

FINANCIAL STATEMENTS

Tampa Bay Water (A Regional Water Supply Authority)
Years Ended September 30, 2009 and 2008
With Reports of Independent Certified Public Accountants

Tampa Bay Water
(A Regional Water Supply Authority)

Financial Statements

Years Ended September 30, 2009 and 2008

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Report of Independent Certified Public Accountants

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

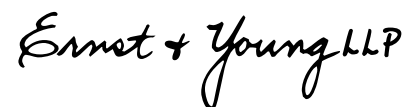
We have audited the accompanying balance sheets of Tampa Bay Water, A Regional Water Supply Authority (the Agency) as of September 30, 2009 and 2008, and the related statements of revenue, expenses, and change in net assets and cash flows for the years then ended. These financial statements are the responsibility 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, 2009 and 2008, 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.

In accordance with Government Auditing Standards, we have also issued our report dated January 22, 2010, 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 2 through 13 and the schedule of funding progress on page 48 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.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

January 22, 2010

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis

Years Ended September 30, 2009 and 2008

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, 2009 and 2008. 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 \$1,130.5 million to provide water to its six member governments. Financial data for the years ended September 30, 2009 and 2008 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 2009 and 2008 included 13 regional wellfield systems, two smaller wellfields, 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'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 2009, construction of these projects was underway, resulting 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 use permits at the Hillsborough River and Tampa Bypass Canal to use additional mid-range higher flows. The projects include expansion of the existing Regional Surface Water Treatment Plant, Tampa Bypass Canal Pump Station, Regional Repump Station, and Regional High Service Pump Station, as well as a new South Central Hillsborough Booster Station, a new Reservoir Pump Station, and several additional interconnects. 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.
- The Agency has also focused on several projects to connect members' isolated water supplies to the regional water supply system or to expand service at existing connections. In the current year an expanded U.S 41 Booster Station and Lake Bridge Water Treatment Plant were placed in service to provide additional supply to the central Pasco area. The South Central Hillsborough Chloramination Facility was also placed in service this year. The South Central Hillsborough Infrastructure Project (SCHIP) and the Northwest Hillsborough Pipeline (part of Config II) are in development and will connect isolated service areas to the regional water supply system providing increased reliability of supply and facilitating reduction of groundwater pumping in those areas.
- The Agency's net assets increased by \$79.4 million or 15.8%, reflecting a reduction in the Agency's outstanding debt, whose proceeds funded acquisition of those assets, as well as the recognition of previously deferred revenue.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Highlights (continued)

- The Agency's restricted assets, primarily cash and investments, decreased by \$23.8 million or 6.3% from 2008 to 2009 due to expenditure of construction funds on the Config II projects.
- Capital contributions reflect \$42.5 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 \$42.5 million of the Agency's Series 2002 Variable Rate Bonds. Capital contributions and the related receivable also include \$10.3 million resulting from the Agency meeting the eligibility criteria to receive an additional grant amount equivalent to the interest earned on the desalination facility grant trust account.
- During the current year, the Agency also billed \$42.5 million to the District for funding of design and construction of the Config II projects and \$1.4 million to the U.S. Environmental Protection Agency (EPA) for funding of the Downstream Augmentation project, as reflected in capital contributions.
- As a result of the continued low interest rates and volatility in the financial markets during 2009, the Agency experienced a 63.0% decline in its interest earnings from 2008 to 2009. These same conditions resulted in an increase in the fair value of the Agency's swaption liability to \$44.6 million and an increase in the unrealized change in the fair value of the swaptions from \$(10.0) million in 2008 to \$(18.4) million in 2009 as reflected in the statements of revenues, expenses, and changes in net assets
- During the year, the Agency's revenue from water sales was \$151.7 million. In addition, \$6.3 million was utilized from the Rate Stabilization Account in accordance with contractual obligations with the Agency's members and Agency accounting policies, resulting in an increase in revenue recognized of \$2.6 million from 2008 to 2009.
- Operating expenses increased 13.1% from 2008 to 2009. The increase is largely attributable to a \$4.0 million increase in chemical costs, resulting from escalating chemical prices. Increased operation of the desalination facility and the reservoir maintenance program also contributed to the increase.
- In 2009, there was a net loss on disposition of assets due primarily to removal and replacement of the sludge drying bed at the Regional Surface Water Treatment Plant.
- Staff has developed a plan and schedule for completing the analysis of causal factors for the failure of the regional reservoir's flat-plate soil-cement as an erosion control measure and for development of a solution. In June 2009, the Board of Directors approved a program that will move forward with design and environmental permitting of the planned construction remedy, which will be planned for the 2010 to 2015 timeframe. 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 twenty-four months for the remediation process. Tampa Bay Water 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.

Tampa Bay Water
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Management's Discussion and Analysis (continued)

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 much of the information contained in the financial statements in greater detail.

Required Financial Statements

The financial statements of the Agency use accounting methods similar to those used by private sector companies. These statements present short-term and long-term financial information about its activities. 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. It 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 measures the success of the Agency's operations over the past year and can be used to determine whether the Agency has successfully recovered all its costs through its water rates and other charges, as well as its credit worthiness. 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 cash receipts and cash payments 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 based on budgeted operating and capital costs, as well as certain reserve requirements. The statements of revenues, expenses, and changes in net assets and the statements of cash flows report information about the Agency's activities and its sources and uses of cash. These statements provide additional information for measuring the Agency's financial health.

