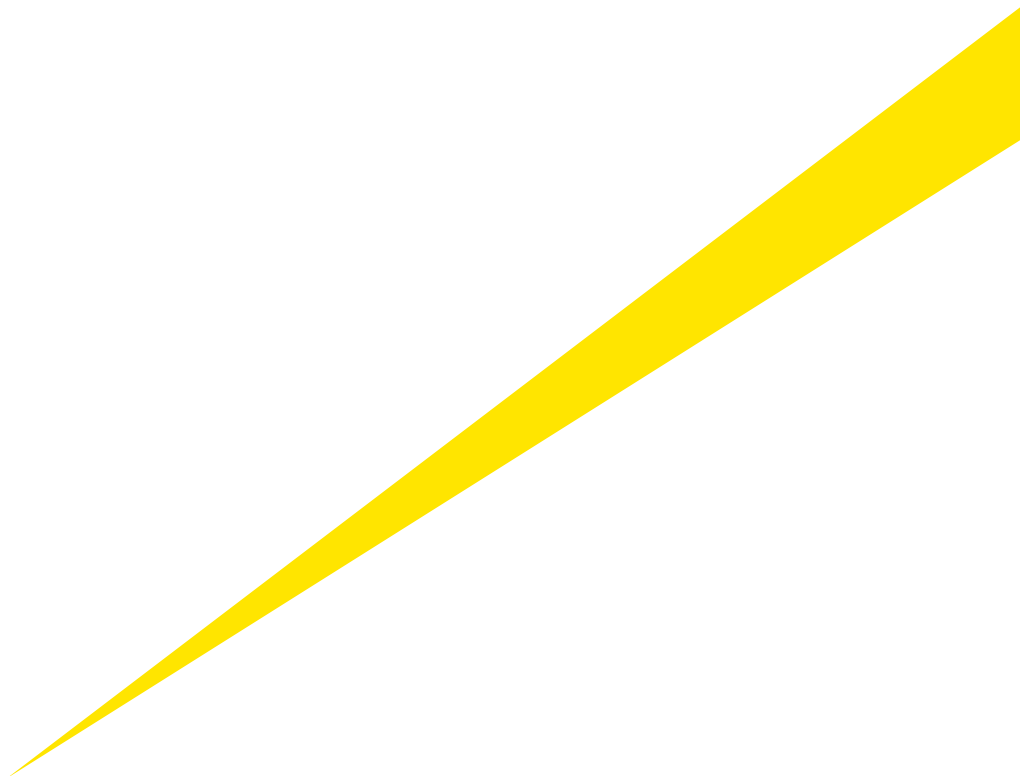


FINANCIAL STATEMENTS

Tampa Bay Water (A Regional Water Supply Authority)
Years Ended September 30, 2010 and 2009
With Reports of Independent Certified Public Accountants

Ernst & Young LLP



Tampa Bay Water
(A Regional Water Supply Authority)

Financial Statements

Years Ended September 30, 2010 and 2009

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Report of Independent Certified Public Accountants

The Board of Directors
Tampa Bay Water, A Regional Water Supply Authority

We have audited the accompanying balance sheets of Tampa Bay Water, A Regional Water Supply Authority (the Agency), as of September 30, 2010 and 2009, and the related statements of revenue, expenses, and change in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Agency'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 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. We were not engaged to perform an audit of the Agency's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tampa Bay Water, A Regional Water Supply Authority, at September 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the financial statements, the Agency changed its method of accounting for its derivative instruments as a result of the adoption of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, effective October 1, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2011, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of

internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 21 and the schedule of funding progress on page 71 are not a required part of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. 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.

Ernst + Young LLP

February 7, 2011

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis

Years Ended September 30, 2010 and 2009

This section of Tampa Bay Water, A Regional Water Supply Authority's (the Agency) annual financial report presents management's analysis of the Agency's financial performance during the fiscal years ended September 30, 2010 and 2009. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

- The Agency owns and operates facilities having a net book value of \$1.19 billion to provide water to its six member governments. Financial data for the years ended September 30, 2010 and 2009, reflects the Agency's operations and maintenance of its existing facilities, as well as the development of new facilities to meet the region's future water needs. The facilities operating in both 2010 and 2009 included 14 regional wellfield systems, the Enhanced Surface Water System, and the Seawater Desalination Facility. The Enhanced Surface Water System is comprised of the Regional Surface Water Treatment Plant, High Service Pumping Station, Tampa Bypass Canal Pump Station and Pipeline, Alafia River Intake and Pump Station, and C.W. Bill Young Regional Reservoir. Additionally, operating facilities include Cypress Creek Pump Station and Keller Hydrogen Sulfide Treatment Facility, as well as various booster stations, water treatment facilities, and approximately 200 miles of collection mains and large-diameter potable water transmission mains. The Agency also has administrative, laboratory, and infrastructure management facilities at Cypress Creek Wellfield and an administrative facility in Clearwater. The Agency is focused on the efficient and cost-effective management of this integrated system through improved processes, utilization of new technologies, and appropriate staffing. The Agency is currently engaged in a strategic planning process, which will further focus Agency activities for the future. A management and performance audit was also completed in fiscal 2010, which outlines the Agency's strengths and provides additional focus for enhancements in operational efficiency.
- The Agency's resources are also dedicated to development of additional water supply to meet the future water needs of the Hillsborough-Pasco-Pinellas County region. It requires 6 to 10 years to plan, permit, design, and build drinking water facilities. In 2006, the Agency's Board of Directors selected the System Configuration II (Config II) projects to meet the region's water needs in 2011 and beyond. In 2010, nine of these projects were in various stages of construction, including three that reached substantial completion and were placed in service. These activities resulted in a \$57.7 million or 5.1% increase in capital assets. Construction activities on these same projects also resulted in the \$67.6 million or 6.4% increase in capital assets from 2008 to 2009. This is a series of phased projects that will build on the existing Enhanced Surface Water System, including modification of the existing water

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Highlights (continued)

use permits at the Hillsborough River and Tampa Bypass Canal to use additional mid-range higher flows. The projects include expansion of various facilities, as well as a new South Central Hillsborough Booster Station, a new Offstream Reservoir Pump Station, and several additional interconnecting pipelines. The two later phases of the Enhancements project were also approved for continued study. These phases include potentially building a second reservoir, use of additional mid-range higher flows from the Alafia River, and downstream augmentation of the Hillsborough River as alternatives to meet the region's water needs through 2027.

- As more fully explained in Notes 2 and 11 to the financial statements, the Agency implemented Government Accounting Standards Board (GASB) Statement 53 to account for its derivatives, which is a change in accounting method. The Agency previously followed Statement of Financial Accounting Standards (SFAS) 133 in reporting its derivatives. This change in accounting method has resulted in a restatement of certain fiscal 2009 amounts for comparative presentation. Notes 2 and 11 provide additional discussion and the financial impact of this change on the 2009 and 2010 financial statements.
- The Agency's net assets increased \$80.0 million or 13.3% in fiscal 2010, reflecting, most notably, a \$57.7 million increase in the Agency's investment in property and construction-in-progress, of which \$39.4 million was funded from capital contributions, final redemption of \$21.2 million demand bonds outstanding paid from capital contributions and an \$8.0 million net impact of recording derivative fair value changes.
- The Agency's restricted assets, consisting of cash, investments, and grants receivable, decreased by \$45.5 million or 12.8% from 2009 to 2010 due to expenditure of construction funds on the Config II projects of \$31.1 million and a reduction in grants receivable of \$16.5 million.
- Capital contributions include \$21.2 million received from the Southwest Florida Water Management District (the District) under the agreement to provide funding for construction of the desalination facility. These funds were used to redeem \$21.2 million of the Agency's Series 2002 Variable Rate Bonds.
- Capital contributions also include \$39.4 million reimbursement from the District for Config II project costs.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Highlights (continued)

- Reduced water demand from its six members resulted in a decrease in water production from 171.14 mgd in 2009 to 152.30 mgd in 2010. The current economic environment, as well as increased rainfall, contributed to the reduced demand.
- Budgetary constraints and reduced water demand resulted in the Agency's 2010 operating revenue decreasing by \$3.3 million or 2.1% from 2009. Operating revenue consists of revenue from water sales of \$149.2 million and \$5.5 million utilized from the Rate Stabilization Account in accordance with contractual obligations with the Agency's members and Agency accounting policies.
- As a result of the decreased water production and its 2010 budget policies, the Agency's operating expenses declined by \$12.5 million or 15.4% from 2009 to 2010.
- In 2010, there was a net loss on disposition of assets of \$9.8 million due primarily to the write-off of several development projects determined to no longer be either technologically or financially feasible.
- During 2010, the Agency assembled an advisory team and commenced a competitive procurement process in furtherance of its plan to find a permanent solution to the failure of the regional reservoir's flat-plate soil-cement as an erosion control measure. The procurement process is scheduled to be completed in 2011 and a permanent fix completed in late 2014. Currently, the reservoir is operating at or near full capacity with no change in service utility. Management does not anticipate any decline in service utility until the remediation period. The reservoir will be taken out of service for approximately 24 months for the remediation process. The Agency has coordinated with the District to accommodate unusual circumstances related to usage of the other water supplies which may be needed if the region experiences drought conditions at that time and must rely more heavily on ground water supplies.

Overview of the Financial Statements

This annual report consists of two parts: management's discussion and analysis of the financial statements and the financial statements. The financial statements also include notes that explain the information contained in the financial statements in greater detail.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Required Financial Statements

The financial statements of the Agency use accounting methods similar to those used by private sector companies. The balance sheets include all of the Agency's assets and liabilities and provide information about the nature and amounts of investment in resources (assets) and the obligations to Agency creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and noncurrent assets and liabilities. Current assets are those assets expected to be converted to cash or used to pay current liabilities within 12 months. Current liabilities are those expected to be paid within 12 months. Conversely, non-current assets and liabilities are those expected to extend beyond a 12-month period. The balance sheet also provides the basis for computing rate of return, evaluating the capital structure of the Agency, and assessing the liquidity and financial flexibility of the Agency. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. This statement reports information about the Agency's activities and measures the success of the Agency's operations over the past year. The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Agency's sources and uses of cash during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of the Agency

Our analysis of the Agency begins with a measure of the Agency's financial position or financial health by reporting its assets and liabilities and the difference between them, the "net assets." Over time, increases or decreases in the Agency's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as new water supply facilities, water demand, economic conditions, population growth, state and federal regulation, and changes in government legislation must also be considered in evaluating the Agency's financial health. Consideration also needs to be given to the terms of the Agency's agreements with its Members under which water rates are established based on budgeted operating and capital costs, as well as certain reserve requirements. The statements of revenues, expenses, and changes in net assets provide information that is useful in evaluating whether the Agency has successfully recovered all its costs through its water rates and other charges, as well as its credit worthiness.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Net Assets

To begin our analysis, a summary of the Agency's Balance Sheets is presented in Table A-1.

Table A-1

Condensed Balance Sheets
(In Millions of Dollars)

	FY 2010	FY 2009	FY 2008
	<i>(Restated)</i>		
Assets			
Current and other assets	\$ 131.2	\$ 99.1	\$ 96.4
Restricted assets	309.8	355.3	379.1
Capital assets and water capacity rights	1,506.2	1,448.5	1,381.0
Total assets	\$ 1,947.2	\$ 1,902.9	\$ 1,856.5
Liabilities and net assets			
Liabilities:			
Demand bonds outstanding	\$ -	\$ 21.2	\$ 63.7
Long-term debt outstanding	1,087.2	1,116.2	1,144.2
Other liabilities	176.7	162.2	145.4
Total liabilities	1,263.9	1,299.6	1,353.3
Net assets:			
Invested in capital assets, net of related debt	611.1	527.8	429.0
Restricted	39.1	54.0	42.0
Unrestricted	33.1	21.5	32.2
Total net assets	683.3	603.3	503.2
Total liabilities and net assets	\$ 1,947.2	\$ 1,902.9	\$ 1,856.5

As shown in the table above, total net assets increased \$80.0 million or 13.3% to \$683.3 million in fiscal 2010 from \$603.3 million in fiscal 2009. The major component of net assets is the amount invested in capital assets, net of related debt, which increased by \$83.3 million during

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Net Assets (continued)

the fiscal year. This increase results primarily from a \$57.7 million increase in property and construction-in-progress of which approximately \$39.4 million was funded from capital contributions, a \$21.2 million reduction in debt funded from capital contributions, and a \$25.4 million increase in deferred outflow of resources from derivative instruments, offset by a \$17.4 million increase in derivative instruments.

Total net assets increased \$98.4 million or 19.5% from \$504.9 million in fiscal 2008 to \$603.3 million in 2009 due primarily to the \$97.1 million increase in net assets invested in capital assets, net of related debt. This was the result of an increase in construction-in-progress of \$62.6 million, a \$15.1 million decrease in the outstanding debt allocable to acquisition of capital assets, and a \$17.9 million increase in deferred outflow of resources from derivative instruments.

Further examination of net assets shows that restricted net assets (those established by debt covenants, enabling legislation, or other legal requirements) experienced a decrease of \$14.9 million in fiscal 2010. This decrease is due primarily to a decrease in restricted grants receivable of \$16.5 million, which reflects the collection of the final amounts due under a grant related to the desalination plant. A \$28.7 million decrease in restricted cash and investments is offset by a corresponding decrease of \$30.6 million in the allocation of outstanding debt whose proceeds generated the restricted cash and investments.

From 2008 to 2009, restricted net assets increased \$12.0 million. This increase was the net impact of a \$35.8 million decrease in debt related to the acquisition and construction of capital assets offset by a \$23.8 million decrease in cash held in construction funds resulting from payment of project expenditures.

Unrestricted net assets increased by \$11.6 million from 2009 to 2010 and represent the funds generated from current year activities that are available to finance day-to-day operations.

Unrestricted net assets decreased by \$10.7 million from 2008 to 2009.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Change in Net Assets

Table A-2

Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(In Millions of Dollars)

	FY 2010	FY 2009	FY 2008
	<i>(Restated)</i>		
Operating revenues	\$ 154.7	\$ 158.0	\$ 155.4
Operating expenses	(68.5)	(81.0)	(71.6)
Operating income before depreciation	86.2	77.0	83.8
Depreciation	(21.7)	(25.0)	(22.3)
Operating income	64.5	52.0	61.5
Investment revenue, net	11.7	4.3	8.3
Interest expense, net	(48.0)	(51.1)	(48.4)
Loss on disposal of capital assets, net	(10.1)	(3.7)	(2.1)
Change in fair value of swaption, net	–	–	(10.0)
Litigation recoveries (settlements)	1.1	0.1	(2.0)
Income before contributions	19.2	1.6	7.3
Capital contributions	60.8	96.8	36.6
Change in net assets	80.0	98.4	43.9
Total net assets – beginning	603.3	503.2	459.3
Restate net assets for GASB 53	–	1.7	–
Total net assets – beginning restated	603.3	504.9	503.2
Total net assets – ending	\$ 683.3	\$ 603.3	\$ 503.2

Table A-2 reflects the statements of revenues, expenses, and changes in net assets and provides information as to the nature and source of these changes. Beginning net assets for fiscal 2009 has been restated to reflect the impact of implementation of GASB 53 on periods prior to 2009. See Notes 2 and 11 to the financial statements for further discussion of GASB 53 implementation.

