, Concession, and Lease Agreements (continued)

services, child care facilities, the Airport Hotel and the Top of the Port Restaurant. These agreements provide for reimbursement of approved budgeted operating expenses and a fixed management fee or fees based on percentages of revenues or operating profits of the facilities. While the Aviation Department generally looks toward the management companies for recommendations relative to operation of the facilities, the Aviation Department does exercise complete budgetary control and establishes standards, guidelines and goals for growth and performance. Such actions are taken within the rights reserved to the Aviation Department under these agreements to control all aspects of the businesses. These include such matters as pricing, staffing, employee benefits, operating hours, facilities maintenance requirements, service levels, market selections, personnel policies and marketing strategies. In the event the management firm is not performing in accordance with the standards established by the Aviation Department, the Aviation Department has the authority to cancel such agreements. The management firms do not act as general agents on behalf of the County and, therefore, cannot obligate or commit the Aviation Department, without prior approval, beyond the scope of what is required to run the day-to-day operations of the managed properties as established by the budget approved by the Aviation Department. The revenues and expenses generated from the operations of these facilities are recorded as revenues from management agreements and operating expenses under management agreements, respectively.

Operating Agreements

Certain other services are provided under operating agreements with nationally recognized firms or local firms with expertise in their areas of service. These agreements provide to the Airport necessary services of employee shuttle transportation, janitorial services and porter services. These agreements provide for reimbursement of approved budgeted operating expenses and a fixed management fee. While the Aviation Department generally looks toward the operating companies for recommendations relative to these operations, the Aviation Department does exercise complete budgetary control and establishes standards, guidelines and goals for service and performance. Such actions are taken within the rights reserved to the Aviation Department under these agreements to control all aspects of the businesses. These include such matters as personnel policies, staffing, employee benefits, facilities maintenance requirements and service levels. In the event the operating firm is not performing in accordance with the standards established by the Aviation Department, the Aviation Department has the authority to cancel such operating agreements. The operating firms do not act as general agents on behalf of the County and, therefore, cannot obligate or commit the Aviation Department beyond the scope of what is required to run the day-to-day operations of managed properties as established by the

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

8. Management, Operating, Concession, and Lease Agreements (continued)

budget approved by the Aviation Department. The expenses associated with the operation of these facilities and services are recorded as operating expenses under operating agreements.

Concession Agreements

The Aviation Department has entered into concession agreements with duty-free merchandise shops, food and beverage facilities (commencing May 1998), various rent-a-car companies, aeronautical service companies, and certain terminal complex concessionaires. The agreements consist of both cancelable and noncancelable agreements and provide for a minimum annual rental and a franchise fee based on a percentage of the gross revenue, whichever is greater. Minimum future fees under such noncancelable concession agreements as of September 30, 1999, are as follows (*in thousands*):

Year ending September 30	
2000	\$18,508
2001	18,510
2002	18,484
2003	18,404
2004	18,365
	<u> </u>
	<u>\$92,271</u>

Lease Agreements

The leasing operations of the Aviation Department consist principally of the leasing of land, buildings and office space. The lease agreements consist of both cancelable and noncancelable agreements and permit the Aviation Department to periodically adjust rents and maximize operational flexibility. Minimum future rentals under such noncancelable lease agreements as of September 30, 1999, are as follows (*in thousands*):

Year ending September 30	
2000	\$34,495
2001	27,469
2002	16,978
2003	10,061
2004	4,404
	<u> </u>
	<u>\$93,407</u>

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

9. Insurance

The Aviation Department, along with most other County departments, participates in the self-insurance program of the County for workers' compensation insurance. The program is administered by the Risk Management Division of the General Services Administration Department of the County ("Risk Management"). Premiums on the self-insurance programs are based on prior year loss experiences. The long-term estimated liability for claims payable, including incurred but not reported ("IBNR"), is recorded at the County level and is estimated to be \$2,020,000 related to the Aviation Department as of September 30, 1999, based on an independent actuarial valuation. Therefore, such liability is not included in the accompanying Combined Financial Statements. The short-term liability for claims payable of \$1,163,000 and \$324,000 is included in "due to other County funds" in the accompanying Combined Financial Statements as of September 30, 1999 and 1998, respectively.