Tampa Bay Water
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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 2009 | FY 2008 | FY 2007 |
|---|-------------------|-------------------|-------------------|
| Assets | | | |
| Current and other assets | \$ 81.2 | \$ 96.4 | \$ 95.3 |
| Restricted assets | 355.3 | 379.1 | 314.6 |
| Capital assets and water capacity rights | 1,448.6 | 1,381.0 | 1,344.2 |
| Total assets | <u>\$ 1,885.1</u> | <u>\$ 1,856.5</u> | <u>\$ 1,754.1</u> |
| Liabilities and net assets | | | |
| Liabilities | | | |
| Demand bonds outstanding | \$ 21.2 | \$ 63.7 | \$ 85.0 |
| Long-term debt outstanding | 1,116.2 | 1,144.2 | 1,066.4 |
| Other liabilities | 165.1 | 145.4 | 143.4 |
| Total liabilities | <u>1,302.5</u> | <u>1,353.3</u> | <u>1,294.8</u> |
| Net assets | | | |
| Invested in capital assets, net of related debt | 507.0 | 429.0 | 384.9 |
| Restricted | 54.0 | 42.0 | 43.9 |
| Unrestricted | 21.6 | 32.2 | 30.5 |
| Total net assets | <u>582.6</u> | <u>503.2</u> | <u>459.3</u> |
| Total liabilities and net assets | <u>\$ 1,885.1</u> | <u>\$ 1,856.5</u> | <u>\$ 1,754.1</u> |

As shown in the table above, net assets increased \$79.4 million or 15.8% to \$582.6 million in fiscal 2009 from \$503.2 million in fiscal 2008. The major component of net assets is the amount invested in capital assets, net of related debt, which increased by \$78.0 million during the fiscal year. This increase results primarily from a \$62.6 million increase in construction in progress and a \$15.1 million decrease in the outstanding debt allocable to acquisition of these capital assets.

Net assets increased \$43.9 million or 9.6% to \$503.2 million in fiscal 2008 from \$459.3 million in fiscal 2007. The increase resulted primarily from an increase in net capital assets of \$36.8 million and a decrease of \$7.1 million in the outstanding debt allocable to acquisition of these capital assets.

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 \$12.0 million in fiscal 2009. This decrease is primarily 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 due to payment of project expenditures.

Tampa Bay Water
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Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Net Assets (continued)

From 2007 to 2008, restricted net assets decreased \$1.9 million. This decrease is the net impact of a \$73.3 million increase in cash held in construction funds, offset by a \$75.2 million increase in related debt.

Unrestricted net assets decreased by \$10.6 million from 2008 to 2009 and represent the funds generated from current year activities that are available to finance day-to-day operations.

Unrestricted net assets increased by \$1.7 million from 2007 to 2008.

Change in Net Assets

TABLE A-2
Condensed Statements of Revenues,
Expenses, and Changes in Net Assets
(In Millions of Dollars)

| | FY 2009 | FY 2008 | FY 2007 |
|---|----------|----------|----------|
| Operating revenues | \$ 158.0 | \$ 155.4 | \$ 128.2 |
| Operating expenses | (81.0) | (71.6) | (56.0) |
| Operating income before depreciation | 77.0 | 83.8 | 72.2 |
| Depreciation | (25.0) | (22.3) | (21.1) |
| Operating income | 52.0 | 61.5 | 51.1 |
| Interest income, net | 3.1 | 8.3 | 11.1 |
| Interest expense, net | (50.5) | (48.4) | (50.4) |
| Loss on disposal of capital assets, net | (3.7) | (2.1) | (2.0) |
| Change in fair value of swaption, net | (18.4) | (10.0) | 0.6 |
| Litigation recoveries (settlements) | 0.1 | (2.0) | 10.7 |
| Income before contributions | (17.4) | 7.3 | 21.1 |
| Capital contributions | 96.8 | 36.6 | 13.0 |
| Capital contribution to member | - | - | - |
| Change in net assets | 79.4 | 43.9 | 34.1 |
| Total net assets – beginning | 503.2 | 459.3 | 425.2 |
| Total net assets – ending | \$ 582.6 | \$ 503.2 | \$ 459.3 |

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. As shown above, income before contributions reduced net assets by \$17.4 million or 3.5%. The overall increase in net assets of \$79.4 million results from a \$60.2 million increase in capital contributions. This increase is due to the reimbursement of certain expenses under the terms of various grants related to the desalination facility in the amounts of \$42.5 million and \$10.3 million, as well as \$42.5 million billed to the District for costs incurred related to certain Config II projects. This increase is offset by the \$18.4 million unfavorable change in the fair value of swaptions due to current market conditions.

\$7.3 million or 16.6% of the \$43.9 million increase in net assets in 2008 results from income before contributions. Of this amount, \$10 million is attributable to the unfavorable change in the fair value of swaptions, and \$2 million is due to the settlement of certain litigation. Capital contributions from the District and state funding sources of \$36.6 million contributed 83.4% to the net asset increase.

Tampa Bay Water
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Management’s Discussion and Analysis (continued)

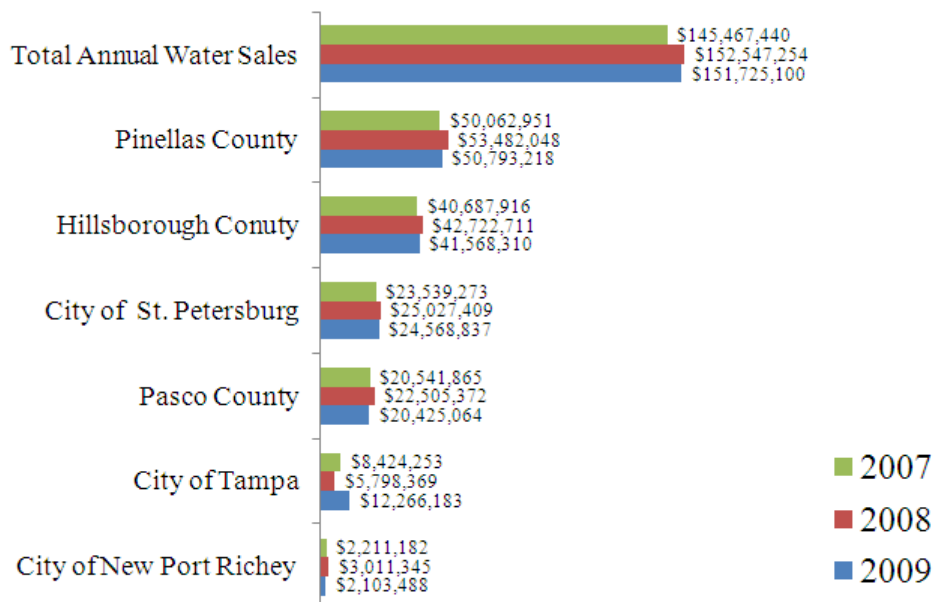
Financial Analysis of the Agency (continued)