As shown above, 2010 income before contributions increased net assets by \$19.2 million or 3.2%. This increase is due primarily to a \$9.2 million increase in operating income before depreciation, a \$3.3 million decrease in depreciation expense, a \$3.1 million decrease in interest

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Change in Net Assets (continued)

expense and a \$1.0 million increase in litigation recoveries. The loss on disposal of capital assets of \$10.1 million reflects the Agency's equipment dispositions during the current year as well as the write-off of several discontinued projects. The overall increase in net assets of \$80.0 million results primarily from the receipt of \$39.4 million in grants from the District for reimbursement of costs related to development of the Config II projects as well as \$21.2 million related to the desalination facility, in addition to the factors discussed above.

In 2009, income before contributions increased net assets by \$1.6 million or less than 1%. The overall increase in net assets of \$98.4 million results from \$96.8 million capital contributions received from the State of Florida and the District for reimbursement of certain expenses under the terms of a grant related to the desalination facility and a grant for reimbursement of costs related to the Config II projects.

As illustrated in the following charts, total water sales billed to Member Governments were \$149.2 million in 2010 compared to \$151.7 million in 2009 and \$152.5 million in 2008. Demand decreased by 11% from 171.14 mgd (millions of gallons per day) in 2009 to 152.30 mgd in 2010. This followed a decrease in demand of 2.95% from 176.34 mgd in 2008. The decline in demand results from a combination of factors including the continued impacts of regional economic conditions, as well as an El Nino year that resulted in above normal precipitation. Consequently, with Hillsborough River flows sufficient to meet its self-supplied needs, regional water demand for City of Tampa dropped from 12.88 mgd in 2009 to zero in 2010. Water sales to Tampa had increased from 6.18 mgd in 2008 to 12.88 mgd in 2009 as a result of the impact of continued drought conditions on Tampa's surface water sources. Although City of Tampa demand increased in 2009, overall the Agency experienced a 2.95% decrease in water demand from 2008 to 2009 due primarily to the impact of economic conditions and District imposed water restrictions. In 2008, the Agency had also experienced a decrease in demand from 2007 as a result of the economic decline and decreased spring outdoor irrigation needs.

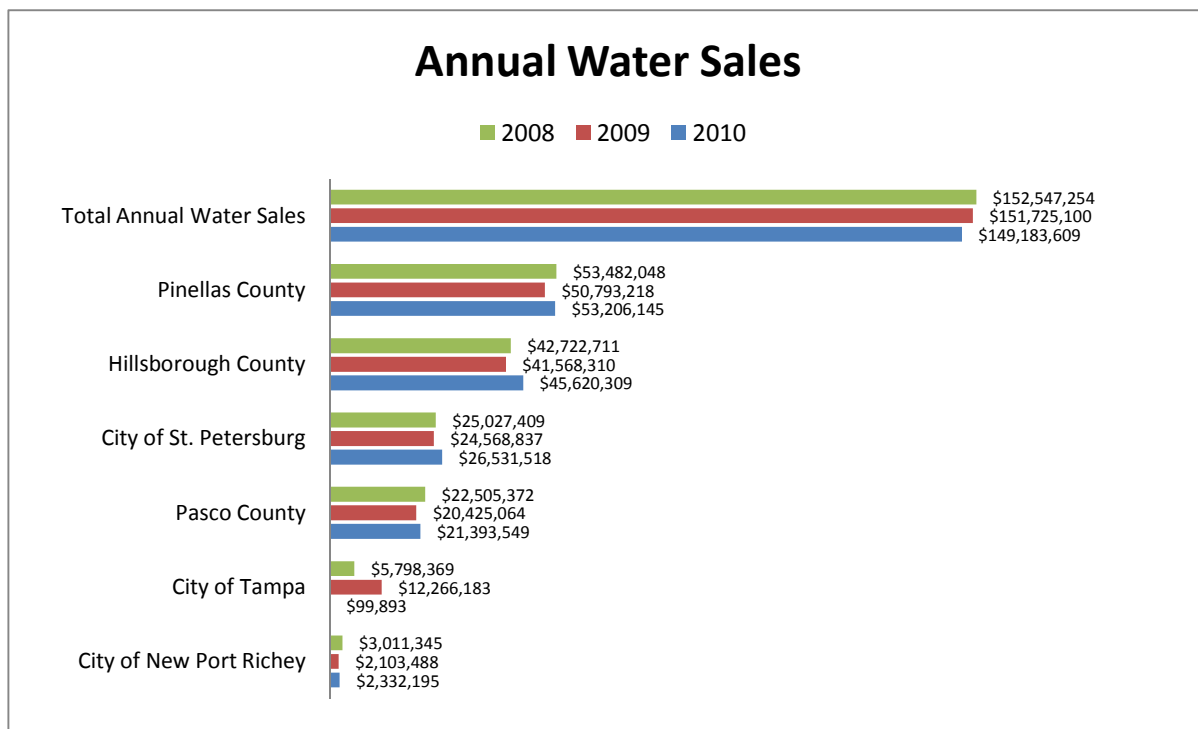
Amounts billed differ from total water sales revenue by the amount of water sales revenue that is collected but deferred to subsequent periods or recognized from deferred revenue of previous periods. In 2010 deferred revenue decreased by \$5.5 million or 15.0% from 2009 with a corresponding increase in revenue as a result of budgeted use of rate stabilization funds to meet operating expenses. Deferred revenue also decreased \$6.3 million and \$2.9 million as the result of budgeted use of rate stabilization funds for operations in 2009 and 2008, respectively.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Change in Net Assets (continued)

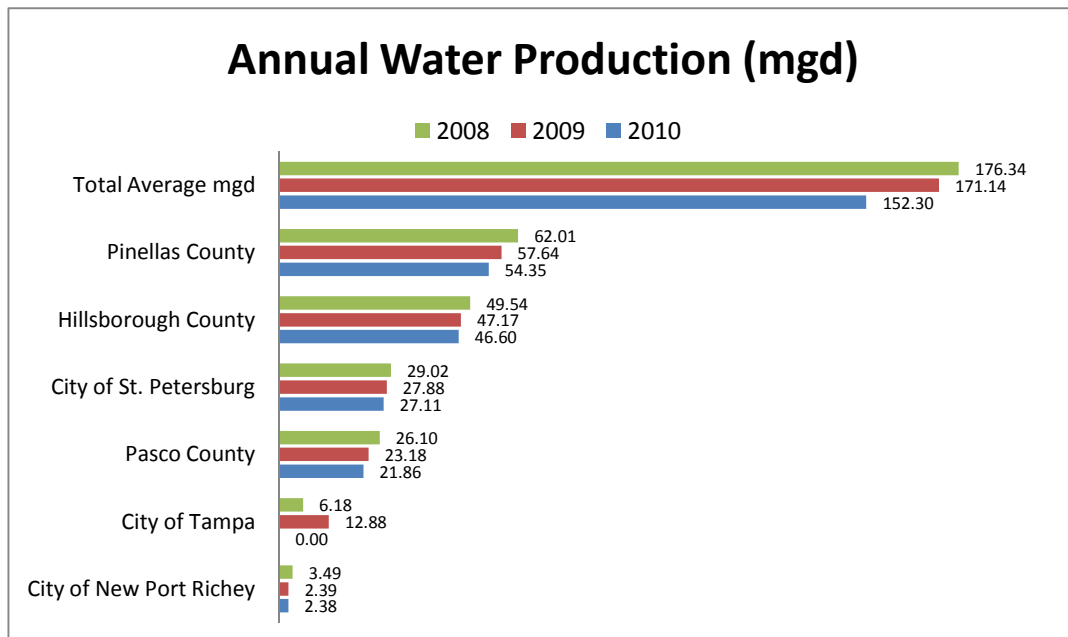


Tampa Bay Water
(A Regional Water Supply Authority)

Management’s Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Change in Net Assets (continued)



In its 2010 budget process, the Agency focused on holding its controllable expenses to its 2008 actual expenditures levels wherever operationally feasible. As a result of this focus and the decreased demand for water, the Agency’s operating expenses in 2010 declined by \$12.5 million or 15.4% from 2009. Notable reductions included a \$5.7 million reduction in professional service costs partially offset by a \$2.2 million increase in legal services, a \$4.1 million reduction in power costs, and a \$3 million decrease in chemicals associated with reduced production.

The Agency’s capital improvement program has included development of alternative water sources, including surface water and desalination, which generally cost more to produce than traditional ground water. In both 2009 and 2008, the increased use of these alternative facilities combined with price increases in various commodities, chemicals, and power resulted in increased operating expenses. Expenses increased \$9.4 million or 13.1% from 2008 to 2009 and \$15.6 million or 27.9% from 2007 to 2008.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Change in Net Assets (continued)

Depreciation expense decreased \$3.3 million in 2010 from 2009 due to the final removal of the alkalinity adjustment facility at the Regional Water Treatment Plant, which was being depreciated on a reduced estimated useful life in anticipation of its removal from service when expansion of the plant was completed. Depreciation increased \$2.7 million from 2008 to 2009 due primarily to the shortened useful life of this same alkalinity adjustment facility. Depreciation increased \$1.2 million from 2007 to 2008 due to a partial or full year of depreciation for the various facilities placed in service in 2008 and 2007 respectively.

Concerns over the stability of financial markets continue to delay investing in higher yielding investments. Investment revenue after capitalization increased by \$7.4 million from 2009 to 2010 primarily due to the impact of recording certain derivative fair value changes in investment revenue. Investment revenue before capitalization increased \$6.8 million due to the recording of derivative fair value changes, offset by a reduction in realized earnings of \$0.9 million from 2009 to 2010. The continued decrease is due primarily to expenditure of construction funds and the continuing impact of historically low interest rates, particularly as they affect public deposit account and certificate of deposit rates. Investment revenue decreased \$4.1 million (before the effects of interest capitalization and derivative fair value changes) in 2009 as a result of several significant factors: Agency funds remained largely in public deposit accounts, including certificates of deposit, due to concerns with the financial markets; interest rates continued to decline; a \$37.3 million repurchase agreement paying 5.6% was terminated due to concerns over the financial stability of the provider, and the funds were placed in a lower yield public deposit account. Investment revenue decreased \$2.8 million in 2008 due largely to withdrawal of Agency funds from the Florida Local Government Surplus Funds Trust Fund (SBA) and to the drop in rates on public deposit accounts.

Interest expense decreased \$3.1 million net of interest capitalized. The reduction is due primarily to a \$1.6 million increase in the portion capitalized resulting from increased construction project activity, as well as a \$1.6 million decrease in interest costs resulting from the annual amortization of principal and final redemption of the 2002 bonds. Interest expense increased \$2.7 million in 2009 due in part to a \$3.4 million increase for the first full year of interest on the 2008 bonds and offset by a \$1.5 million reduction in interest on the 2002 variable rate bonds due

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Change in Net Assets (continued)

to reductions in the amount outstanding of \$42.5 million in March 2009 and \$21.2 million in March 2008. Interest expense decreased by \$2.0 million in 2008 due to the impact of paying off the final \$15 million of the 1999 capital interest bonds and the \$21.2 million reduction of the Series 2002 Bonds.

Loss on disposal of capital assets consists of the net gain or loss from sale or disposal of obsolete, damaged, or surplus equipment and property, and the write-off of costs of discontinued projects. In 2010, the net loss resulted primarily from the \$9.8 million write-off of investigatory and feasibility study costs of several water supply development projects determined to not be technologically or financially feasible for further development. In 2009, the net loss resulted primarily from the write-off of costs associated with removal and relocation of the existing sludge drying bed due to the expansion project at the Surface Water Treatment Plant and disposition of the remaining groundwater treatment plant equipment. In 2008, there was a net loss from the write-down of carrying costs of a groundwater treatment plant scheduled for demolition and the write-off of costs associated with the discontinued 72" Transmission Main project.

Capital Assets

The Agency had invested \$1,188.2 million, \$1,130.5 million, and \$1,062.9 million at September 30, 2010, 2009, and 2008, respectively, in a broad range of infrastructure including wellfields, water treatment and pumping facilities, transmission mains, buildings, a reservoir, and other maintenance and administration equipment as shown in Table A-3. The Agency has an additional \$318.1 million invested in water rights at the various wellfields.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Capital Assets (continued)

Table A-3

Capital Assets
(In Millions of Dollars)

	FY 2010	FY 2009	FY 2008
Land and improvements	\$ 81.9	\$ 81.5	\$ 81.0
Wells and wellfield improvements	157.1	156.8	156.6
Water treatment and pumping facilities	453.8	432.4	426.3
Transmission mains	297.3	295.3	282.5
Buildings	17.3	17.3	16.9
Reservoir	147.6	147.6	147.6
Other equipment and software	16.2	22.1	17.0
	1,171.2	1,153.0	1,127.9
Less accumulated depreciation	181.5	171.0	150.7
	989.7	982.0	977.2
Construction-in-progress:			
Water treatment plants and booster stations	143.0	85.8	43.0
Transmission mains	6.3	4.5	2.7
Surface water sources and pumping facilities	35.2	35.6	17.9
Wellfields and improvements	7.7	9.2	9.0
Desalination facilities	6.0	11.6	11.6
Other supply and infrastructure	0.2	1.6	1.5
Software in development	0.1	0.2	-
	198.5	148.5	85.7
Capital assets, net	\$ 1,188.2	\$ 1,130.5	\$ 1,062.9

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Capital Assets (continued)

The Agency has a variety of projects in various stages of development to improve or expand existing facilities and to meet future demand for water. In 2010, construction-in-progress increased \$50 million over 2009 due to continuing construction of the System Configuration II projects. Significant project activity included the Surface Water Treatment Plant expansion, High Service Pump Station expansion, Offstream Reservoir Pump Station, Cypress Creek Pump Station expansion, South Central Hillsborough Booster Station, Tampa Bypass Canal Pump Station expansion, Morris Bridge Booster Station expansion, Northwest Hillsborough Pipeline and the Repump Station expansion. Of these projects, the High Service Pump Station expansion, Morris Bridge Booster Station expansion, and the Repump Station expansion were placed in service in 2010.

In 2009, construction-in-progress increased \$62.7 million over 2008 due to increased construction activity on the components of System Configuration II (predominantly the Surface Water Treatment Plant expansion, South Central Hillsborough Booster Station, Tampa Bypass Canal Pump Station expansion, High Service Pump Station expansion, and the Repump Station expansion).