The Aviation Department also pays premiums to commercial insurance carriers for airport liability insurance, construction wrap-up insurance and property insurance. The airport liability coverage provides comprehensive general liability, contractual liability, personal injury and on-site automobile liability at all airports. Coverage under the policy is limited to \$150 million with a self-insured retention of \$50,000 per occurrence for a total aggregate annual retention of \$300,000. Coverage under the policy for personal injury is limited to \$25 million per occurrence. At September 30, 1999, the Aviation Department has recorded a liability of \$1.3 million in the accompanying Combined Financial Statements for estimated claims payable, including incurred but not reported, not covered by the policies due to self insured retention limits.

Changes in the Aviation Department's insurance liabilities during fiscal year 1998 and 1999 are as follows (*in thousands*):

Balance at October 1, 1997	\$1,300
Claims paid	(274)
Claims and changes in estimates	274
Balance at September 30, 1998	<u>1,300</u>
Claims paid	(724)
Claims and changes in estimates	724
Balance at September 30, 1999	<u><u>\$1,300</u></u>

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

9. Insurance (continued)

The construction wrap-up insurance policy and an excess insurance policy provide comprehensive general liability, contractual liability, personal injury liability and automobile liability for the County, contractors and other parties for occurrences arising out of designated construction projects at the airports. Coverage for this program is limited to \$150 million, with a deductible per occurrence of \$15,000 for property damage. Coverage is limited to \$150 million for automobile liability on-site and \$15 million off-site coverage in excess of \$1 million, which is provided by the contractor.

The property of the Aviation Department is insured under a countywide policy which covers all County property for risk of loss or damage subject to policy terms and conditions. The Aviation Department is allocated a portion of the premium by Risk Management, based on the value of the property of the Aviation Department as a percentage of the total value of the property of the County. Property values are obtained from annual appraisal updates. Property damage is covered up to approximately \$5.77 billion countywide and approximately \$2.0 billion of this amount is estimated for the Aviation Department. These limits apply to all perils except wind and flood, which have separate limits and deductibles. The policy has a \$1 million deductible per occurrence which is paid from the property trust fund administered by Risk Management. Windstorm coverage is limited to \$350 million countywide, the deductible amount equals 2% of the latest reported values subject to a minimum of \$5 million and a maximum of \$50 million deductible per location. At the beginning of each policy year, the property trust fund is replenished by the deductible amount.

The amount of insurance settlements during fiscal years 1999 and 1998 did not exceed the Aviation Department's insurance coverage.

10. Pension Plan and other Benefits

Defined Benefit Pension Plan

The Aviation Department, as a County department, participates in the Florida Retirement System (the System), a cost-sharing, multi-employer public employees retirement system ("PERS") which covers substantially all of the County's full-time and part-time employees. The System was created in 1970 by consolidating several employee retirement systems. All eligible employees, as defined by the state, who were hired after 1970 and those employed prior to 1970 who elect to be enrolled are covered by the System. Benefits under the plan vest after 10 years of service.

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

10. Pension Plan and other Benefits (continued)

Employees who retire at or after age 62 with 10 years of credited service are entitled to an annual retirement benefit, payable monthly for life. The System also provides for death and disability benefits. These benefit provisions and all other requirements are established by state statutes.

The payroll for Aviation Department employees covered by the System for the years ended September 30, 1999 and 1998 was approximately \$66.5 and \$59.4 million, respectively. The Aviation Department's total payroll for the years ended September 30, 1999 and 1998 was approximately \$76.2 and \$71.6 million, respectively.