Change in Net Assets (continued)

As illustrated in the following charts, total water sales billed to Member Governments were \$151.7 million in 2009 compared to \$152.5 million in 2008 and \$145.5 million in 2007. Demand decreased by 2.95% from 176.34 mgd (millions of gallons per day) in 2008 to 171.14 mgd in 2009. This followed a decrease of 5.5% from 186.68 mgd in 2007. The decline in demand in 2009 results primarily from continued water conservation measures and the continued impact of economic conditions. This impact was largely offset by the increased water demand from the City of Tampa. Water sales to Tampa increased 108.0% 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. The Agency experienced a 5.5% decrease in water demand from 2007 to 2008 due to (1) a reduction in active retail water accounts, resulting from the current economic decline, home foreclosures, and loss of jobs in the Tampa Bay area and (2) unusual rain events during the winter and early spring of 2008 that decreased typical springtime consumption of water for outdoor irrigation. In contrast, population growth in Hillsborough and Pasco Counties, as well as increased demand from the City of Tampa due to sustained drought conditions in the region, had resulted in increased water production in 2007.

Amounts billed differ from 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 2009 deferred revenue decreased \$6.3 million or 14.6% from 2008 with a corresponding increase in revenue as a result of budgeted use of rate stabilization funds to meet operating expenses. In 2008, deferred revenue also decreased by \$2.9 million representing use of deferred revenues to fund 2008 operations. In 2007, deferred revenue increased by \$17.3 million reflecting deferral of certain budgeted activities to the next fiscal year in accordance with contractual obligations with the Agency’s members which resulted in a decrease in operating revenues for that year.

Annual Water Sales



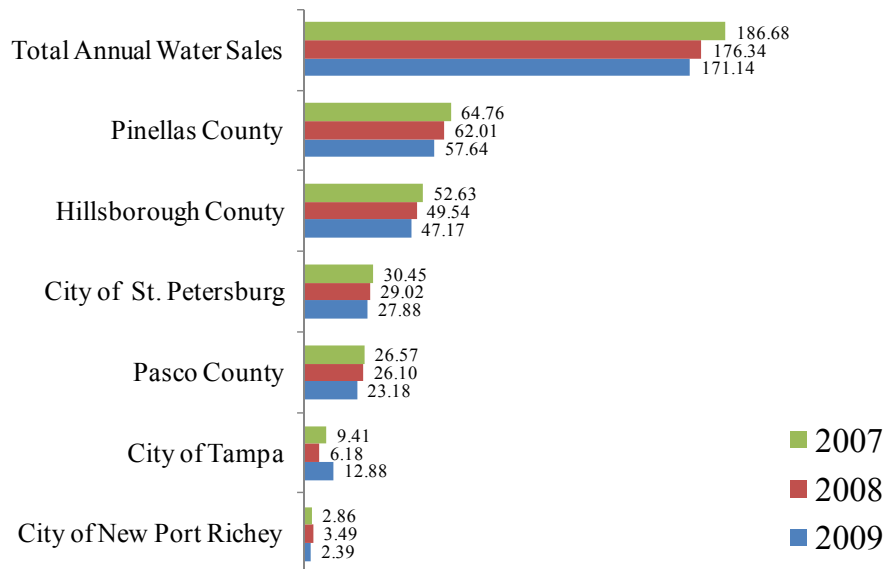
Tampa Bay Water
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Management’s Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Change in Net Assets (continued)

Annual Water Production (mgd)



The Agency’s capital improvement program has included development of a number of new projects utilizing alternative water sources, including surface water sources and desalination. In general, the cost of water production and treatment from these alternative sources is greater than the cost of traditional groundwater production and treatment. In 2009, the increased use of alternative facilities combined with price increases in various commodities, chemicals, and power resulted in increased operating expenses of 9.4 million or 13.1% from 2008 to 2009.

In 2008, operating expenses increased approximately \$15.6 million or 27.9% and was attributable to the increased cost of power and chemicals required for operation of the various water treatment and pumping facilities as well as full operation of the desalination plant.

Gain (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 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.

Depreciation expense increased \$2.7 million from 2008 to 2009 due primarily to a reduction in the estimated useful life of the alkalinity adjustment facility at the Regional Water Treatment Plant site in anticipation of its removal from service when expansion of the plant is completed. Depreciation increased \$1.2 million from 2007 to 2008 due to a partial year of depreciation for the various facilities being placed in service in each year and a full year of depreciation for the facilities placed in service in the prior year.

Tampa Bay Water
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Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Change in Net Assets (continued)

Interest income decreased 63% (\$5.3 million or 44% before the effects of interest capitalization) in 2009 as a result of several significant factors: due to continued concerns with the financial markets, Agency funds have remained largely in public deposit accounts, including certificates of deposit, with qualified financial institutions; interest rates have continued to decline and remain at historical lows; 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. Concerns over the financial markets continue to delay investing in other higher yielding investments. Interest income decreased \$2.8 million or 26% from 2007 to 2008 due primarily to withdrawal of Agency funds from the Florida Local Government Surplus Funds Trust Fund (SBA) and to the 250 basis point drop in average rates on qualified public deposit accounts.