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Debt Administration

The Agency has issued various series of debt to finance the construction of new sources of water to meet the needs of its Member Governments, as well as facilities at Clearwater and Cypress Creek Wellfield to meet administrative and security needs.

Bond Ratings	Limitations on Debt
Agency ratings from Moody's, Standard & Poor's and Fitch are Aa2, AA+, and AA+, respectively. All outstanding bonds except the 2008 Series bonds carry insurance with Financial Guaranty Insurance Company. Financial Guaranty Insurance Company ratings from Moody's, Standard & Poor's and Fitch were withdrawn in 2009.	Bond Covenants allow for the issuance of additional debt, on parity, as to lien, on the net revenues of the Agency provided certain net earnings ratios are met. The major criteria are: (1) that the net revenues (as defined in the Covenants) for any 12 consecutive months selected by the issuer, of the 24 months immediately preceding the issuance of the additional bonds, together with the fund balance (as defined in the Covenants) on the last day of such 12-month period, were equal to at least 125% of the debt service on the outstanding bonds during such 12-month period and (2) the net revenues for such 12-month period were equal to at least 100% of: (a) the debt service due on the outstanding bonds for the 12-month period, (b) any required deposit to the Renewal and Replacement Fund, and (c) any required deposit to the Reserve Fund. The Agency is in compliance with all required financial and nonfinancial debt covenants.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Debt Administration (continued)

Table A-4

Cost of Capital

	Debt Balance	Average Coupon Rate
	<i>(In Millions)</i>	
1998A Bonds	\$ 27.4	4.75%
1998B Bonds	38.3	4.75
1999 Bonds	14.8	5.00
2001A Bonds	302.9	5.25
2001B Bonds	161.3	5.00
2004 Bonds	101.0	5.20
2005 Bonds	171.5	5.48
2006 Bonds	76.6	4.55
2008 Bonds	101.4	5.00
	\$ 995.2	

The \$21.2 of 2002 Variable Rate Revenue Bonds outstanding at September 30, 2009, were redeemed in full on April 30, 2010. The variable rate, including fees, on the bonds was 0.83% at September 30, 2009, and had increased to 1.13% at the time the bonds were redeemed, due to an increase in the effective rate of the letter of credit commitment fee.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Debt Administration (continued)

Under the Agency's budgetary process, rates are established to provide adequate coverage for existing and planned additional debt. This is demonstrated by the Agency's coverage ratios, which are 1.37, 1.34, and 1.36 at September 30, 2010, 2009, and 2008, respectively. These coverage ratios are another indicator of the Agency's financial strength and future borrowing capability.

Table A-5

Debt Coverage Ratio
(In Millions of Dollars)

	FY 2010	FY 2009	FY 2008
Revenue from sales	\$ 154.7	\$ 158.0	\$ 155.4
Less: Purchase price amortization credit	(10.3)	(10.3)	(10.4)
Grant proceeds available for debt service (Notes 4 and 5)	-	10.3	-
Litigation and insurance recoveries	1.1	0.1	-
Investment revenue – unrestricted (Note 1)	2.7	3.0	7.7
Total revenue	<u>148.2</u>	<u>161.1</u>	<u>152.7</u>
Operation and maintenance expenditures (Note 2)	(70.2)	(84.5)	(78.6)
Net revenue for coverage calculation	<u>\$ 78.0</u>	<u>\$ 76.6</u>	<u>\$ 74.1</u>
Total debt service on bonds	\$ 74.4	\$ 74.9	\$ 71.4
Required deposit to Capital Improvement Fund	0.2	0.2	0.8
Required deposit to Renewal and Replacement Fund	1.2	0.8	0.9
Total debt service and reserve requirements	<u>\$ 75.8</u>	<u>\$ 75.9</u>	<u>\$ 73.1</u>
Debt service and reserve coverage (times)	<u>1.03</u>	1.01	1.01
Fund balance (Note 3)	\$ 23.9	\$ 23.6	\$ 23.4
Net revenue plus fund balance	<u>\$ 101.9</u>	<u>\$ 100.2</u>	<u>\$ 97.5</u>
Debt service coverage (times)	<u>1.37</u>	1.34	1.36

Note 1: Investment revenue does not include interest on construction funds of \$0.40 million, \$0.06 million, and \$0.60 million in 2010, 2009, and 2008, respectively, or unrealized investment revenue from derivative instruments of \$8.6 million and \$1.2 million in 2010 and 2009, respectively.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Debt Administration (continued)

- Note 2: Operation and maintenance expenditures include capital expenditures for maintenance of the existing system of \$1.7 million, \$3.6 million, and \$5.0 million in 2010, 2009, and 2008, respectively, as well as \$2.0 million litigation settlement in 2008.
- Note 3: Fund balance is defined by the Bond Resolution and is calculated as of the prior year-end in accordance with the Bond Resolution.
- Note 4: Debt service coverage is calculated on the total debt service requirement, net of any capitalized interest provided from bond proceeds, in accordance with the Bond Resolution. In 2008, interest on the 2008 bonds of \$1.6 million was funded from bond proceeds, therefore it is not includible in the coverage calculation.
- Note 5: For purposes of calculating Debt Service Coverage, the Bond Resolution defines "Gross Revenues" to include proceeds of government grants available for payment of debt service.

Economic Factors and Next Year's Budget and Rates

The Agency's rate structure consists of a fixed cost portion to ensure funding of necessary activities and debt service and a variable cost portion to provide funding for costs, which fluctuate directly with production.

The Agency's Board of Directors and management considered many factors when setting the fiscal year 2011 budget and water rates (Uniform Rate). These factors include the estimated demands provided by the Agency's Member Governments, which in turn consider such factors as anticipated population growth of the three counties, environmental conditions, and the economy of the region as a whole. The budgeted Uniform Rate for 2011 is \$2.5295 per thousand gallons as compared to a rate of \$2.3980 in 2010 and \$2.2451 in 2009. Even though the budgeted expenditures for 2011 decreased by \$4.1 million or 2.6% from the 2010 budgeted expenditures, the rate is increasing. This rate increase results from a 7.7% decrease in the expected demand for water from a budgeted demand of 176.6 mgd in 2010 to 163 mgd in 2011.

The Agency uses surveys of its Member Governments and local employment market rates when establishing its job classifications and pay plan. These indicators were also taken into consideration when adopting the Agency budget for fiscal year 2011.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Other Information

This financial report is designed to provide a general overview of the Agency's finances for those having an interest therein. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance and Administration at 2575 Enterprise Road, Clearwater, FL, 33763. Information about the Agency is also available on its website at www.tampabaywater.org.

Financial Statements

Tampa Bay Water
(A Regional Water Supply Authority)

Balance Sheets

	September 30	
	2010	2009
Assets		<i>(Restated)</i>
Current assets:		
Cash and cash equivalents	\$ 35,287,036	\$ 64,371,210
Accounts receivable from sale of water	18,770,535	5,118,993
Interest receivable, unrestricted	975,460	716,919
Investments	24,187,909	—
Other accounts receivable	49,244	1,739,458
Inventories	703,345	663,416
Other current assets	861,550	882,389
Total current assets	80,835,079	73,492,385
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	153,979,522	157,698,935
Interest receivable, restricted	20,497	238,920
Investments	150,854,031	175,874,017
Grants receivable	5,002,541	21,520,554
Total restricted assets	309,856,591	355,332,426
Capital assets, net	1,188,167,037	1,130,482,183
Water capacity rights	318,058,360	318,058,360
Deferred outflow of resources from derivatives	43,277,292	17,873,642
Bond issue costs, net of accumulated amortization of \$5,195,078 and \$5,768,877 as of September 30, 2010 and 2009, respectively	7,061,929	7,701,021
Total assets	\$ 1,947,256,288	\$ 1,902,940,017

Tampa Bay Water
(A Regional Water Supply Authority)

Balance Sheets (continued)

	September 30	
	2010	2009
Liabilities and net assets		<i>(Restated)</i>
Current liabilities:		
Accounts payable and accrued expenses	\$ 8,470,828	\$ 11,587,006
Credits due to customers	7,925,669	3,537,555
Deferred revenue	12,816,893	24,644,223
Demand bonds payable	–	21,250,000
Total current liabilities	29,213,390	61,018,784
Current liabilities payable from restricted assets:		
Construction funds accounts payable	16,441,210	15,700,448
Accrued interest payable	25,147,812	25,592,598
Current portion of long-term debt	28,263,588	27,215,024
Total current liabilities payable from restricted assets	69,852,610	68,508,070
Noncurrent liabilities:		
Long-term debt, net of current portion	1,087,208,576	1,116,163,666
Derivative instruments	59,168,913	41,735,751
Deferred revenue	18,481,864	12,157,074
Total noncurrent liabilities	1,164,859,353	1,170,056,491
Total liabilities	1,263,925,353	1,299,583,345
Net assets:		
Invested in capital assets, net of related debt	611,067,853	527,791,157
Restricted	39,123,257	53,998,988
Unrestricted	33,139,825	21,566,527
Total net assets	683,330,935	603,356,672
Total liabilities and net assets	\$ 1,947,256,288	\$ 1,902,940,017

See accompanying notes.

Tampa Bay Water
(A Regional Water Supply Authority)

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended September 30	
	2010	2009
	<i>(Restated)</i>	
Revenue from sale of water	\$ 149,183,609	\$ 151,725,100
Rate stabilization transfer	5,502,540	6,287,418
Total operating revenue	154,686,149	158,012,518
Operating expenses	(68,487,492)	(80,959,736)
Operating income before depreciation	86,198,657	77,052,782
Depreciation expense	(21,662,633)	(24,982,405)
Operating income	64,536,024	52,070,377
Non-operating revenues (expenses):		
Investment revenue, net of capitalized amounts of \$3,177,946 and \$3,753,968 in 2010 and 2009, respectively	11,710,319	4,284,849
Interest expense, net of capitalized amounts of \$9,182,418 and \$7,549,785 in 2010 and 2009, respectively	(47,976,106)	(51,150,421)
Loss on disposal of capital assets	(10,162,732)	(3,696,165)
Litigation recoveries	1,116,219	145,372
Total nonoperating expenses	(45,312,300)	(50,416,365)
Income before contributions	19,223,724	1,654,012
Capital contributions	60,750,539	96,760,220
Change in net assets	79,974,263	98,414,232
Total net assets – beginning	603,356,672	503,172,216
Restate net assets for GASB 53	–	1,770,224
Total net assets – beginning restated	603,356,672	504,942,440
Total net assets – ending	\$ 683,330,935	\$ 603,356,672

See accompanying notes.

Tampa Bay Water
(A Regional Water Supply Authority)

Statements of Cash Flows

	Year Ended September 30	
	2010	2009
		<i>(Restated)</i>
Operating activities		
Receipts from customers	\$ 139,920,181	\$ 156,480,496
Payments for goods and services	(61,074,934)	(73,858,666)
Payments to employees	(8,739,107)	(8,329,972)
Net cash provided by operating activities	70,106,140	74,291,858
Capital and related financing activities		
Capital contributions	77,268,552	85,755,824
Acquisition and construction of capital assets	(83,688,477)	(92,460,891)
Proceeds from disposition of capital assets	142,730	24,961
Litigation recoveries	1,116,219	145,372
Increase in accounts payable from restricted assets	740,762	3,780,929
Principal paid on capital and other long-term debt	(48,465,024)	(68,658,676)
Payment of debt issue costs	(11,973)	-
Interest paid on capital and other long-term debt	(56,971,790)	(57,879,537)
Net cash used in capital and related financing activities	(109,869,001)	(129,292,018)
Investing activities		
Proceeds from sales and maturities of investments	40,000,000	136,777,832
Purchase of investments	(38,861,133)	(89,848,567)
Interest received on investments	5,965,643	7,506,828
Arbitrage rebate payment	(145,236)	-
Net cash provided by investing activities	6,959,274	54,436,093
Net change in cash and cash equivalents	(32,803,587)	(564,067)
Cash and cash equivalents, beginning of year	222,070,145	222,634,212
Cash and cash equivalents, end of year	\$ 189,266,558	\$ 222,070,145

Continued on next page.

Tampa Bay Water
(A Regional Water Supply Authority)

Statements of Cash Flows (continued)

	Year Ended September 30	
	2010	2009
		<i>(Restated)</i>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 64,536,024	\$ 52,070,377
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	21,662,633	24,982,405
Changes in operating assets and liabilities:		
Accounts receivable	(11,921,328)	1,424,116
Inventories	(39,929)	(48,650)
Other current assets	15,539	(247,400)
Accounts payable and accrued expenses	(3,032,374)	735,635
Credits due to customers	4,388,115	1,662,793
Revenue deferred for rate stabilization	(5,502,540)	(6,287,418)
Total adjustments	5,570,116	22,221,481
Net cash provided by operating activities	\$ 70,106,140	\$ 74,291,858

Supplemental schedule of noncash investing and financing activities

The Agency recognized an increase in the fair value of its investments of \$306,790 in 2010.

As a result of implementation of GASB 53, *Accounting and Financial Reporting for Derivatives*, the Agency recognized investment revenue of \$8,637,145 and \$1,206,488 and accretion on borrowings of \$666,656 and \$639,993 relative to its swaption instruments for the years ended September 30, 2010 and 2009, respectively. (See Note 2)

See accompanying notes.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements

September 30, 2009

1. Organization

Tampa Bay Water, A Regional Water Supply Authority (the Agency), formerly West Coast Regional Water Supply Authority (the Predecessor Authority), was created on October 25, 1974, by enabling state legislation under *Florida Statute* Sections 163.01, 373.1962, and 373.1963. Hillsborough, Pasco, and Pinellas counties and the cities of St. Petersburg, Tampa, and New Port Richey comprise the Member Governments of the Agency. A Governance Study was adopted by the Florida Legislature in 1997 (the 1997 Legislation) that amended Section 373.1963, *Florida Statutes*.

As part of the 1997 Legislation, the Agency was created by the Interlocal Agreement and entered into the Master Water Supply Contract with its Member Governments for a term of 40 years. Pursuant to the Amended and Restated Interlocal Agreement and Master Water Supply Contract:

- The Agency will charge a uniform per-gallon wholesale rate to Member Governments for the wholesale supply of drinking water; with one exception for the City of Tampa. The Agency will charge a separate rate to the City of Tampa for water delivered from the Tampa Bypass Canal.
- All Member Governments relinquished to the Agency their individual rights to develop drinking water supplies subject to certain exceptions as defined in the Amended and Restated Interlocal Agreement.
- The Agency has the absolute and unequivocal obligation to meet the Quality Water needs of the Member Governments as defined in the Master Water Supply Contract.
- The Member Governments are required to maintain and collect such rates or other charges for the use of the products, services, and facilities of the respective members' water utility systems to the extent necessary to fund the timely payment of their respective obligations and liabilities under the Master Water Supply Contract.