Pension costs made, required and defined by the System, ranged between 10.2% and 21.2% of gross salaries for the year ended September 30, 1999 and 12.5% and 27.9% of gross salaries for the year ended September 30, 1998. Pension costs of the Aviation Department for the years ended September 30, 1999, 1998 and 1997, as required and defined by the System, were approximately \$11,907,000, \$13,646,000 and \$13,636,000, respectively, equal to the required contributions for each year. The Aviation Department's actuarially determined contribution requirements for fiscal year 1999, 1998 and 1997 represented 0.4% of the total contributions required of all of the System's participating agencies.

Ten-year historical trend information is presented in the System's June 30, 1999 annual report. This information is useful in assessing the System's accumulation of sufficient assets to pay pension benefits as they become due. A copy of the System's annual report can be obtained by writing to the Division of Retirement, Cedars Executive Center, 2639-C North Monroe Street, Tallahassee, FL, 32399-1560 or by calling (850) 488-5706.

Other

On June 6, 1995, the County approved the Departure Incentive Program (the "DIP") which allowed certain current eligible employees, as defined, to elect to leave the service of the County on or before January 31, 1996. Employees who elected to be covered by the DIP receive single health coverage in a County approved health plan or a cash supplement until they become eligible for Medicare, payment of all accrued sick leave in fiscal year 1997 with 3 percent interest and other benefits. As result of the DIP, the Department recorded a liability in the amount of \$2.4 million for the year ended September 30, 1995 which represents the liability to the Department for future benefits payable to employees who elected to be covered by the DIP as of September 30, 1995. The balance of this liability as of September 30, 1999 is approximately \$683,000.

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

11. Commitments and Contingencies

Environmental Matters

In August 1993, the Aviation Department and the County's Department of Environmental Resources Management ("DERM") entered into a Consent Agreement. Under the Consent Agreement, the Aviation Department agreed to correct environmental violations resulting from various tenants' failure to comply with their environmental obligations at the Airport including those facilities previously occupied by Eastern Airlines ("Eastern") and Pan American World Airways, Inc. ("Pan Am"). In addition, the Aviation Department had a study performed by an independent engineering firm to estimate the cost to correct the environmental violations noted in the Consent Agreement. This study was used as a basis to record the liability for environmental remediation at September 30, 1993.

In each subsequent year, the Aviation Department has received an updated study performed by an independent engineering firm to further update the estimated costs to correct the environmental violations noted in the Consent Agreement based on additional information and further refinement of estimated costs to be incurred. The Aviation Department has recorded as a liability the amount, which represents the low end of the range of cost estimates for cleanup. Management believes that no specific amount in the range represents a better estimate of the ultimate liability.

In 1999, the engineering study was further updated to reflect changes having occurred during the past year. As a result of the updated study and costs incurred in fiscal year 1999, the estimated range of the cost to correct such violations at September 30, 1999 is from \$127 million to \$249 million. The wide range of cost estimates for cleanup is due largely to uncertainties as to the nature and extent of environmental damages and the methods, which must be employed for their remediation. Such amounts are expected to be paid by the Aviation Department over 16 years. Management believes that no specific amount in the range represents a better estimate of the ultimate liability. As a result, the Aviation Department has recorded a liability of \$127 million in the Port Authority Properties at September 30, 1999. Management has allocated a portion of bond proceeds to fund this obligation and believes that the remaining amount can be funded from the operations of the Aviation Department.

During May 1998 a new Consent Agreement (State of Florida Consent Agreement) was signed with the State of Florida Department of Environmental Protection (FDEP). The State Consent Agreement encompasses and replaces the DERM agreement and includes additional locations where contamination exists or is suspected. The Aviation Department included locations where

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

11. Commitments and Contingencies (continued)

contamination is suspected under a “protective filing”. Under this protective filing, should FDEP ever require the Aviation Department to remediate these locations, the State of Florida would be required to incur all remediation costs greater than \$200,000 for each site.