Interest expense increased \$2.1 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 to reductions in the amount outstanding of \$42.5 million in March 2009 and \$21.3 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, the \$21.3 million reduction of the Series 2002 Bonds, and an increase in interest capitalized to projects of \$0.8 million.

Capital Assets

The Agency had invested \$1,130.5 million, \$1,062.9 million, and \$1,026.1 million at September 30, 2009, 2008, and 2007, 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.

TABLE A-3
Capital Assets
(In Millions of Dollars)

| | FY 2009 | FY 2008 | FY 2007 |
|--|-------------------|------------|------------|
| Land and improvements | \$ 81.5 | \$ 81.0 | \$ 80.1 |
| Wells and wellfield improvements | 156.8 | 156.6 | 155.6 |
| Water treatment and pumping facilities | 432.4 | 426.3 | 413.8 |
| Transmission mains | 295.3 | 282.5 | 264.6 |
| Buildings | 17.3 | 16.9 | 11.0 |
| Reservoir | 147.6 | 147.6 | 147.5 |
| Other equipment and software | 22.1 | 17.0 | 16.3 |
| | 1,153.0 | 1,127.9 | 1,088.9 |
| Less accumulated depreciation | 171.0 | 150.7 | 134.7 |
| | 982.0 | 977.2 | 954.2 |
| Construction-in-progress: | | | |
| Water treatment plants and booster stations | 83.4 | 43.0 | 14.9 |
| Transmission mains | 4.5 | 2.7 | 19.5 |
| Surface water sources and pumping facilities | 38.0 | 17.9 | 9.1 |
| Wellfields and improvements | 9.2 | 9.0 | 13.3 |
| Desalination facilities | 11.6 | 11.6 | 11.6 |
| Other supply and infrastructure | 1.6 | 1.5 | 3.5 |
| Software in development | 0.2 | — | — |
| | 148.5 | 85.7 | 71.9 |
| Capital assets, net | \$ 1,130.5 | \$ 1,062.9 | \$ 1,026.1 |

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

In 2008, construction-in-progress increased \$13.8 million from 2007 due in part to increased design and construction activity on components of System Configuration II (predominantly the Surface Water Treatment Plant Expansion, South Central Hillsborough Booster Station, and the SCHIP Chloramination Facility) and the Lake Bridge Booster Station.

Debt Administration

On June 5, 2008, the Agency issued \$101.4 million Tampa Bay Water Utility System Revenue Bonds, Series 2008. After funding of a \$1.3 million debt service reserve and costs related to the issue, the proceeds will be used to fund the design and construction of various capital projects for expansion of the Utility System and development of new water supply sources.

| Bond Ratings | Limitations on Debt |
|--|--|
| Agency ratings from Moody's, Standard & Poor's and Fitch are Aa3, AA+, and AA, respectively. The 2002 Variable Rate Revenue Bonds carry a rating of Aaa, AAA, and AA, from Moody's, Standard & Poor's, and Fitch IBCA, respectively, based on a letter of credit with Bank of America, N.A. All outstanding bonds except the variable rate bonds and 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
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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 | 21.7 | 5.00% |
| 2001A Bonds | 303.8 | 5.24% |
| 2001B Bonds | 164.5 | 5.00% |
| 2002 Bonds | 21.3 | Variable |
| 2004 Bonds | 106.9 | 5.17% |
| 2005 Bonds | 175.0 | 5.48% |
| 2006 Bonds | 79.3 | 4.55% |
| 2008 Bonds | 101.4 | 5.00% |
| | \$ 1,039.6 | |

The variable rate, including fees, effective at September 30, 2009, on the 2002 bonds was 0.83% at September 30, 2009, and 7.8% at September 30, 2008. Symptomatic of the market volatility during the period, the rate had risen from 2.05% on September 17, 2008, to 7.8% on September 30, 2008, then settled back to 1.76% by December 31, 2008, and continued to decline until mid-2009.

Tampa Bay Water
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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 1.34, 1.36, and 1.43 at September 30, 2009, 2008, and 2007, 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 2009 | FY 2008 | FY 2007 |
|---|-----------------|----------------|-----------------|
| Revenue from sales | \$ 158.0 | \$ 155.4 | \$ 128.2 |
| Less: Purchase price amortization credit | (10.3) | (10.4) | (10.4) |
| Grant proceeds available for debt service (Notes 4 and 5) | 10.3 | - | 15.1 |
| Litigation and insurance recoveries (Note 6) | 0.1 | - | 7.9 |
| Interest income – unrestricted (Note 1) | 3.0 | 7.7 | 11.1 |
| Total revenue | <u>161.1</u> | <u>152.7</u> | <u>151.9</u> |
| Operation and maintenance expenditures (Note 2) | (84.5) | (78.6) | (56.2) |
| Net revenue for coverage calculation | <u>\$ 76.6</u> | <u>\$ 74.1</u> | <u>\$ 95.7</u> |
| | | | |
| Total debt service on bonds | \$ 74.9 | \$ 71.4 | \$ 83.4 |
| Debt service on loans | - | - | - |
| Required deposit to Capital Improvement Fund | 0.2 | 0.8 | 9.4 |
| Required deposit to Renewal & Replacement Fund | 0.8 | 0.9 | 1.7 |
| Total debt service and reserve requirements | <u>\$ 75.9</u> | <u>\$ 73.1</u> | <u>\$ 94.5</u> |
| | | | |
| Debt service and reserve coverage (times) | <u>1.01</u> | <u>1.01</u> | <u>1.01</u> |
| Fund balance (Note 3) | \$ 23.6 | \$ 23.4 | \$ 23.1 |
| Net revenue plus fund balance | <u>\$ 100.2</u> | <u>\$ 97.5</u> | <u>\$ 118.8</u> |
| Debt service coverage (times) | <u>1.34</u> | <u>1.36</u> | <u>1.43</u> |

Note 1: Interest income does not include interest on construction and rebatable arbitrage funds of \$0.06, \$0.60, and \$0.001 millions in 2009, 2008, and 2007, respectively.