In 1998, the Southwest Florida Water Management District (the District), its respective Basin Boards, the Agency, and the Member Governments entered into the Northern Tampa Bay New Water Supply and Ground Water Withdrawal Reduction Agreement (the Partnership Agreement). Under this agreement, the District committed to fund \$183 million for eligible projects under various project Funding Agreements entered into by the District and the Agency. The Agency has requested and received the full \$183 million of funding available under the

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

1. Organization (continued)

agreements. \$21,250,000 and \$42,500,000 were collected under the Desalination Plant funding agreement in 2010 and 2009, respectively. In 2010 the Agency also received an additional \$10,341,603 grant funded from the interest earned on the Desalination Plant funding agreement trust.

In 2007, the District and the Agency entered into a new cooperative funding agreement for additional water supply projects comprising the System Configuration II projects (consisting of expansion of various surface water facilities and interconnections). Under this agreement the District agreed to provide District funding of \$105,100,000, pass-through of state Community Budget Issue Request funding (CBIR) of \$6,250,000, and pass-through of state Water Protection and Sustainability Program funding (WPSPTF) of \$15,500,000. District funding of \$39,398,733 was received under these grants in 2010. District, CBIR, and WPSPTF funding of \$28,571,800, \$1,626,542, and \$12,330,761, respectively, was received under these grants in 2009.

2. Summary of Significant Accounting Policies

Operating Revenue and Expense

The Agency considers all revenue and expense associated with the delivery of water to customers to be operating activities. All other revenue and expense are considered to be nonoperating activities.

Net Assets

Net assets are classified into three components:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Net Assets (continued)

- Restricted – This component of net assets consists of net assets whose use is subject to external constraints by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The accounting policies and practices of the Agency conform to accounting principles generally accepted in the United States applicable to an enterprise fund of a government unit.

Measurement Focus and Basis of Accounting

The Agency is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting in the preparation of its annual financial statements. The accounting and reporting policies of the Agency conform to the accounting rules prescribed by the Governmental Accounting Standards Board (GASB). The Agency has elected under GASB Statement No. 20, Paragraph 7, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Under the provisions of the Agency’s Amended and Restated Interlocal Agreement and the Master Water Supply Contract, the Agency establishes a single uniform rate for sale of Quality Water to Member Governments, provided however, that a separate rate is established for sale of water from the Tampa Bypass Canal to the City of Tampa. The rate to be charged in a fiscal year to the Member Governments for water may include the following components as defined by the agreements: (1) operation, maintenance, and administrative costs; (2) debt service charges; (3) renewal and replacement charges; (4) bond coverage costs; (5) capital improvement charges; and (6) operating reserve funds. The Agency may also establish a rate stabilization fund to be funded from the operation, maintenance, and administrative costs or operating reserve funds. This method of rate setting results in costs being included in the determination of rates in different periods than when these costs are recognized for financial statement purposes.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

The Agency follows Statement of Financial Accounting Standards (SFAS) No. 70, *Accounting for the Effects of Certain Types of Regulations*, as amended, which allows the Agency to capitalize certain costs or defer certain revenue when three criteria are met. The Agency meets the required criteria since its rates are established by its Board in accordance with the Amended and Restated Interlocal Agreement and Master Water Supply Contract, rates are designed to recover the Agency's costs, and the Agency can reasonably expect to collect such rates.

Cash Equivalents

For purposes of the statements of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and have original maturities of 91 days or less.

Investments

Investments are reported at fair value in the balance sheets, except for money market funds and U.S. Government obligations with original maturities less than one year, which are reported at amortized cost as permitted by GASB Statement No. 31, *Certain Investments and External Investment Pools*. All changes in the fair value of investments are recognized as gains or losses in the statements of revenues, expenses, and changes in net assets (Note 6).

Inventories

Inventories consist primarily of spare parts and are stated at the lower of average cost or market. Average cost approximates the first-in, first-out method.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Capital Assets

It is the Agency's policy to capitalize property and equipment having an original cost in excess of \$1,000 and a useful life longer than one year, except for computer software, which is capitalized when the original cost exceeds \$25,000. Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	<u>Life in Years</u>
Land improvements	10–99
Buildings	20–50
Wells and wellfield improvements	5–75
Water treatment and pumping facilities	10–50
Transmission mains	14–75
Reservoir	100
Other equipment and software	3–20

Maintenance, repairs, and minor renewals are charged to expense as incurred. Expenditures that materially increase value, increase capacity, or extend useful lives are capitalized. Capital assets are removed (net of accumulated depreciation) upon retirement or disposition. Related gains or losses are charged to nonoperating activities.

Water Capacity Rights

Water Capacity Rights represent the Agency's rights in certain wholesale water supply wellfields. The Agency accounts for the Water Capacity Rights in accordance with the provisions of GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that indefinite-lived intangible assets not be amortized, but instead be tested for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Agency has not identified any indicators of impairment relative to the Water Capacity Rights at September 30, 2010 or 2009.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Impairment of Capital Assets and Insurance Recoveries

The Agency accounts for impairment of capital assets and insurance recoveries in accordance with the provisions of GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement requires that capital assets be reviewed for impairment whenever events or changes in circumstances indicate that the service utility of the asset has declined significantly and unexpectedly. Impaired capital assets that will no longer be used are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used are measured using the method that best reflects the diminished service utility of the asset: restoration cost approach, service units approach, or deflated depreciated replacement cost approach. Insurance recoveries related to impairment losses are netted against the impairment loss if received in the same year; otherwise the recovery is reported as revenue in the year received. No impairment losses were recognized in 2010 or 2009.

Capitalization of Interest

Interest costs incurred are capitalized as part of the cost of constructing capital assets. In instances where proceeds of the related debt are externally restricted to financing the construction, the interest earned on funds restricted for construction are offset against the interest costs capitalized.

Bond Issue Costs, Bond Discounts, and Bond Premiums

Bond issue costs are recorded as deferred charges, whereas bond discounts and premiums are recorded as a reduction of, or addition to, the face amount of bonds payable. Amortization of bond issue costs, bond discounts, and bond premiums is calculated over the life of the bonds using the bonds outstanding method, which approximates the effective interest method and is reported as a component of interest expense.

Unamortized Losses on Debt Refunding

Losses resulting from current or advance refundings of debt are deferred and amortized over the shorter of the life of the new debt or the remaining life of the old debt. The amount deferred is reported as a reduction of the debt, and the amount amortized is reported as a component of interest expense.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Derivatives

Prior to fiscal 2010, the Agency accounted for its derivatives in accordance with SFAS 133 which required that the derivatives be reported at fair value with unrealized gains and losses reported in non-operating revenue or expense. GASB Statement 53, *Accounting and Financial Reporting for Derivative Instruments*, was issued in 2008, effective for fiscal years beginning after June 15, 2009. The effect of the adoption of GASB 53 is to be applied retrospectively. Under GASB 53 the fair value of financial arrangements, called “derivatives” or “derivative instruments,” are reported in the financial statements of state and local governments. Accordingly, the Agency implemented GASB 53 during 2010 with restatement of fiscal 2009 for comparative presentation. GASB 53 requires that the fair value of the Agency’s swaption instruments be trifurcated for purposes of recording. The intrinsic value component of the up-front payment received by the Agency at inception of the agreement, the borrowing, is recorded at its fair value at inception (referred to as historical cost) with subsequent accretion of interest expense until maturity based on the “at-the-market” rate at inception. The remaining fair value of the instrument is bifurcated into a “time value” component and an “at-the-market swap” component. The “time value” component is recorded as an asset or liability at fair value at inception. Subsequent changes in fair value are recorded as an element of investment revenue. The “at-the-market swap” component is also recorded at fair value with an offsetting entry to “deferred outflow or inflow of resources from derivatives”. Due to the drop in interest rates since inception of the swaption agreements, they appear as liabilities on the Agency’s balance sheet. Implementation of GASB 53 has the following impact on the financial statements.

	<u>2010</u>	<u>2009</u>
Increase in deferred outflow of resources from derivatives	\$ 25,403,650	\$ 17,873,642
Decrease (increase) in derivative instruments	(17,433,162)	2,905,527
Increase in investment revenue	(8,637,145)	(1,206,488)
Increase in interest expense	666,656	639,993
Decrease in change in fair value of swaption	–	(18,442,450)
Increase in beginning net assets	(20,779,169)	(1,770,224)

Also see Note 11 for further discussion of derivatives.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

Deferred Revenue for Rate Stabilization

Under the Amended and Restated Interlocal Agreement and the Master Water Supply Contract, the Board may establish rates sufficient to fund a Rate Stabilization Account. The contracts also provide that funds collected in any year in excess of current costs may be deposited to the Rate Stabilization Account with Board approval. Funds placed in the Rate Stabilization Account are accounted for as deferred revenue until the year in which the Board approves their recognition to meet current costs of the Agency. Funds expected to be used in the next fiscal year are recorded as a current liability.

Capital Contributions

Capital contributions represent capital grants from the District, including pass-through funds from the state CBIR and WPSPTF programs. Contributions are recognized when all applicable eligibility requirements of the grant have been met, pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Sales and Pledges of Receivables and Future Revenues

The Agency provides disclosure of pledged revenues in accordance with the requirements of GASB Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenue*, which establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. The Agency has no sales or pledges of receivables and future revenues except as discussed in Note 11.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

Management of the Agency has made a number of estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these financial statements in accordance with accounting principles generally accepted in the United States. Actual results could differ from those estimates.

3. Permits and Regulations

The key regulations affecting the operations of the Agency are state regulations applicable to the Agency's withdrawals of water from its water supply sources, and state and federal regulations applicable to operation of the Agency's treatment and distribution systems and Seawater Desalination Plant. Withdrawals of water are regulated under Water Use Permits issued by the District. The water treatment facilities, desalination facility, and distribution system are regulated through permits issued by the Florida Department of Environmental Protection (FDEP).

The Consolidated Permit, issued by the District in January 1999, regulates withdrawals from 11 of the 14 regional wellfield systems operated by the Agency. The Consolidated Permit included initial withdrawal limits for each wellfield (annual average) and for each well within each wellfield (peak month and annual average). A condition of the Consolidated Permit is to manage withdrawals from the wellfields to minimize environmental impacts through optimum distribution of pumping among all wells according to an approved Operations Plan.

Since January 1, 2003, the 11 wellfields of the Consolidated Permit no longer have individual withdrawal limits and are considered a single system for the purpose of measuring compliance with the permitted annual average withdrawal quantity. Combined withdrawals from the 11 wellfields are currently limited to 90 million gallons per day (mgd) on a 12-month running average basis. Due to prolonged drought conditions in April 2009, the Agency temporarily exceeded the permit threshold to meet the Agency's contractual obligations to provide water to the Member Governments at the rates and pressures necessary to maintain public health and safety. In October 2009, the District and the Agency executed a consent order settling the issue of noncompliance, requiring a payment to the District of \$2,000 for administrative costs and expenditure of an additional \$46,554 to fund a water conservation project approved by the District.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

3. Permits and Regulations (continued)

The remaining four wellfield systems, the South-Central Hillsborough Regional Wellfield, the Brandon Urban Dispersed Wells, the Carrollwood Wells and the Eagles Wells, are regulated under separate Water Use Permits issued by the Southwest Florida Water Management District. Withdrawals from the Brandon Urban Dispersed Wells are limited to 6 mgd on a 12-month running average basis. Withdrawals from the South-Central Hillsborough Regional Wellfield are limited to 24.1 mgd on a 12-month running average basis. The Carrollwood and Eagles wells can supply 0.82 and 0.198 mgd, respectively, on a 12-month running average. Withdrawals from the Tampa Bypass Canal, that are used to provide water to the City of Tampa via augmentation of the Hillsborough River Reservoir on an as-needed basis, are separately permitted and limited to 20 mgd on a 12-month running average basis.

The two surface water facilities that comprise the withdrawal component of the Enhanced Surface Water System are the Tampa Bypass Canal Pump Station and the Alafia River Pump Station. The Water Use Permits for these two surface water sources allow the harvesting of high flows from these river systems when a minimum threshold flow has occurred in each system. It is estimated that the Enhanced Surface Water System yields on a long-term average basis approximately 90 mgd under normal hydrologic conditions. The Tampa Bypass Canal Pump Station and transmission facilities convey water during high-flow periods from the Tampa Bypass Canal and Hillsborough River to the Regional Surface Water Treatment Plant and the Regional Reservoir. The Alafia River Pump Station and transmission facilities also convey water during high-flow periods to the Regional Surface Water Treatment Plant and the Regional Reservoir. It is estimated that the expanded permitted withdrawals of the Tampa Bypass Canal and the current expansion of the Enhanced Surface Water System (including the Tampa Bypass Canal/Hillsborough River System, Alafia River, the Regional Reservoir and Surface Water Treatment Plant), will allow the Agency to meet the future drinking water needs of its six Member Governments through at least 2020.

The Regional Surface Water Treatment Plant was designed to treat up to 72 mgd from the surface water sources and deliver that water to the Regional System. The Plant is currently undergoing expansion and is expected to be able to treat up to 120 mgd at completion of the project, which is on schedule for completion in fall of 2010. The C.W. Bill Young Regional Reservoir provides off-stream storage capacity during high river flow periods so that the stored water can be utilized as a reliable water source when surface water is not available for

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Notes to Financial Statements (continued)

3. Permits and Regulations (continued)

withdrawal from the river systems. The designed storage capacity of the reservoir is approximately 15 billion gallons. Production from the Tampa Bay Seawater Desalination Plant is also used to meet drinking water demands. The desalination facility has the capability of providing 25 mgd to the Regional System on a nominal basis.

The permitted quantity withdrawal limit for the 11 wellfields as stated in the Consolidated Permit is listed below together with the permitted quantities for the remaining four wellfields and the surface water facilities:

Water Supply Facility	Permitted Capacity in mgd
Consolidated Permit Wellfields – Total *	90.000
South-Central Hillsborough Regional Wellfield	24.100
Brandon Urban Dispersed Wells	6.000
Carrollwood Wells	0.820
Eagles Wells	0.198
Enhanced Surface Water System (consisting of Tampa Bypass Canal/Hillsborough River, Alafia River, C.W. Bill Young Regional Reservoir) **	90.000
Tampa Bay Seawater Desalination Plant	28.750

* Consolidated Permit Wellfields – Cross Bar Ranch, Cypress Creek, Cypress Bridge, Morris Bridge, Starkey, North Pasco, South Pasco, Eldridge-Wilde, Cosme/Odessa, Section 21, and Northwest Hillsborough. These wellfields are permitted as a single system, and there is no annual withdrawal quantity assigned to any individual wellfield. These wellfields are operated in accordance with the Optimized Regional Operations Plan.