In February 1999, the Aviation Department settled its Inland Protection Trust Fund (IPTF) case with FDEP concerning the cleanup of the sites formerly occupied by Eastern Airlines which are petroleum contaminated and are eligible for reimbursement. The settlement allocates \$1.7 million per year for a period of five years, to clean up those sites which impact the current Capital Improvement Program. The Aviation Department has also applied for \$40 million of reimbursable costs from the State IPTF for eligible petroleum cleanup costs. As of September 30, 1999, the Aviation Department received approximately \$20 million and in October 1999, the Aviation Department received an additional \$4 million. The Aviation Department has submitted additional supporting documentation to the State toward the recovery of an additional \$14 million.

A portion of the land at the Airport was formerly used as a facility for refurbishing military aircraft engines, a facility that was originally proposed to be included on the National Priorities List. The Aerodex Site is now part of the Defense Environmental Restoration Project—Formerly Used Defense Sites (“DERP—FUDS”) program. The Aviation Department was named as a Potentially Responsible Party (“PRP”) along with the Department of Defense and the company, which operated the military base on behalf of the Department of Defense. The Department of Defense has undertaken an investigation to determine the existence of other PRPs. Applicable federal law imposes joint and several liability on each PRP for the cleanup of such sites and as a result, the Aviation Department may be responsible for remediation costs attributable to other PRPs who are unable to pay their share of remediation costs. The Aviation Department cannot estimate at this time its share of the total cost of remediation due to a number of uncertainties including, but not limited to, the method and extent of remediation, the percentage of remediation costs attributable to the Aviation Department, and the financial capabilities of other identified PRPs. Preliminary estimates of the total remediation costs of this site range from \$78 million to \$182 million.

The Aviation Department will also incur remediation costs to meet clean soil requirements as a result of future development. Such amounts are not considered an expense until such time that the Aviation Department commits to the future development. It is estimated that these remediation activities will be in excess of \$38 million over the next 11 years.

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

11. Commitments and Contingencies (continued)

The liability recorded by the Aviation Department does not include sites at the Airport for which remediation is the responsibility of the Airport tenants, nor does it include an estimate of any environmental violations at the four general aviation airports or at the Training and Transition Airport. FDEP and DERM are dealing directly with the responsible tenants in connection with the remediation activities. Management of the Aviation Department is of the opinion that such amounts not remediated by the tenants, will not have an adverse effect on the financial position of the Aviation Department.

In addition to the studies conducted to determine the environmental damage to the sites occupied by Eastern and Pan Am, the Aviation Department caused studies to be performed to determine the amount required to remove or otherwise contain the asbestos in certain buildings occupied by the airlines. The Aviation Department has also estimated the amount required to remove or otherwise contain the asbestos in buildings other than those formerly occupied by Eastern and Pan Am. The studies estimate the cost to correct such damage related to all buildings to be approximately \$6.2 million. Such amounts do not represent a liability of the Aviation Department until such time as a decision is made by the Aviation Department management to make certain modifications to the buildings which would require the Aviation Department to correct such matters.

FDEP has not approved the use of RBCA (Risk Based Corrective Action), however if approved, management is reasonably certain that there will likely be a cost reduction on the recorded liability. After RBCA is approved, the Aviation Department will have an independent engineering firm update the cost estimates. Accordingly, no adjustments have been made to the liabilities recorded as of September 30, 1999 as a result of RBCA.

Passenger Facility Charges

The FAA is currently reviewing certain projects included in its 1996 Record of Decision, which authorized the collection of PFC revenue and their use on authorized projects, to determine if the percentages of PFC for certain projects are allocated correctly. If the FAA determines that these percentages are allocated incorrectly, the PFC monies disbursed could be disallowed from their original allocated projects by the FAA and transferred to other eligible projects. The transferring of PFC monies to other eligible projects will therefore reduce the collection time period and the amount collected for approved projects included in the 1997 Record of Decision. Management does not believe that there will be a material adverse effect on the financial position of the Aviation Department.