Note 2: Operation and maintenance expenditures include capital expenditures for maintenance of the existing system of \$3.6, \$5.0, and \$0.2 millions in 2009, 2008, and 2007, respectively, as well as \$2.0 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. Interest on the 2008 bonds of \$1.6 million was funded from bond proceeds, therefore 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.

Note 6: Litigation and insurance recoveries do not include recoveries of \$2.8 million restricted as to purpose in 2007.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

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 2010 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 2010 is \$2.3980 per thousand gallons as compared to a rate of \$2.2451 in 2009 and \$2.2488 in 2008. Two key factors impacting the 6.8% increase in the 2010 rate are decreased demand projections causing fixed costs to be distributed over a smaller production base and a projected 34% increase in cost of market driven commodities used in water production and treatment.

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 2010.

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.

Financial Statements

Tampa Bay Water
(A Regional Water Supply Authority)

Balance Sheets

| | September 30 | |
|---|------------------|------------------|
| | 2009 | 2008 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 64,371,210 | \$ 77,735,613 |
| Accounts receivable from sale of water | 5,118,993 | 8,211,596 |
| Interest receivable, unrestricted | 716,919 | 657,412 |
| Other accounts receivable | 1,739,458 | 70,971 |
| Inventories | 663,416 | 614,766 |
| Other current assets | 882,389 | 647,973 |
| Total current assets | 73,492,385 | 87,938,331 |
| Noncurrent assets: | | |
| Restricted assets: | | |
| Cash and cash equivalents | 157,698,935 | 144,898,599 |
| Interest receivable, restricted | 238,920 | 910,868 |
| Investments | 175,874,017 | 222,803,282 |
| Grants receivable, net of an allowance of \$0 in 2009 and \$46,513 in 2008 | 21,520,554 | 10,516,157 |
| Total restricted assets | 355,332,426 | 379,128,906 |
| Capital assets, net | 1,130,482,183 | 1,062,929,007 |
| Water capacity rights | 318,058,360 | 318,058,360 |
| Bond issue costs, net of accumulated amortization of \$5,768,877 in 2009 and \$5,034,273 in 2008 | 7,701,021 | 8,435,625 |
| Total assets | \$ 1,885,066,375 | \$ 1,856,490,229 |

Tampa Bay Water
(A Regional Water Supply Authority)

Balance Sheets (continued)

| | September 30 | |
|--|------------------|------------------|
| | 2009 | 2008 |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 11,587,006 | \$ 10,789,313 |
| Credits due to customers | 3,537,555 | 1,874,762 |
| Deferred revenue | 24,644,223 | 17,768,703 |
| Demand bonds payable | 21,250,000 | 63,750,000 |
| Total current liabilities | 61,018,784 | 94,182,778 |
| Current liabilities payable from restricted assets: | | |
| Construction funds accounts payable | 15,700,448 | 11,919,519 |
| Accrued interest payable | 25,592,598 | 25,385,064 |
| Current portion of long-term debt | 27,215,024 | 26,158,676 |
| Total current liabilities payable from restricted assets | 68,508,070 | 63,463,259 |
| Noncurrent liabilities: | | |
| Long-term debt, net of current portion | 1,116,163,666 | 1,144,153,136 |
| Fair value of interest rate swaptions | 44,641,278 | 26,198,828 |
| Deferred revenue | 12,157,074 | 25,320,012 |
| Total noncurrent liabilities | 1,172,962,018 | 1,195,671,976 |
| Total liabilities | 1,302,488,872 | 1,353,318,013 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 507,011,988 | 428,969,087 |
| Restricted | 53,998,988 | 42,017,587 |
| Unrestricted | 21,566,527 | 32,185,542 |
| Total net assets | 582,577,503 | 503,172,216 |
| Total liabilities and net assets | \$ 1,885,066,375 | \$ 1,856,490,229 |

See accompanying notes.

Tampa Bay Water
(A Regional Water Supply Authority)

Statements of Revenues, Expenses, and Changes in Net Assets

| | Year Ended September 30 | |
|--|--------------------------------|----------------|
| | 2009 | 2008 |
| Revenue from sale of water | \$ 151,725,100 | \$ 152,547,254 |
| Rate stabilization transfer | 6,287,418 | 2,855,489 |
| Total operating revenue | 158,012,518 | 155,402,743 |
| Operating expenses | (80,959,736) | (71,589,610) |
| Operating income before depreciation | 77,052,782 | 83,813,133 |
| Depreciation expense | (24,982,405) | (22,297,214) |
| Operating income | 52,070,377 | 61,515,919 |
| Nonoperating revenues (expenses): | | |
| Interest income, net of capitalized amounts of \$3,753,968 in 2009 and \$3,855,562 in 2008 | 3,078,361 | 8,279,462 |
| Interest expense, net of capitalized amounts of \$7,549,785 in 2009 and \$9,061,397 in 2008 | (50,510,428) | (48,451,423) |
| Loss on disposal of capital assets | (3,696,165) | (2,076,474) |
| Change in fair value of swaption | (18,442,450) | (9,982,908) |
| Litigation recoveries (settlements) | 145,372 | (2,000,000) |
| Total nonoperating (expenses) | (69,425,310) | (54,231,343) |
| (Loss) income before contributions | (17,354,933) | 7,284,576 |
| Capital contributions | 96,760,220 | 36,612,763 |
| Change in net assets | 79,405,287 | 43,897,339 |
| Total net assets – beginning | 503,172,216 | 459,274,877 |
| Total net assets – ending | \$ 582,577,503 | \$ 503,172,216 |

See accompanying notes.