**The Water Use Permits for the Tampa Bypass Canal/Hillsborough River and the Alafia River facilities do not have assigned average annual quantities. The permit authorizes the harvest of high river flows after a threshold flow has been achieved in each river system. The quantity shown represents the estimated median year yield for these facilities based on projections using the past 30 years of historical data.

Tampa Bay Water
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Notes to Financial Statements (continued)

3. Permits and Regulations (continued)

The following table summarizes the actual annual water quantity sold and billed to the Member Governments of the Agency for the years ended September 30, 2010 and 2009:

<u>Member Government</u>	<u>Annual Water Quantity</u>		<u>Amounts Billed</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Hillsborough County	46.60	47.17	\$ 45,620,309	\$ 41,568,310
City of New Port Richey	2.38	2.39	2,332,195	2,103,488
Pasco County	21.86	23.18	21,393,549	20,425,064
Pinellas County	54.35	57.64	53,206,145	50,793,218
City of St. Petersburg	27.11	27.88	26,531,518	24,568,837
City of Tampa	0.00	12.88	99,893	12,266,183
Total current year water sales	152.30	171.14	\$ 149,183,609	\$ 151,725,100
Peak day production	192.96	237.59		

4. Rate-Making Policies and Procedures

Under the provisions of the Master Water Supply Contract, the Agency establishes rates based on an “Annual Estimate” that sets forth the expected cost of providing wholesale water service to the Member Governments. The Annual Estimate is based on the Agency’s budget for the forthcoming fiscal year. The Agency develops a uniform rate based on the Annual Estimate and the projected quantity of water expected to be delivered to customers.

The uniform rate consists of a variable cost component and a fixed cost component. The variable cost rate is designed to recover Agency expenses that are directly related to the quantity of water delivered, primarily chemicals, electric power, and water purchased from the Cities of Tampa and New Port Richey. The variable cost rate is applied to the quantity of water delivered to Member Governments each month. The fixed cost rate is designed to recover Agency expenses incurred for the operation, maintenance, management, security, development, and financing of the water system. The fixed cost rate is assessed to Member Governments monthly based on one-twelfth of the total annual fixed cost applied to the ratio of each member’s annual water usage

Tampa Bay Water
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Notes to Financial Statements (continued)

4. Rate-Making Policies and Procedures (continued)

during the previous fiscal year divided by such usage of all Member Governments during such year. At the end of the fiscal year, each member's share of this fixed cost is recalculated based on the current year's usage. The intent and purpose of the rate structure is to provide an equitable means of matching the monthly billings with the Agency's monthly cash flow needs. Based on analyses and forecasts, fixed costs are currently estimated to constitute approximately 78% of the Annual Estimate.

5. Restricted Assets

Restricted assets are established to the extent required by bond resolutions for the Agency's debt and other contractual arrangements. Bond proceeds, water revenue, and investment revenue are utilized to maintain the various funds at their required levels. Amounts not needed to fund requirements may be used for any lawful purpose. Components and descriptions of the various funds are as follows:

	2010	2009
Construction funds	\$ 141,157,573	\$ 188,905,560
Sinking funds	49,102,812	48,965,595
Renewal and replacement funds	11,415,857	10,182,741
Capital improvement funds	27,191,077	27,880,222
Operations and maintenance funds	6,653,882	4,979,094
Debt service reserve funds	74,257,841	74,257,841
Rebate funds	77,549	161,373
	\$ 309,856,591	\$ 355,332,426

Construction Funds – Construction funds account for unexpended debt proceeds and investment revenue thereon from the Utility System Revenue Bonds, Series 2001B and 2008; the Florida Local Government Finance Commission loan and third-party grants for construction.

Sinking Funds – Sinking funds represent the principal and interest amounts for the next debt service payment due on the 1998A, 1998B, 1999, 2001A, 2001B, 2004, 2005, 2006, and 2008 bonds.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

5. Restricted Assets (continued)

Renewal and Replacement Funds – Renewal and replacement funds are required for renewal and replacement of the water production, transmission, and treatment facilities and are based on 5% of gross revenues for the preceding fiscal year or such greater or lesser amount as may be determined by the system engineers.

Capital Improvement Funds – Capital improvement funds are restricted to payment of capital costs of acquiring and/or constructing additions or improvements to the water system.

Operations and Maintenance Funds – Operations and maintenance reserve funds are restricted for operating costs and are established at twice the monthly average variable costs as budgeted for each fiscal year.

Debt Service Reserve Funds – Debt service reserve funds are required to maintain the lesser of one year’s maximum debt service or 125% of the average annual debt service for the Utility System Revenue Bonds, Series 1998A, 1998B, 1999, 2001A, 2001B, 2004, 2005, 2006, and 2008.

Rebate Fund – Funds on deposit in the Rebate Fund are held and used solely to make required rebate payments to the United States Treasury in accordance with conditions of arbitrage certificates relating to the various series of bonds.

Bond resolutions place certain limitations on investments permitted by the various funds. When both restricted and unrestricted resources are available for use, it is the Agency’s policy to use restricted resources first, then unrestricted resources as they are needed.

6. Deposits and Investments

Deposits

As of September 30, 2010, the total carrying amount of the Agency’s deposits, (unrestricted and restricted), exclusive of petty cash of \$1,450, was \$184,086,332. All of the Agency’s deposits with financial institutions are made with depository institutions that are members of the state of Florida’s collateral pool, are placed in accounts designated as “public deposit” accounts covered by the collateral pool and, therefore, are considered to be insured.

Tampa Bay Water
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Notes to Financial Statements (continued)

6. Deposits and Investments (continued)

Investments

Pursuant to the interlocal agreement establishing the Agency, applicable statutory rules and debt covenants, the Agency's investment policy permits investment of its manageable portfolio (all surplus funds exclusive of debt proceeds) in the following: (1) certificates of deposit and other bank accounts; (2) Florida Prime (formerly the Local Government Surplus Funds Trust Fund) administered by the State Board of Administration; (3) money market funds with the highest Standard and Poor's (S&P) and Moody's ratings; (4) United States Government Agency Obligations; (5) negotiable Direct Obligations of the United States Government; (6) mortgage-backed securities; (7) Investment Company Act of 1940 securities; (8) commercial paper of issuers whose short-term issuer rating is "A1" or higher and "Prime-1" or higher by S&P and Moody's rating services, respectively; and (9) bankers' acceptances guaranteed by banking institutions with a long-term issuer rating of at least "AA" from S&P and "Aa" from Moody's Rating Service.

The Agency's investments are reported at fair value in the balance sheets, except for money market funds and U.S. Government obligations with original maturities less than one year, which are reported at amortized cost in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

The Florida Local Government Surplus Funds Trust Florida Prime (Investment Pool), managed by the State Board of Administration (SBA), a 2a7-like pool, is carried at cost. A 2a7-like pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, which regulates money market funds. Therefore, this Investment Pool operates essentially as a money market fund and is not categorized as to custodial risk according to the criteria set forth in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

Since 2007, the SBA investment pool has consisted of two funds: Fund A to hold high-quality, money-market appropriate securities and Fund B to hold higher-risk securities in default, having payment extensions or experiencing significant credit risk. Fund A is a 2a-7 like fund. Fund B is accounted for as a fluctuating NAV pool. The Agency has not invested any funds in the investment pool since all but a small balance of funds were withdrawn in 2007. The remaining investment of \$99 at September 30, 2010, is primarily in Fund B.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

6. Deposits and Investments (continued)

Investments (continued)

Investments of bond proceeds are also permitted in the following: (1) obligations, including state and local government obligations, rated “A-” and “A3” or better by S&P and Moody’s; (2) money market funds rated “Am” or “Am-G” or better by S&P; (3) repurchase agreements with a term of one year or less with any institution with debt rated “AA” or commercial paper rated “A-1” or better by S&P; (4) repurchase agreements collateralized by Direct Obligations of the United States Government or Agency Obligations with any broker/dealer subject to the Securities Investors’ Protection Corporation jurisdiction or with any commercial bank with ratings of “Prime-1” or “A3” or better from Moody’s and “A-1” or “A-” or better from S&P on their unsecured, uninsured, and unguaranteed obligations; (5) investment agreements with a bank or insurance company whose uninsured, unsecured, unguaranteed obligation is rated “A3” or better by Moody’s and “A-” or better by S&P, or is the lead bank of a parent bank holding company meeting such rating requirements; and (6) any investment allowable under applicable law that is approved by the Board of Directors of the Agency.

Tampa Bay Water
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Notes to Financial Statements (continued)

6. Deposits and Investments (continued)

Investments (continued)

Investments made by the Agency (restricted and unrestricted) at September 30, 2010, are summarized below. The investments are summarized by type of investment, and show the maturity, interest rate, fair value, and credit rating.

Investments	Maturities	Interest Rate	Fair Value	Credit Rating S&P	Moody's
State Board of Administration Local Government Surplus Fund Investment Pool Fund B	7.49 years	0.00%	\$ 99	not rated	not rated
Fidelity Prime Select	77 days	0.17	184,428	AAAm	Aaa
Commercial Paper	10/14/10	0.46	4,994,250	A-1	P-1
Total Investments < 92 days			<u>\$ 5,178,777</u>		
Repurchase Agreement – Société Générale, New York Branch	10/01/2010 *	4.425	\$ 20,660,432	**	**
Repurchase Agreement – Citigroup	09/01/2011*	3.015	100,600,000	**	**
Forward Purchase Agreement – Morgan Stanley & Co., Inc.	10/01/2011 *	5.538	14,613,585	A-1	P-1 highest possible
U.S. Treasury Notes	4/30/11 – 9/15/12	0.875 to 1.375	9,969,497	highest possible	possible
U.S. Government Agency Commercial Paper	2/2/12 – 5/7/13	0.178 to 1.75	11,655,047	AAA	Aaa
Citigroup Global Note (U.S. Govt.-supported debt)	10/18-10/28/10	0.43 to .56	14,980,014		
Total investments > 91 days	4/30/12	2.12	<u>2,563,365</u>	AAA	Aaa
			<u>\$175,041,940</u>		

* Funds available on any debt service payment date.

** The Société Générale repurchase agreement is collateralized primarily by securities of the Small Business Administration, which are not rated by any credit rating agency but are backed by the full faith and credit of the United States Government. The remaining collateral consists of U.S. Agency securities, which are either AAA rated or are deemed AAA rated. The Citigroup repurchase agreement is collateralized by various securities which are not rated, but are stripped from AAA-rated securities and U.S. Agency securities. The Forward Purchase Contract is collateralized by Edbury Finance LLC's commercial paper maturing October 1, 2010.

Since direct obligations of the U.S. Government and obligations of Agencies of the U.S. government, which are explicitly guaranteed by the U.S. Government are considered to have no credit risk, they have, by definition, the highest possible credit rating.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

6. Deposits and Investments (continued)

Investments (continued)

Investments having a maturity of one year or less at time of purchase are recorded at amortized cost.

The credit ratings shown in the table above are a measure of credit risk, the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Agency's investment policies seek to limit exposure to credit risk by establishing minimum credit ratings that must be met and maintained by providers of certain types of investments. Policies also require that certain types of agreements be collateralized with investments authorized under the policies.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Exclusive of investments issued or explicitly guaranteed by the U.S. Government and investments in external investment pools and other pooled investments, the Agency has the following investment concentrations in individual issuers in excess of 5% of its total investments at September 30, 2010 and 2009, respectively:

2010 – Repurchase Agreements are secured by various U.S. Government Agency obligations, including 10.74% in obligations of the Small Business Administration, 30.77% in obligations of the Federal National Mortgage Association, 5.71% in obligations of the Financing Corporation, and 19.7% in obligations of the Resolution Funding Corporation. The Forward Purchase Agreement with Morgan Stanley is secured by Ebury Finance, LLC commercial paper, which represents 8.11% of the Agency's investments.

2009 – Repurchase Agreements were secured by various U.S. Government obligations including Small Business Administration obligations of 11.72%. The Forward Purchase Agreement was secured by commercial paper of Morgan Stanley & Company, Inc., which was 8.28% of investments. Agency investments also included 22.67% in certificates of deposit at SunTrust, Regions and Fifth Third Banks, representing 11%, 6%, and 6% of investments, respectively.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

6. Deposits and Investments (continued)

Rating Downgrade

Under the terms of the Repurchase Agreement between the Agency and Citigroup Global Markets, Inc., Citigroup, Inc., the guarantor on the agreement, is required to notify the Agency in the event of a rating downgrade. A Notice of Rating Action dated December 20, 2008, was received by the Agency. According to this Notice, the senior unsecured long-term debt ratings of Citigroup, Inc. were reduced to A and A2 from AA- and Aa3 by Standard & Poor's Rating Services and Moody's Investor Service, respectively. The rating change did not require any action by either the Agency or Citigroup relative to the Repurchase Agreement beyond the notification.

7. Grants Receivable and Capital Contributions

Grants receivable represent amounts due from the District for construction projects under various funding or grant agreements. The receivable balance at September 30, 2010 and 2009 is \$5,002,541 and \$21,520,554, respectively.

Capital contributions include \$60,750,539 and \$95,365,020 billed to the District under various grant agreements for the years ended September 30, 2010 and 2009, respectively, as well as \$1,395,200 received from the United States Environmental Protection Agency in 2009.