Miami-Dade County Aviation Department

Notes to Combined Financial Statements (continued)

11. Commitments and Contingencies (continued)

Airline Industry Factors

The Aviation Department management recognizes and continuously monitors those domestic and international factors affecting the airline industry, as a whole, and is of the opinion that the nature of its various contracts, agreements and methods of operation related to its revenue sources and expenses provide flexibility in adapting to uncertainties as they specifically affect the Aviation Department.

Other Commitments and Contingencies

As of September 30, 1999, the Aviation Department had approximately \$223,584,300 of major construction commitments outstanding.

A number of claims and lawsuits are pending against the County relating to the Aviation Department. However, in the opinion of management and the County Attorney, the ultimate outcome of such actions will not have a material effect on the financial position of the Aviation Department.

Federal grants are audited in accordance with the Single Audit Act, as amended, and OMB Circular A-133 to determine that they are in compliance with the terms and conditions of the grant awards. State of Florida grant awards are subject to audit by the respective Florida grantor agencies. It is the opinion of management that no material liabilities will result to the Aviation Department from any such audit.

Other Financial Information

**Miami-Dade County Aviation Department
Port and Non-Port Authority Properties
Combined Schedule of Cash Receipts & Disbursements of the Airports—
Revenue Accounts**

For the year ended September 30, 1999

(In Thousands)

	<u>Total</u>	<u>Miami International Airport</u>	<u>Opa-Locka Airport</u>	<u>Homestead Airport</u>	<u>Tamiami Airport</u>	<u>Training and Transition Airport</u>
Cash balance, September 30, 1998	\$ 1,581	\$ 1,581	\$ —	\$ —	\$ —	\$ —
Receipts:						
Rentals	99,517	96,847	1,719	288	663	—
Aviation fees	172,309	172,178	5	1	2	123
Commercial operations:						
Management agreements	119,909	119,909	—	—	—	—
Concessions	63,509	63,279	152	7	71	—
Other revenues	5,946	5,822	100	7	17	—
Interest collected on investments	2,798	2,798	—	—	—	—
Security deposits	2,021	1,895	36	9	81	—
Sale of investments	2,270,787	2,270,787	—	—	—	—
Expense refunds and reimbursements	1,787	1,787	—	—	—	—
Improvement account transfer (1)	19,250	19,250	—	—	—	—
Transfer from aviation development fund	15,769	15,769	—	—	—	—
Interfund	266	—	(787)	860	41	152
Total receipts	<u>2,773,868</u>	<u>2,770,321</u>	<u>1,225</u>	<u>1,172</u>	<u>875</u>	<u>275</u>
Disbursements:						
Airport operations	217,810	214,263	1,225	1,172	875	275
Management agreements	67,218	67,218	—	—	—	—
Operating agreements	22,188	22,118	—	—	—	—
Purchase of investments	2,291,125	2,291,125	—	—	—	—
Transfers to:						
Bond service account	138,732	138,732	—	—	—	—
Bond redemption account	1,465	1,465	—	—	—	—
Construction account	1,820	1,820	—	—	—	—
Reserve maintenance account	8,000	8,000	—	—	—	—
Improvement fund	21,981	21,981	—	—	—	—
Other transfers	4,000	4,000	—	—	—	—
Interfund (2)	(1,141)	(1,141)	—	—	—	—
Capital expenditures	843	843	—	—	—	—
Total disbursements	<u>2,774,041</u>	<u>2,770,494</u>	<u>1,225</u>	<u>1,172</u>	<u>875</u>	<u>275</u>
Net receipts and disbursements	<u>(173)</u>	<u>(173)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Cash balance, September 30, 1999	<u>\$ 1,408</u>	<u>\$ 1,408</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

(1) This amount represents deposits in the Improvement Account which were transferred to the Revenue Account in accordance with the provisions of certain Airline Agreements between the County and certain airlines using Miami International Airport (see Note 1 to the Combined Financial Statements).

(2) These amounts represent the excess of cash receipts over cash disbursements from the operations of the various airports. Such excesses are transferred to Miami International Airport Aviation Development Fund.