Tampa Bay Water
(A Regional Water Supply Authority)

Statements of Cash Flows

| | Year Ended September 30 | |
|---|--------------------------------|----------------|
| | 2009 | 2008 |
| Operating activities | | |
| Receipts from customers | \$ 156,480,496 | \$ 156,988,785 |
| Payments for goods and services | (73,858,666) | (62,803,916) |
| Payments to employees | (8,329,972) | (8,074,740) |
| Net cash provided by operating activities | 74,291,858 | 86,110,129 |
| Capital and related financing activities | | |
| Proceeds from issuance of capital debt | – | 104,540,142 |
| Capital contributions | 85,755,824 | 37,259,505 |
| Acquisition and construction of capital assets | (92,460,891) | (56,091,623) |
| Proceeds from disposition of capital assets | 24,961 | 143,522 |
| Litigation recoveries (settlements) | 145,372 | (2,000,000) |
| Increase in accounts payable from restricted assets | 3,780,929 | 1,908,390 |
| Principal paid on capital and other long-term debt | (68,658,676) | (57,340,955) |
| Payment of debt issue costs | – | (973,669) |
| Interest paid on capital and other long-term debt | (57,879,537) | (56,205,559) |
| Net cash used in capital and related financing activities | (129,292,018) | (28,760,247) |
| Investing activities | | |
| Proceeds from sales and maturities of investments | 136,777,832 | 128,732,662 |
| Purchase of investments | (89,848,567) | (278,985,814) |
| Interest received on investments | 7,506,828 | 11,190,838 |
| Arbitrage rebate payment | – | (69,297) |
| Net cash provided by (used in) investing activities | 54,436,093 | (139,131,611) |
| Net change in cash and cash equivalents | (564,067) | (81,781,729) |
| Cash and cash equivalents, beginning of year | 222,634,212 | 304,415,941 |
| Cash and cash equivalents, end of year | \$ 222,070,145 | \$ 222,634,212 |

Continued on next page.

Tampa Bay Water
(A Regional Water Supply Authority)

Statements of Cash Flows (continued)

| | Year Ended September 30 | |
|---|--------------------------------|---------------|
| | 2009 | 2008 |
| Reconciliation of operating income to net cash provided by operating activities | | |
| Operating income | \$ 52,070,377 | \$ 61,515,919 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 24,982,405 | 22,297,214 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 1,424,116 | 3,878,479 |
| Inventories | (48,650) | (34,701) |
| Other current assets | (247,400) | (609,167) |
| Accounts payable and accrued expenses | 735,635 | 1,272,805 |
| Credits due to customers | 1,662,793 | 645,069 |
| Revenue deferred for rate stabilization | (6,287,418) | (2,855,489) |
| Total adjustments | 22,221,481 | 24,594,210 |
| Net cash provided by operating activities | \$ 74,291,858 | \$ 86,110,129 |

Supplemental schedule of noncash investing and financing activities:

The Agency recognized an increase of \$18,442,450 and \$9,982,908 in the fair value of its liability under swaption agreements for the years ended September 30, 2009 and 2008, respectively.

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 \$183,000,000 for eligible projects, excluding ground water sources and including alternative sources of potable water and transmission pipelines, subject to the terms and conditions of the Partnership Agreement. Projects eligible for funding were determined by the District. The commitment to fund a project and the amount of funding was established by project Funding Agreements entered into by the District and the Agency. The Agency has requested and received \$161,750,000 of funding available under the agreement with \$21,250,000 remaining in trust for the Desalination Plant. \$42,500,000 and \$21,250,000 were collected under this agreement in 2009 and 2008, respectively. At September 30, 2009, the Agency has also met the requirements to receive an additional \$10,300,000 grant funded from the interest earned on the 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 will 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 (WSPSTF) of \$15,500,000. \$42,529,103 and \$15,362,763 were received under these grants in 2009 and 2008, respectively.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

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.
- 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. 71, *Accounting for the Effects of Certain Types of Regulation*, 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 (See 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.

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 | 3–50 |
| 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.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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, 2009 or 2008.

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 2009 or 2008.

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.

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.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

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.

Pending GASB Pronouncements

GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, is effective for periods beginning after December 15, 2007. The statement requires the recognition of a pollution liability when any one of five specified obligating events occurs. The obligating events are (1) a government is compelled to take pollution remediation action because of an imminent endangerment; (2) a government violates a pollution prevention related permit or license; (3) a government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party for remediation, or as a party responsible for sharing costs; (4) a government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation; and (5) a government commences or legally obligates itself to commence pollution remediation. The implementation of this standard for fiscal year ending September 30, 2009, did not have any impact on the beginning net assets or operating activities of the Agency.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Pending GASB Pronouncements (continued)

GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*, was issued in June 2007 and is effective for periods beginning after December 15, 2009. This statement requires capitalization of intangible assets under certain circumstances and 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 elected to early-implement this statement, which is applicable to the Agency's Water Capacity Rights and computer software development.

GASB Statement 52, *Land and Other Real Estate Held as Investments by Endowments*, is not applicable for the Agency since the Agency has no endowments.

GASB Statement 53, *Accounting and Financial Reporting for Derivative Instruments*, requires that the fair value of financial arrangements, called "derivatives" or "derivative instruments" be reported in the financial statements of state and local governments. This pronouncement will not be effective for the Agency until fiscal year 2010. The Agency is currently evaluating the potential impact of this statement.

GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is not applicable to the Agency since the Agency operates as an Enterprise Fund.