Tampa Bay Water
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Notes to Financial Statements (continued)

8. Capital Assets

The following are summaries of capital asset changes for the years ended September 30, 2010 and 2009:

	Balance October 1, 2009	Additions	Deletions	Transfer	Balance September 30, 2010
Capital assets, nondepreciable:					
Land	\$ 78,547,465	\$ 219,228	\$ 823	\$ -	\$ 78,765,870
Construction-in-progress	148,266,756	88,488,525	38,375,097	-	198,380,184
Software in development	155,591	181,350	193,434	-	143,507
Total nondepreciable assets	<u>226,969,812</u>	<u>88,889,103</u>	<u>38,569,354</u>	<u>-</u>	<u>277,289,561</u>
Capital assets, depreciable:					
Land improvements	2,961,452	205,726	-	-	3,167,178
Wells and wellfield improvements	156,770,184	318,267	-	-	157,088,451
Water treatment and pumping facilities	432,358,278	25,881,011	4,473,138	-	453,766,151
Transmission mains	295,318,975	1,959,530	-	-	297,278,505
Buildings	17,303,400	2580	-	-	17,305,980
Reservoir	147,645,314	-	-	-	147,645,314
Other equipment and software	22,132,371	1,158,206	7,090,691	-	16,199,886
Total depreciable capital assets	<u>1,074,489,974</u>	<u>29,525,320</u>	<u>11,563,829</u>	<u>-</u>	<u>1,092,451,465</u>
Less accumulated depreciation:					
Land improvements	247,873	77,048	-	-	324,921
Wells and wellfield improvements	47,991,075	3,082,211	-	-	51,073,286
Water treatment and pumping facilities	71,745,872	10,895,864	3,983,533	-	78,658,203
Transmission mains	29,260,619	4,040,608	-	-	33,301,227
Buildings	2,247,781	445,176	-	-	2,692,957
Reservoir	6,383,681	1,476,553	-	-	7,860,234
Other equipment and software	13,100,702	1,645,173	7,082,714	-	7,663,161
Total accumulated depreciation	<u>170,977,603</u>	<u>21,662,633</u>	<u>11,066,247</u>	<u>-</u>	<u>181,573,989</u>
Total depreciated capital assets, net	<u>903,512,371</u>	<u>7,862,687</u>	<u>497,582</u>	<u>-</u>	<u>910,577,476</u>
Total capital assets, net	<u>\$ 1,130,482,183</u>	<u>\$ 96,751,790</u>	<u>\$ 39,066,936</u>	<u>\$ -</u>	<u>\$ 1,188,167,037</u>

Tampa Bay Water
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Notes to Financial Statements (continued)

8. Capital Assets (continued)

	Balance October 1, 2008	Additions	Deletions	Transfer	Balance September 30, 2009
Capital assets, nondepreciable:					
Land	\$ 78,025,735	\$ 521,730	\$ –	\$ –	\$ 78,547,465
Construction-in-progress	85,670,016	89,655,728	27,058,988	–	148,266,756
Software in development	–	155,591	–	–	155,591
Total nondepreciable assets	<u>163,695,751</u>	<u>90,333,049</u>	<u>27,058,988</u>	<u>–</u>	<u>226,969,812</u>
Capital assets, depreciable:					
Land improvements	2,961,452	–	–	–	2,961,452
Wells and wellfield improvements	156,601,716	168,468	–	–	156,770,184
Water treatment and pumping facilities	426,251,593	13,769,303	7,662,618	–	432,358,278
Transmission mains	282,527,823	12,791,152	–	–	295,318,975
Buildings	16,905,804	397,596	–	–	17,303,400
Reservoir	147,645,314	–	–	–	147,645,314
Other equipment and software	17,047,183	5,856,127	770,939	–	22,132,371
Total depreciable capital assets	<u>1,049,940,885</u>	<u>32,982,646</u>	<u>8,433,557</u>	<u>–</u>	<u>1,074,489,974</u>
Less accumulated depreciation:					
Land improvements	189,683	58,190	–	–	247,873
Wells and wellfield improvements	44,917,177	3,073,898	–	–	47,991,075
Water treatment and pumping facilities	61,873,083	13,884,508	4,011,719	–	71,745,872
Transmission mains	25,273,297	3,987,322	–	–	29,260,619
Buildings	1,811,762	436,019	–	–	2,247,781
Reservoir	4,907,128	1,476,553	–	–	6,383,681
Other equipment and software	11,735,499	2,065,915	700,712	–	13,100,702
Total accumulated depreciation	<u>150,707,629</u>	<u>24,982,405</u>	<u>4,712,431</u>	<u>–</u>	<u>170,977,603</u>
Total depreciated capital assets, net	<u>899,233,256</u>	<u>8,000,241</u>	<u>3,721,126</u>	<u>–</u>	<u>903,512,371</u>
Total capital assets, net	<u>\$ 1,062,929,007</u>	<u>\$ 98,333,290</u>	<u>\$ 30,780,114</u>	<u>\$ –</u>	<u>\$ 1,130,482,183</u>

Deletions from construction-in-progress in 2010 of \$38,375,097 consist of \$9,817,162 in costs of several projects determined to not be either technologically feasible or cost effective for future development and \$28,557,935 for transfers of completed projects to various capital assets. In 2009, deletions consist of \$27,058,988 for transfers of completed projects to various capital assets.

Depreciation expense was \$21,662,633 and \$24,982,405 for the years ended September 30, 2010 and 2009, respectively. In anticipation of removal from service of the alkalinity adjustment facility at the Regional Water Treatment Plant site, the useful life was reduced from 50 to 8 years. This change in estimate resulted in an increase in depreciation expense of \$2,935,933 in 2009. In 2010, this alkalinity adjustment facility, as well as a second facility, was demolished. The carrying value at the time of demolition of \$431,661 is included in asset dispositions in 2010.

Tampa Bay Water
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Notes to Financial Statements (continued)

8. Capital Assets (continued)

Due to construction of various improvements and changes to the water supply system, a groundwater treatment plant located at the Regional Water Treatment plant site was demolished in 2009 to make way for construction of an alkalinity adjustment facility needed at that location. The remaining components were permanently removed from service in 2009 and the carrying value at that time of \$1,056,842 was included in asset dispositions for 2009.

Commitments on construction contracts at September 30, 2010 and 2009, were approximately \$137,820,983 and \$139,203,186, respectively.

Interest is capitalized under the provisions of SFAS No. 34, *Capitalization of Interest Costs*, and SFAS No. 62, *Capitalization of Interest Costs in Situations Involving Certain Tax Exempt Borrowings and Certain Gifts and Grants, an Amendment of SFAS No. 34*. Interest cost incurred was \$56,491,868 and \$58,060,213 for the years ended September 30, 2010 and 2009, respectively. Of the interest cost incurred, \$9,182,418 and \$7,549,785 were capitalized for the years ended September 30, 2010 and 2009, offset by investment revenue earned on funds restricted for construction of \$3,177,946 and \$3,753,968 for the respective years.

9. Accounts Payable

Accounts payable and accrued expenses at September 30, 2010 and 2009, consist of amounts owed for operating and payroll expenses as follows:

	<u>2010</u>	<u>2009</u>
Accounts payable	\$ 5,842,330	\$ 8,969,908
Accrued payroll expenses	2,628,498	2,617,098
	<u>\$ 8,470,828</u>	<u>\$ 11,587,006</u>

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

10. Seawater Desalination Plant Acquisition, Financing, and Related Matters

Financing

On May 15, 2002, the Agency issued \$108,390,000 of Utility System Variable Rate Revenue Bonds, Series 2002 to finance purchase of the Seawater Desalination Plant. The bonds were subject to purchase on demand of the holder at a price equal to principal plus accrued interest with at least seven days notice to the Agency's remarketing agent, Banc of America Securities, LLC. Therefore, at September 30, 2009, the bonds were classified as a current liability on the balance sheet. On April 30, 2010, the remaining \$21,250,000 of outstanding bonds was redeemed. Previous redemptions of \$42,500,000, \$21,250,000, and \$1,885,000 were made on February 26, 2009, March 26, 2008, and October 1, 2006, respectively. In 2006, \$18,030,000 of the bonds was refunded by the Tampa Bay Water Utility System Refunding and Improvement Bonds, Series 2006.

The bonds pay interest at a variable rate determined weekly by the remarketing agent, which rate may not exceed the lesser of the interest rate used in computing the interest component of the letter of credit (see below) or the maximum rate permitted by law. At September 30, 2009, the interest rate was 0.55% decreasing to 0.35% on April 30, 2010, when the remaining bonds were redeemed.

Under an irrevocable, direct-pay Letter of Credit and Reimbursement Agreement between the Agency and Bank of America, N.A. dated May 15, 2002, as amended through November 15, 2009, the paying agent, U.S. Bank, is entitled to draw an amount sufficient to pay the purchase price of bonds tendered for redemption. The paying agent may draw an amount sufficient to pay the total principal of the Series 2002 bonds plus up to 35 days interest accrued at a maximum rate of 12% per annum. Under the revised terms of the Agreement, any amounts borrowed under the letter of credit will bear interest based on the greater of Bank of America's Prime Rate plus 2.0%, the Federal Funds Rate plus 3.0%, or 8.5%. Any such borrowings must be repaid within 120 days. The Agency has paid no interest on the letter of credit and the letter of credit terminated at final redemption of the bonds.

The Agency pays an annual commitment fee to Bank of America, N.A. for the letter of credit. At September 30, 2009, the rate in effect was 0.20% of the maximum amount available to be drawn on the letter of credit, payable quarterly in advance. Upon extension of the letter of credit effective November 15, 2009, the rate increased to 0.70%. The Agency also pays an annual remarketing fee to Banc of America Securities LLC equal to 0.08% of the average daily outstanding principal of the bonds, payable quarterly in arrears. Total fees for the years ended September 30, 2010 and 2009, were \$85,037 and \$161,351, respectively.

Tampa Bay Water
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Notes to Financial Statements (continued)

10. Seawater Desalination Plant Acquisition, Financing, and Related Matters (continued)

Funding Agreement

Under the terms of a Funding Agreement with the District, as amended January 24, 2006, the Agency was to receive reimbursement for eligible Seawater Desalination Plant construction costs of \$85,000,000 upon meeting certain requirements. On December 26, 2007, the In-Service Date criteria were met and the agency received its first payment of \$21,250,000 from the District on January 24, 2008. On December 26, 2008, the Agency met the requirement to operate for 12 consecutive months at an average rate of 12.5 mgd and received payment of \$42,500,000 from the District on December 29, 2008. On January 31, 2009, the Agency met the requirement to operate at an average rate of 20 mgd for 12 months and became eligible to receive the accumulated interest earnings on the Trust. The Agency received the final \$21,250,000 from the District on March 4, 2010, after meeting the final requirements of having operated the Desalination Plant for four (4) consecutive months at a production level of a monthly average of 25 mgd and also having operated the plant for 12 consecutive months following November 1, 2007, at an average rate of 20 mgd. The \$21,250,000 is recorded in Capital Contributions for the year ended September 30, 2010, and was applied to redemption of the 2002 bonds. The Agency also received payment of accrued interest from the Trust in the amount of \$10,341,603, which was recorded in Capital Contributions and Grants Receivable at September 30, 2009.

11. Long-Term Debt and Other Noncurrent Liabilities

The Agency has issued various series of debt to finance the construction of new sources of water to meet the needs of its Member Governments, as well as facilities at Clearwater and Cypress Creek Wellfield to meet administrative and security needs.

Derivative Financial Instruments

At September 30, 2010, the Agency has the following derivative instruments outstanding:

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
2005	Pay fixed interest rate swap option	Synthetic forward refunding of Series 2001B bonds	\$ 147,645,000	8/24/05	10/1/11	Receive BMA Index (monthly, Act/Act), pay 4.695% (monthly 30/360)
2007	Pay fixed interest rate swap option	Synthetic forward refunding of Series 2001A bonds	\$ 138,550,000	2/27/07	10/3/11	Receive BMA Index (monthly, Act/Act), pay 4.696% (monthly 30/360)

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Notes to Financial Statements (continued)

11. Long-Term Debt and Other Noncurrent Liabilities (continued)

Derivative Financial Instruments (continued)

In February 2007, the Agency entered into three floating-to-fixed interest rate swap option transactions (collectively, the 2001A Swaption) to achieve a synthetic forward refunding of \$138,550,000 of its Utility System Refunding and Improvement Revenue Bonds, Series 2001A, maturing October 1, 2022 through 2028. The 2001A Bonds cannot be refunded until October 1, 2011.

In August 2005, the Agency entered into three floating-to-fixed interest rate swap option transactions (collectively, the 2001B Swaption) to achieve a synthetic forward refunding of \$147,645,000 of its Utility System Revenue Term Bonds, Series 2001B, maturing October 1, 2026 (exclusive of 2025 maturities) and 2031. The 2001B Bonds cannot be refunded until October 1, 2011.

The purpose of these swaption transactions is to allow the Agency to extract incremental savings from the Bond's redemption feature in the form of option time value that reflects the possibility that market interest rates decline between the option sale date and the October 1, 2011, exercise date. At execution of the 2007 and 2005 swaptions, the Agency received option premiums of \$7,396,875 and \$7,980,000, respectively. At September 30, 2010 and 2009, the unexpended premium payments received are recorded on the Agency's balance sheet in restricted assets for construction projects.

Under GASB 53 (see Note 2), the swaptions are accounted for as hybrid instruments. The borrowing created by receipt of the up-front payments is recorded at fair value at inception plus accreted interest. The time value component and the "at-the-market swap" component are recorded at fair value computed as the present value at prevailing interest rates.

Because the terms of the swaptions and the expected future bond issues are consistent, the Agency uses the Consistent Critical Terms Method to evaluate effectiveness as of the end of the reporting period. Since the instruments were determined to be effective, hedge accounting is applied to the "at-the-market swap" component.

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Notes to Financial Statements (continued)

11. Long-Term Debt and Other Noncurrent Liabilities (continued)

Derivative Financial Instruments (continued)

The following table reflects the components of the derivative instruments, the changes in fair value, and the balances as reported in the 2010 financial statements.

Item	Classification	Changes in Fair Value/Accretion		Balance at September 30, 2010		
		Amount		Classification	Fair Value	Historical Cost Plus Accretion
2005	Deferred Outflow	\$ 12,351,082		Other Assets	\$24,628,581	
	Investment Revenue	(4,496,159)		Debt	24,993,198	
	Interest Expense	336,404		Debt		\$8,159,776
2007	Deferred Outflow	13,052,568		Other Assets	18,648,711	
	Investment Revenue	(4,140,985)		Debt	17,491,206	
	Interest Expense	330,252		Debt		8,524,733

Many market factors can affect the value of swaption transactions. Two significant factors that contributed to the increase in the fair value of the transactions at September 30, 2010, were the overall level of interest rates and level of implied volatility in the market. Because the Agency will pay a predetermined fixed rate and the counterparties will pay a floating rate if the options are exercised, a decrease in swap rates increases the fair value of the transactions. Likewise, an increase in market volatility increases the fair value of the options; that is, the likelihood that the options will be exercised increases as volatility increases.

In early 2009, the agreements previously held by Bear Stearns Financial Products, Inc. were assumed by JPMorgan Chase. The providers have the right to exercise the options effective October 3, 2011, with an additional premium payment to the Agency totaling \$1,436,801 relative to the 2001A Swaption and \$1,590,861 relative to the 2001B Swaption. If the providers exercise their options on October 3, 2011, the Agency will be obligated to issue variable rate debt refunding the applicable 2001A and 2001B Bonds. Under the agreements, the Agency will pay the providers interest at an annual fixed rate of 4.696% and 4.695%, respectively, on notional amounts of \$138,550,000 and \$147,645,000, and the providers will pay the Agency interest at a variable rate on the same notional amount. The payments will be due monthly beginning November 1, 2011, and ending October 1, 2031. The variable rate paid to the Agency by the providers will reset weekly based on the Bond Market Association Swap Index (BMA). Use of

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Notes to Financial Statements (continued)

11. Long-Term Debt and Other Noncurrent Liabilities (continued)

Derivative Financial Instruments (continued)

BMA is expected to approximate the variable rate that will be paid by the Agency on its refunding bonds, thereby minimizing the Agency's risk that the variable rate required to be paid will exceed the variable rate received from the providers. Under the terms of the agreements, the providers can terminate the agreements only if a termination event occurs. The Agency has reserved the right to terminate the agreements at any time subject to payment of a settlement amount equivalent to the fair value of the agreements at the time of termination.

Both providers experienced credit rating downgrades in 2009. The credit ratings of the providers at September 30, 2010 and 2009, are as follows:

	Moody's		Standard & Poor's	
	2010	2009	2010	2009
Citibank, N.A. <i>(Note 17)</i>	A1	A1	A+	A+
JPMorgan Chase Bank, N.A.	Aa1	Aa1	AA-	AA-

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Notes to Financial Statements (continued)

11. Long-Term Debt and Other Noncurrent Liabilities (continued)

Long-term debt and other noncurrent liabilities as of September 30, 2010 and 2009, consist of:

	2010	2009
Utility System Revenue Bonds, Series 2008		
5% term bonds, due October 1, 2034, subject to mandatory redemption 2032 through 2034, interest payable semiannually	\$ 29,365,000	\$ 29,365,000
5% term bonds, due October 1, 2038, subject to mandatory redemption 2035 through 2038, interest payable semiannually	72,010,000	72,010,000
Total Series 2008	101,375,000	101,375,000
Utility System Refunding and Improvement Revenue Bonds, Series 2006		
4.0% to 5.0% serial bonds due annually at varying amounts through 2026, interest payable semiannually	19,005,000	21,680,000
4.375% term bonds, due October 1, 2031, subject to mandatory redemption from 2027 through 2031, interest payable semiannually	3,040,000	3,040,000
4.75% term bonds, due October 1, 2033, subject to mandatory redemption from 2032 through 2033, interest payable semiannually	20,365,000	20,365,000
4.5% term bonds, due October 1, 2036, subject to mandatory redemption from 2034 through 2036, interest payable semiannually	34,240,000	34,240,000
Total Series 2006	76,650,000	79,325,000
Utility System Refunding and Improvement Revenue Bonds, Series 2005		
3.5% to 5.5% serial bonds due annually at varying amounts through 2024, interest payable semiannually	171,475,000	174,965,000
Utility System Refunding Revenue Bonds, Series 2004		
3.0% to 5.25% serial bonds, due annually at varying amounts through 2019, interest payable semiannually	101,045,000	106,900,000
Utility System Revenue Bonds, Series 2001B		
3.8% to 5.0% serial bonds, due annually at varying amounts through 2011, interest payable semiannually	6,895,000	10,160,000
5.0% term bonds, due October 1, 2026, subject to mandatory redemption 2025 and 2026, interest payable semiannually	13,820,000	13,820,000
5.0% term bonds, due October 1, 2031, subject to mandatory redemption 2027 through 2031, interest payable semiannually	140,565,000	140,565,000
Total Series 2001B	161,280,000	164,545,000

Continued on next page.

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Notes to Financial Statements (continued)

11. Long-Term Debt and Other Noncurrent Liabilities (continued)

	2010	2009
Utility System Revenue Bonds, Series 2001A		
4.25% to 5.25% serial bonds, due annually at varying amounts through 2024, interest payable semiannually	\$ 160,325,000	\$ 161,245,000
5.0% term bonds, due October 1, 2026, subject to mandatory redemption 2025 and 2026, interest payable semiannually	34,620,000	34,620,000
5.1% term bonds, due October 1, 2028, subject to mandatory redemption 2027 and 2028, interest payable semiannually	62,170,000	57,945,000
6.0% term bonds due October 1, 2029, subject to mandatory redemption 2028 and 2029, interest payable semiannually	45,775,000	50,000,000
Total series 2001A	302,890,000	303,810,000
 Utility System Revenue Bonds, Series 1999		
5.0% serial bonds, due annually at varying amounts through 2011, interest payable semiannually	14,805,000	21,690,000
 Utility System Revenue Bonds, Series 1998A		
4.75% term bonds, due October 2027, subject to mandatory redemption from 2025 through 2027, interest payable semiannually	27,360,000	27,360,000
 Utility System Revenue Bonds, Series 1998B		
4.75% term bonds, due October 2027, subject to mandatory redemption from 2025 through 2027, interest payable semiannually	38,340,000	38,340,000
 Acquisition Credits		
\$867,969 due monthly, deducted from water revenue billed to Member Governments, including interest at 4.865%, through 2029, interest calculated semiannually	119,607,409	123,732,433
Total debt outstanding	1,114,827,409	1,142,042,433
Less current maturities	(28,263,588)	(27,215,024)
	1,086,563,821	1,114,827,409
Add unamortized bond premium	31,409,898	34,856,747
Less unamortized bond discount	(3,289,100)	(3,474,770)
Less unamortized losses on bond refundings	(27,476,043)	(30,045,720)
Total long-term debt	\$1,087,208,576	\$1,116,163,666

Tampa Bay Water
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Notes to Financial Statements (continued)

11. Long-Term Debt and Other Noncurrent Liabilities (continued)

The Agency's changes in noncurrent liabilities for the fiscal years ended September 30, 2010 and 2009, were as follows:

	Balance October 1, 2009	Additions	Deletions	Balance September 30, 2010	Due Within One Year
	<i>(Restated)</i>				
1998A bonds	\$ 27,360,000	\$ –	\$ –	\$ 27,360,000	\$ –
1998B bonds	38,340,000	–	–	38,340,000	–
1999 bonds	21,690,000	–	6,885,000	14,805,000	7,220,000
2001A bonds	303,810,000	–	920,000	302,890,000	955,000
2001B bonds	164,545,000	–	3,265,000	161,280,000	3,385,000
2004 bonds	106,900,000	–	5,855,000	101,045,000	5,995,000
2005 bonds	174,965,000	–	3,490,000	171,475,000	3,610,000
2006 Bonds	79,325,000	–	2,675,000	76,650,000	2,790,000
2008 Bonds	101,375,000	–	–	101,375,000	–
Acquisition credits	123,732,433	–	4,125,024	119,607,409	4,308,588
Unamortized bond issue premium	34,856,747	–	3,446,849	31,409,898	–
Unamortized bond issue discount	(3,474,770)	–	(185,670)	(3,289,100)	–
Deferred refunding losses	(30,045,720)	–	(2,569,677)	(27,476,043)	–
	1,143,378,690	–	27,906,526	1,115,472,164	28,263,588
Less current portion	(27,215,024)	(28,263,588)	(27,215,024)	(28,263,588)	–
Total long-term debt	1,116,163,666	(28,263,588)	691,502	1,087,208,576	28,263,588
Derivative instruments	41,735,751	17,433,162	–	59,168,913	–
Deferred revenue	12,157,074	6,324,790	–	18,481,864	–
Total noncurrent liabilities	\$ 1,170,056,491	\$ (4,505,636)	\$ 691,502	\$ 1,164,859,353	\$ 28,263,588

Tampa Bay Water
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Notes to Financial Statements (continued)

11. Long-Term Debt and Other Noncurrent Liabilities (continued)

	Balance October 1, 2008	Additions	Deletions	Balance September 30, 2009 <i>(Restated)</i>	Due Within One Year
1998A bonds	\$ 30,710,000	\$ –	\$ 3,350,000	\$ 27,360,000	\$ –
1998B bonds	43,670,000	–	5,330,000	38,340,000	–
1999 bonds	28,265,000	–	6,575,000	21,690,000	6,885,000
2001A bonds	304,695,000	–	885,000	303,810,000	920,000
2001B bonds	167,695,000	–	3,150,000	164,545,000	3,265,000
2004 bonds	107,150,000	–	250,000	106,900,000	5,855,000
2005 bonds	174,965,000	–	–	174,965,000	3,490,000
2006 Bonds	81,885,000	–	2,560,000	79,325,000	2,675,000
2008 Bonds	101,375,000	–	–	101,375,000	–
Acquisition credits	127,791,109	–	4,058,676	123,732,433	4,125,024
Unamortized bond issue premium	38,411,599	–	3,554,852	34,856,747	–
Unamortized bond issue discount	(3,662,671)	–	(187,901)	(3,474,770)	–
Deferred refunding losses	(32,638,225)	–	(2,592,505)	(30,045,720)	–
	1,170,311,812	–	26,933,122	1,143,378,690	27,215,024
Less current portion	(26,158,676)	(27,215,024)	(26,158,676)	(27,215,024)	–
Total long-term debt	1,144,153,136	(27,215,024)	774,446	1,116,163,666	27,215,024
Derivative instruments	23,791,348	17,944,403	–	41,735,751	–
Deferred revenue	25,320,012	–	13,162,938	12,157,074	–
Total noncurrent liabilities	\$ 1,193,264,496	\$ (9,270,621)	\$ 13,937,384	\$ 1,170,056,491	\$ 27,215,024

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Notes to Financial Statements (continued)

11. Long-Term Debt and Other Noncurrent Liabilities (continued)

Annual debt service requirements to maturity for all long-term debt as of September 30, 2010, are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 28,263,588	\$ 55,744,585	\$ 84,008,173
2012	29,409,628	54,479,328	83,888,956
2013	30,804,094	53,059,980	83,864,074
2014	32,266,599	51,572,975	83,839,574
2015	32,433,062	50,008,618	82,441,680
2016–2020	179,506,827	224,019,804	403,526,631
2021–2025	231,576,198	170,730,444	402,306,642
2026–2030	276,172,413	104,436,175	380,608,588
2031–2035	179,060,000	39,545,534	218,605,534
2036–2039	95,335,000	9,695,963	105,030,963
	<u>\$ 1,114,827,409</u>	<u>\$ 813,293,406</u>	<u>\$ 1,928,120,815</u>

Revenues Pledged

The Agency has pledged its Net Revenues (Gross Revenues less Operating Expenses), all as defined by the master bond resolution, to repay its \$1,114,827,409 outstanding utility system revenue bonds described above. The bonds are payable solely from Net Revenues and are payable through 2039. Pledged revenues, which are budgeted and collected annually to meet the annual debt service requirements, were \$74,380,771 in 2010 and \$74,909,796 in 2009. Annual principal and interest payments on the bonds are expected to require less than 50% of annual operating revenues. Bond covenants require the Agency to fund, among other accounts, sinking funds, and debt service reserves with pledged revenue. These funding requirements are described in Note 5.

The covenants also require that the Agency not issue any other obligations payable from the specified pledged revenue, nor voluntarily create or cause to be created any debt, lien, pledge, assignment, encumbrances, or other charges having priority to or being on a parity with the lien of the specific bonds except under conditions specified in the resolutions. At September 30, 2010 and 2009, the Agency complied with all debt covenants.

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Notes to Financial Statements (continued)

11. Long-Term Debt and Other Noncurrent Liabilities (continued)

Defeasance of Debt

In 2005 and prior years, the Agency advance refunded certain bond issues through various refunding bonds. The proceeds of the refunding bonds were used to purchase United States government and Agency securities that were placed in an irrevocable trust to fund all future debt service payments on the refunded debt. As a result, the refunded bonds are considered defeased, and the related liability has been removed from the accompanying financial statements.

At September 30, 2010, the principal amount outstanding of the 1984 defeased bonds (refunded in 1985), 1989A defeased bonds (refunded in 1998), 1995 defeased bonds (refunded in 1998), 1999 defeased bonds (refunded in 2001), and the 2001B defeased bonds (refunded in 2004 and 2005) is \$380,995,662 (including accreted interest through maturity).

12. Employee Retirement Plan

Substantially all full-time employees of the Agency are eligible to participate in the State of Florida Retirement System (System), a cost-sharing multiple-employer public retirement system that provides a defined benefit plan for all state and participating county, district school board, community college, and university employees. The defined benefit plan was established in 1970 by the Florida Legislature. In 2002, the legislature amended the laws creating a new employer-funded, optional defined contribution program named the “Public Employee Optional Retirement Program” (the Investment Plan). Substantially all full-time employees are eligible to participate in this plan in lieu of the defined benefit plan.

Investment Plan participants vest after one year of service. Employer contributions are deposited to an account held in the employee’s name and are invested as directed by the employee in the options provided by the Investment Plan. Retirement benefits are conditional on the performance of the employee’s investment account. Agency employees must have made their plan election prior to March 1, 2004. Subsequent to that date, all plan participants may exercise a one-time option to switch plans. New employees may elect to participate in either plan when eligible.

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Notes to Financial Statements (continued)

12. Employee Retirement Plan (continued)

Under the defined benefit plan, employees who retire at or after age 62 with six years of credited service, or with 30 years of service, regardless of age, are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their average final compensation for each year of credited service. Final average compensation is the employee's average of the five highest fiscal years of salary earned during credited service. Vested employees may retire before age 62 and receive benefits that are reduced 5% for each year prior to normal retirement age or date. The System also provides death and disability benefits. Benefits are established by Chapter 121, *Florida Statutes*, and Chapter 22B, Florida Administrative Code.

All retirement legislation enacting benefit improvements must comply with Article X, Section 14, of the State Constitution and with part VII, chapter 112, *Florida Statutes*. Both of these provisions require that any increase in retirement benefits must be funded concurrently on an actuarially sound basis. The Florida Legislature enacted legislation in 2007 (Chapter 2007-84, Laws of Florida) that established uniform employer contribution rates for the Florida Retirement System (FRS) membership classes and subclasses and the Deferred Retirement Option Program (DROP) effective July 1, 2007 and July 1, 2008. Legislation in 2009 continued these rates at 9.85%, 13.12%, and 10.91% for the regular class, senior management class, and drop participants, respectively. In 2010, legislation raised the plan rates for the plan year beginning July 1, 2010, to 10.77%, 14.57%, and 12.25% for the regular class, senior management class and drop participants, respectively. The Agency is required to contribute to the plans at these actuarially determined rates. The Agency's contributions for the years ended September 30, 2010, 2009, and 2008, were \$888,127, \$828,223, and \$792,005, respectively, and were equal to the required contributions for each year.

The plans are administered by the State of Florida Division of Retirement, Department of Management Services. The System publishes an unaudited annual report that provides 10-year historical trend information about progress made in accumulating sufficient assets to pay benefits when due. The most recent available report is for the plan year ended June 30, 2008. This report may be obtained by writing to the Division of Retirement, Research Education and Policy Section, P.O. Box 9000, Tallahassee, FL 32315-9000, by calling (850) 488-5706, or by accessing their Internet site at:

http://dms.myflorida.com/human_resource_support/retirement/publications/system_information/annual_reports

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Notes to Financial Statements (continued)

13. Post-Employment Health Care Benefits

The Agency follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to account for certain post-employment health care benefits provided by the Agency.