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 13 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. Withdrawals from the 11 wellfields were limited to 121 million gallons per day (mgd) on a 12-month running average basis between January 1, 2003 and December 31, 2007. Beginning January 1, 2008, withdrawals from the 11 wellfields are limited to 90 mgd on a 12-month running average basis with the first compliance date being December 31, 2008. The Agency met the new compliance levels at December 31, 2008 and into the spring of 2009. Due to extreme and prolonged drought conditions in April 2009, it was necessary for pumpage at the wellfields to exceed the threshold for a short period of time 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. With the abatement of drought conditions, pumpage was returned to compliance levels and the 12 month running average is expected to be back in compliance with the permit limit in December 2009. In October 2009, the District and the Agency executed a consent order settling the issue of non-compliance, 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 two regional wellfield systems, the South-Central Hillsborough Regional Wellfield and the Brandon Urban Dispersed Wells, as well as 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. Withdrawals from the Carrollwood Wells are limited to 0.82 mgd on a 12-month running average basis. Withdrawals from the Eagles Wells are limited to 0.198 mgd on a 12-month running average basis. Withdrawals from the Tampa Bypass Canal are separately permitted and limited to 20 mgd on a 12-month running average basis and provide water to the City of Tampa via augmentation of the Hillsborough River Reservoir on an as-needed 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 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. The Alafia River Pump Station and transmission facilities also convey water during high-flow periods to the Regional Surface Water Treatment Plant. 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 is exceeded in each system. It is estimated that the Enhanced Surface Water System (including the Tampa Bypass Canal/Hillsborough River system, Alafia River, and C.W. Bill Young Regional Reservoir) along with the expanded permitted withdrawals of the Tampa Bypass Canal and expansion of the Surface Water Treatment Plant will meet the future drinking water needs of the Agency's six Member Governments through at least 2017.

The Regional Surface Water Treatment Plant is 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. The C.W. Bill Young Regional Reservoir provides 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 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) ** | 72.000 |
| 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 (inclusive of Crystal Lakes). 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 compliance with the Optimized Regional Operations Plan.

Tampa Bay Water
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Notes to Financial Statements (continued)

3. Permits and Regulations (continued)

** 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 exceeded in each river system. The quantity shown represents the rated capacity of the plant for both the Enhanced Surface Water System and the Seawater Desalination Plant, and sustained delivery rates will be less depending on river flow.

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, 2009 and 2008:

| Member Government | Annual Water Quantity Sold (mgd) | | Amounts Billed | |
|--------------------------------|-------------------------------------|---------------|-----------------------|-----------------------|
| | 2009 | 2008 | 2009 | 2008 |
| Hillsborough County | 47.17 | 49.54 | \$ 41,568,310 | \$ 42,722,711 |
| City of New Port Richey | 2.39 | 3.49 | 2,103,488 | 3,011,345 |
| Pasco County | 23.18 | 26.10 | 20,425,064 | 22,505,372 |
| Pinellas County | 57.64 | 62.01 | 50,793,218 | 53,482,048 |
| City of St. Petersburg | 27.88 | 29.02 | 24,568,837 | 25,027,409 |
| City of Tampa | 12.88 | 6.18 | 12,266,183 | 5,798,369 |
| Total current year water sales | <u>171.14</u> | <u>176.34</u> | <u>\$ 151,725,100</u> | <u>\$ 152,547,254</u> |
| Peak day production | <u>237.59</u> | <u>243.20</u> | | |

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 rate and a fixed cost rate. 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 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 77% of the Annual Estimate.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

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 interest income 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:

| | 2009 | 2008 |
|----------------------------------|-----------------------|----------------|
| Construction funds | \$ 188,905,560 | \$ 213,970,454 |
| Sinking funds | 48,965,595 | 47,482,068 |
| Renewal and replacement funds | 10,182,741 | 10,021,307 |
| Capital improvement funds | 27,880,222 | 28,656,401 |
| Operations and maintenance funds | 4,979,094 | 4,641,521 |
| Debt service reserve funds | 74,257,841 | 74,257,841 |
| Rebate funds | 161,373 | 99,314 |
| | \$ 355,332,426 | \$ 379,128,906 |

Construction Funds – Construction funds account for unexpended debt proceeds and interest income 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, 2002, 2004, 2005, 2006, and 2008 bonds.

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.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

6. Deposits and Investments

Deposits

As of September 30, 2009, the total carrying amount of the Agency's deposits, (unrestricted and restricted), inclusive of certificates of deposit of \$40,000,000 and exclusive of petty cash of \$1,450, was \$261,532,559. 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.

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 Fund A (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*.

On November 29, 2007, the trustees of the SBA suspended deposits and withdrawals from the Florida Local Government Surplus Funds Trust Fund. This action was taken to stop withdrawals that caused the Investment Pool's assets to fall from about \$27 billion down to \$14 billion in a month's time. Withdrawals were initiated by various local governments due to concerns associated with securities held by the Investment Pool that were downgraded below the credit quality guidelines set for initial purchase by the Investment Pool, as well as some limited defaults. Prior to closing of the Investment Pool, the Agency withdrew substantially all of its investment after consultation with its financial advisor. Subsequently, the SBA split the investment pool into two funds: 86% was placed in Fund A to hold high-quality, money-market appropriate securities and 14% was placed in Fund B to hold higher-risk securities in default, having payment extensions or experiencing significant credit risk. The Investment Pool's entire November interest and loan loss reserve was placed in Fund B to offset some of the lost value. Fund A continues to be a 2a-7 like fund. Fund B is accounted for as a fluctuating NAV pool. The Agency has not reinvested any funds in the investment pool and the remaining investment of \$104 at September 30, 2009, is primarily in Fund B.