Plan Description – The Post-Employment Health Care Benefits Plan is a single-employer defined benefit plan administered by the Agency. Pursuant to the provisions of Section 112.0801, *Florida Statutes*, former employees who retire from the Agency and their eligible dependents may continue to participate in the Agency’s fully insured health and hospitalization plan for medical and prescription drug coverage. The Agency subsidizes the premium rates paid by retirees by allowing them to participate in the plans at blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees.

Funding Policy – For the Post-Employment Health Care Benefits Plan, contribution requirements of the Agency are established and may be amended through recommendations of the Finance Director and action from the Board. The Agency has not advanced-funded or established a funding methodology for the annual Other Post-employment Benefit (OPEB) costs or the net OPEB obligation. As of September 30, 2010, there were three retirees and one eligible dependent receiving post-employment health care benefits. For the year ending September 30, 2010, the Agency provided required contributions of \$1,911 toward annual OPEB costs, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), retention costs, and net of retiree contributions totaling \$21,728. For the year ending September 30, 2009, the Agency provided required contributions of (\$20,153) toward annual OPEB costs, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), retention costs, and net of retiree contributions totaling \$33,295. Required contributions are based on projected pay-as-you-go financing.

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Notes to Financial Statements (continued)

13. Post-Employment Health Care Benefits (continued)

Annual OPEB Cost (AOC) and Net OPEB Obligation (NOO) – The following table shows the Agency’s annual OPEB cost for the years ending September 30, 2010 and 2009, the amount actually contributed to the plan, and changes in the Agency’s net OPEB obligation:

	Year Ending September 30	
	2010	2009
(1) Normal Cost	\$ 41,020	\$ 39,442
(2) Amortization of Unfunded Accrued Liability	18,172	15,837
(3) Interest	2,368	2,211
(4) Annual Required Contribution	<u>61,560</u>	57,490
(5) Interest on Net OPEB Obligation (NOO)	6,895	3,773
(6) Amortization of NOO	<u>(6,156)</u>	(3,369)
(7) Total Expense or Annual OPEB Cost (AOC)	<u>62,299</u>	57,894
(8) Actual Receipts (Contribution) Toward OPEB Cost	1,911	20,153
(9) Increase in NOO	60,388	78,047
(10) NOO Beginning of Year	172,378	94,331
(11) NOO End of Year	<u>\$ 232,766</u>	<u>\$ 172,378</u>

The Agency’s NOO is included in Accounts Payable and Accrued Expenses in the balance sheet. The Agency’s historical annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows:

Fiscal Year	AOC	Contribution	Percentage of AOC Contributed	NOO
9/30/2008	\$ 86,392	\$ (7,939)	(9.2)%	\$ 94,331
9/30/2009	57,894	(20,153)	(34.8)	172,378
9/30/2010	62,299	1,911	3.1	232,766

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Notes to Financial Statements (continued)

13. Post-Employment Health Care Benefits (continued)

Funded Status and Funding Progress – As of September 30, 2010, the actuarial accrued liability for benefits was \$519,248, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$519,248. The covered payroll (annual payroll for active participating employees) was \$8,570,128 for the year ending September 30, 2010, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 6.1% (See Required Supplementary Information).

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and the health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Agency's initial OPEB actuarial valuation for the 2009–2010 fiscal year used the entry age normal cost actuarial method to estimate the unfunded actuarial liability and to determine the annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4% rate of return on invested assets, which is the Agency's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3.5% per year, and an annual health care cost trend rate of 9.5% initially for the 2009–2010 fiscal year, reduced by 1.0% per year, to an ultimate rate of 5.5% for the fiscal year ending September 30, 2014. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The unfunded actuarial accrued liability and gains/losses are being amortized as a level percentage of projected payroll on a closed basis over 30 years.

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Notes to Financial Statements (continued)

14. Risk Management

The Agency is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency has transferred the risk to outside parties through the purchase of various types of insurance coverage.

The Agency purchases the following insurance coverage through Wallace, Welch, and Willingham, Inc. or Brown & Brown, Inc, from various carriers: property insurance; inland marine; boiler and machinery insurance; commercial general liability; business auto liability and physical damage; marine hull coverage; employment practice liability; public official liability; and government crime coverage. The Agency obtained its workers' compensation insurance from Preferred Government Insurance Trust (PGIT), a pool open to state and local governments. In addition, the Agency purchases storage tank insurance as well as commercial environmental impairment liability coverage relative to the operation of the Desalination Plant through Policy Managers. There have been no significant reductions in insurance coverage from the prior year and no settlements have exceeded insurance coverage over the past three years.

15. Commitments and Contingencies

Litigation

The Agency is a party to various lawsuits, claims, and legal actions arising in the ordinary course of business. These actions relate primarily to eminent domain, construction claims, disputes, and personnel matters. Except as discussed in Note 16, any losses which may be incurred in connection with these matters are deemed by management to not be material to the Agency's financial statements.

Grant Funds

The Agency is subject to audit examination by funding sources to determine compliance with grant conditions. In the event that expenditures would be disallowed, repayment could be required.

Tampa Bay Water
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Notes to Financial Statements (continued)

15. Commitments and Contingencies (continued)

Operating Leases

The Agency leases land for the Seawater Desalination Plant under a noncancelable operating lease and easement agreement expiring December 31, 2032. The lease may be extended for up to two consecutive additional periods of 30 years each. Rental expense on this lease was \$38,423 and \$37,787 in 2010 and 2009, respectively. Real estate taxes of \$139,280 and \$151,564 were also paid in 2010 and 2009, respectively. The basic rent is adjusted yearly by applying the Consumer Price Index for all urban consumers to the prior year basic rent.

The Agency entered into a two-year operating lease for copier equipment at the High Service Pump Station in 2008. Rental expense on this lease was \$3,164 and \$3,452 in 2010 and 2009, respectively.

The aggregate future minimum operating lease payments for the year ending September 30, 2010, are as follows:

	<u>Desalination Plant Land Lease</u>
2011	\$ 38,855
2012	38,961
2013	38,961
2014	38,961
2015	38,961
2016–2033	<u>672,075</u>
	<u><u>\$ 866,774</u></u>

Operations and Maintenance Agreements

The 20-year Operation, Maintenance, and Management (OM&M) Services Agreement for operation of the plant with American Water-Pridesa, LLC, approved by the Board in 2004, went into effect as of November 8, 2007. Under this agreement, American Water-Pridesa, LLC operates and maintains the plant and the Agency will pay a service fee consisting of a base

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Notes to Financial Statements (continued)

15. Commitments and Contingencies (continued)

Operations and Maintenance Agreements (continued)

OM&M charge, certain pass-through charges, maintenance reserve fund charges, and various fee adjustments. The base OM&M charge will be adjusted at the beginning of each contract year based on certain labor and plant cost indexes. The contract can be terminated for convenience with 90 days notice and payment for all services performed, reimbursable expenses due, a termination fee of \$1 million gradually declining to zero after 15 years and demobilization fee of \$50,000. Total operating fees under this contract were \$5,387,687 and \$5,778,971 for 2010 and 2009, respectively.

The Agency is a party to an Operations and Maintenance (O&M) Agreement with Veolia Water North America for the operation of its Surface Water Treatment Plant. The agreement, which became effective in 2004, provides for the payment by the Agency of a service fee that includes a base O&M charge that is payable regardless of plant production levels and several variable and pass-through cost components. The base O&M charge and certain other cost components increase yearly based on an index directly related to the expense. The agreement is fully cancellable with 90 days notice, payment of all accrued service fees, and any demobilization costs. Expense under this agreement was \$4,315,670 and \$4,175,728 for the years ended September 30, 2010 and 2009, respectively.

The Agency is also a party to a Facility Maintenance Agreement with Veolia Water North America for the maintenance of the Keller Hydrogen Sulfide Treatment Facility. The agreement provides for payment by the Agency of a service fee and is fully cancellable with a pro rata settlement of the annual service fee for work performed prior to termination of the Agreement. Expense under this agreement was \$124,115 and \$188,055 for the years ended September 30, 2010 and 2009, respectively.

In 2005, the Agency entered into a Service Agreement with Veolia Water North America for operation and maintenance of the C.W. Bill Young Regional Reservoir. This agreement provides for payment of a monthly service fee and certain pass-through costs. The agreement is fully cancellable at the option of the Agency. Expense under this contract was \$521,046 and \$624,944 for the years ended September 30, 2010 and 2009, respectively.

Tampa Bay Water
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Notes to Financial Statements (continued)

15. Commitments and Contingencies (continued)

Regional Reservoir

The C.W. Bill Young Regional Reservoir is located in southern Hillsborough County. The facility is designed to store up to 15 billion gallons from various surface water sources. Construction of the facility was completed in 2005 and, following approval from Florida Department of Environmental Protection (FDEP), was placed into full operational status in June 2005. Beginning in December 2006, larger-than-expected cracks began to form in the flat-plate soil-cement on the interior face of the embankment. The flat-plate soil-cement is an erosion barrier that provides erosion protection for the embankment and is not a structural component of the reservoir. Engineers engaged by both the Agency and FDEP agree that the reservoir is safe and poses no public safety hazard. In August 2008, FDEP and the Agency agreed to limit the fill elevation at the Reservoir to 105 feet (approximately 6.5 billion gallons) to prevent potential storm-related wave damage to the cracked areas in the flat-plate soil-cement, until the Agency could provide reasonable assurances that erosion features that might exist beneath the flat-plate soil-cement in these areas had been identified and repaired. In November and December 2008, the Agency completed test procedures that demonstrated that the erosion features in the soil wedge directly under the flat plate soil cement could be located using ground penetrating radar (GPR). In June 2009, the Agency completed a short-term repair program at a cost of approximately \$2 million at the facility and received FDEP approval to return the reservoir to its current permitted fill volume and rate of withdrawal. During fiscal 2010, the reservoir was full, and no additional short-term soil-cement repairs were needed. The Agency believes it will be necessary to perform similar short-term repairs to this facility in the future until the causal factors underlying the cracks are addressed.

Staff has also developed a plan and schedule for completing the analysis of causal factors for the failure of the flat-plate soil-cement as an erosion control measure and for development of a solution. In June 2009, the Board of Directors adopted a resolution that authorized the General Manager to proceed with a permanent fix for the facility. Between October 2009 and April 2010, staff assembled a team comprised of financial, technical, and legal advisors and commenced a competitive procurement process scheduled to be complete in the summer of 2011. Design and permitting of the permanent fix is currently projected to be complete in late 2012 and construction completed in late 2014.

Tampa Bay Water
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Notes to Financial Statements (continued)

16. Litigation Settlements

In November 2009, the Agency settled with three of the thirty-seven defendants in the ongoing MTBE litigation. The amount of the settlement was \$111,720. On April 19, 2010, the Board approved a second settlement offer from most of the remaining defendants in the amount of \$1,004,500. On August 25, 2010, the Agency received a final settlement offer from the remaining defendants in the amount of \$12,451, which was approved by the Board on October 18, 2010. The total amount received under these settlements at September 30, 2010 is \$1,116,219. The Agency is awaiting the final release of the last approved settlement funds in the amount of \$12,451. The MTBE case involves threatened contamination to certain Agency production wells from leaking underground gasoline storage tanks.

In 2009, the Agency settled a 2007 case with the Hartford Accident and Indemnity Company requiring the Agency to pay \$510,000. The case arose out of a 2001 pipeline construction contract wherein the contractor defaulted and construction completion was assumed by the surety. This additional construction cost has been capitalized as a cost of the pipeline in 2009.

The Agency accounts for recoveries from litigation and insurance in a manner that is consistent with the guidance for insurance recoveries provided in GASB 42.

17. Subsequent Events

Series 2010 Bonds

On November 11, 2010, the Agency issued \$66,980,000 of Utility System Refunding Revenue Bonds, Series 2010. The 2010 bonds were issued for the purpose of currently refunding its 1998A, 1998B, and 2001B Bonds in the amounts of \$27,360,000, \$39,340,000, and \$6,740,000, respectively. The 2010 bonds were issued at a premium of \$6,716,742, bear interest rates of 4% to 5%, and mature 2025 through 2027. After issuance costs of approximately \$333,000, proceeds were placed in escrow to refund the prior bonds.

Series 2011 Bonds

The Agency entered into a Forward Delivery Purchase Contract dated November 3, 2010, with Merrill, Lynch, Pierce, Fenner and Smith Inc. (as representative on behalf of itself, Citigroup Capital Markets, and Raymond James & Associates, Inc. (the Underwriters)). Under the contract

Tampa Bay Water
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Notes to Financial Statements (continued)

17. Subsequent Events (continued)

Series 2011 Bonds (continued)

the Underwriters agree to purchase and the Agency agrees to issue its Utility System Refunding Revenue Bonds, Series 2011 in the principal amount of \$104,645,000. The bonds will be dated July 7, 2011, and bear an interest rate of 5%. The purchase price for the bonds will be \$114,216,766, which is the original principal amount net of Underwriter's discount of \$574,172, plus original issue premium of \$10,145,938. The bonds are being issued for the purpose of refunding \$112,385,000 of the Agency's Series 2001A bonds. After issuance costs of approximately \$434,635, proceeds will be placed in escrow to refund the prior bonds on October 1, 2011.

Reservoir Litigation

At its December 13, 2010 meeting, the Agency's Board approved a settlement with Construction Dynamics Groups (CDG) and its insurers in the amount of \$6,000,000 relative to the reservoir litigation. The settlement funds were received by the Agency on December 23, 2010.

Eminent Domain Proceedings

In March, 2009, the Agency acquired, through an Order of Taking and subsequent deposit, permanent and temporary easements over certain property for the Northwest Hillsborough Pipeline Project. The parties met for a mediation conference on December 2, 2010. At mediation, the parties reached a proposed settlement as to the compensation for the property in the amount of \$465,000. The proposed settlement will be presented to the Agency's Board for approval at its February 2011 meeting. This amount does not include the owners' reasonable attorneys' fees and expert costs which have not yet been determined.

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Required Supplementary Information
Other Post-Employment Benefits
Schedule of Funding Progress

September 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded as a Percent of Covered Payroll
09/30/2008	\$ -	\$ 851,914	\$ 851,914	-%	\$ 8,061,228	10.5%
09/30/2009	-	468,424	468,424	-	8,262,444	5.7
09/30/2010	-	519,248	519,248	-	8,570,128	6.1

The Agency implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the 2007–08 fiscal year, accordingly, only three years of data are available.

Report of Independent Certified Public Accountants on
Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance With *Government Auditing Standards*

The Board of Directors
Tampa Bay Water, A Regional Water Supply Authority

We have audited the financial statements of Tampa Bay Water, A Regional Water Supply Authority (the Agency), as of and for the year ended September 30, 2010, and have issued our report thereon dated February 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

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

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

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

Compliance and other matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Agency's member governments, federal and state awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Ernst & Young LLP

February 7, 2011

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