Tampa Bay Water
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Notes to Financial Statements (continued)

6. Deposits and 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.

Investments made by the Agency (restricted and unrestricted) at September 30, 2009, 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 | 6.69 years | 0% | \$ 104 | not rated | not rated |
| Columbia Money Market Reserves Fund | 48 days | 0.126 | 536,033 | AAAm | Aaa |
| Total Investments < 92 days | | | <u>536,137</u> | | |
| Repurchase Agreement – Societe Generale, New York Branch | 10/01/2010 * | 4.425 | 20,660,432 | highest possible | highest possible |
| Repurchase Agreement – Citigroup | 09/01/2011* | 3.015 | 100,600,000 | AAA | Aaa |
| Forward Purchase Agreement – Morgan Stanley & Co., Inc. | 10/01/2011 * | 5.538 | 14,613,585 | A-1 | P-1 |
| Certificate of Deposit (non-negotiable) | | | | A+ | Aa2 |
| SunTrust Bank | 12/09/09 | 2.69 | 20,000,000 | A- | A2 |
| Fifth Third Bank | 11/16/09 | 1.29 | 10,000,000 | BBB+ | A2 |
| Regions Bank | 12/16/2009 | 1.57 | 10,000,000 | A- | Baa1 |
| Total investments > 91 days | | | <u>\$ 175,874,017</u> | | |

* Funds available on any debt service payment date.

For the repurchase agreements and forward purchase agreement, the credit rating reflects the credit rating of the underlying collateral. The two repurchase agreements are collateralized by obligations of U.S. Agencies. 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. The Forward Purchase Contract is collateralized by FCAR Owner Trust commercial paper maturing October 1, 2009. Certificates of Deposit are public funds collateralized through the state of Florida collateral pool as discussed above. Certificates of Deposit and Treasury Bills having a maturity of one year or less at time of purchase are recorded at cost.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

6. Deposits and Investments (continued)

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 excess of 5% of its total investments at September 30, 2009 and 2008, respectively: 2009 – Repurchase Agreements secured by various U.S. Government Agency obligations – 11.72%, Forward Purchase Agreement invested in Commercial Paper of Morgan Stanley & Company, Inc. – 8.28%, Certificates of Deposit – 22.67%, 2008 – Repurchase Agreements secured by various U.S. Government Agency obligations – 60.22%, and Forward Purchase Agreement invested in Commercial Paper of Morgan Stanley & Company, Inc. – 5.55%.

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. have been reduced to A and A2 from AA- and Aa3 by Standard & Poor's Rating Services and Moody's Investor Service, respectively. The rating change does not require any action by either the Agency or Citigroup relative to the Repurchase Agreement beyond the notification.

Repurchase Agreement Termination

Due to concerns about the financial strength of AIG Matched Funding, the Agency terminated the Repurchase Agreement with AIG effective October 14, 2008. There was no termination penalty and the Agency received the full amount of the investment together with accrued interest through the date of termination.

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, 2009 and 2008, net of an allowance, is \$21,520,554 and \$10,516,157, respectively.

Capital contributions include \$1,395,200 received from the United States Environmental Protection Agency in 2009 as well as \$95,365,020 and \$36,612,763 billed to the District under various grant agreements for the years ended September 30, 2009 and 2008, respectively.

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 fiscal years ended September 30, 2009 and 2008:

| | 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 | 2,065,914 | 700,711 | – | 13,100,702 |
| Total accumulated depreciation | <u>150,707,629</u> | <u>24,982,404</u> | <u>4,712,430</u> | <u>–</u> | <u>170,977,603</u> |
| Total depreciated capital assets, net | <u>899,233,256</u> | <u>8,000,242</u> | <u>3,721,127</u> | <u>–</u> | <u>903,512,371</u> |
| Total capital assets, net | <u>\$ 1,062,929,007</u> | <u>\$ 98,333,291</u> | <u>\$ 30,780,115</u> | <u>\$ –</u> | <u>\$ 1,130,482,183</u> |

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

8. Capital Assets (continued)

| | Balance October 1, 2007 | Additions | Deletions | Transfer | Balance September 30, 2008 |
|--|-------------------------------|----------------------|----------------------|-------------|----------------------------------|
| Capital assets, nondepreciable: | | | | | |
| Land | \$ 77,160,366 | \$ 933,160 | \$ 67,791 | \$ – | \$ 78,025,735 |
| Construction-in-progress | 71,908,728 | 57,890,749 | 44,129,461 | – | 85,670,016 |
| Total nondepreciable assets | <u>149,069,094</u> | <u>58,823,909</u> | <u>44,197,252</u> | <u>–</u> | <u>163,695,751</u> |
| Capital assets, depreciable: | | | | | |
| Land improvements | 2,937,615 | 23,837 | – | – | 2,961,452 |
| Wells and wellfield improvements | 155,646,398 | 977,319 | 5,875 | (16,126) | 156,601,716 |
| Water treatment and pumping facilities | 413,767,951 | 13,690,858 | 1,207,216 | – | 426,251,593 |
| Transmission mains | 264,603,481 | 23,461,067 | 5,536,725 | – | 282,527,823 |
| Buildings | 10,989,839 | 5,915,965 | – | – | 16,905,804 |
| Reservoir | 147,505,617 | 139,697 | – | – | 147,645,314 |
| Other equipment and software | 16,300,209 | 1,335,757 | 604,909 | 16,126 | 17,047,183 |
| Total depreciable capital assets | <u>1,011,751,110</u> | <u>45,544,500</u> | <u>7,354,725</u> | <u>–</u> | <u>1,049,940,885</u> |
| Less accumulated depreciation: | | | | | |
| Land improvements | 133,281 | 56,402 | – | – | 189,683 |
| Wells and wellfield improvements | 41,894,398 | 3,043,154 | 5,875 | (14,500) | 44,917,177 |
| Water treatment and pumping facilities | 50,964,177 | 11,056,964 | 148,058 | – | 61,873,083 |
| Transmission mains | 27,129,021 | 3,681,001 | 5,536,725 | – | 25,273,297 |
| Buildings | 1,497,496 | 314,266 | – | – | 1,811,762 |
| Reservoir | 3,431,895 | 1,475,233 | – | – | 4,907,128 |
| Other equipment and software | 9,621,177 | 2,670,194 | 570,372 | 14,500 | 11,735,499 |
| Total accumulated depreciation | <u>134,671,445</u> | <u>22,297,214</u> | <u>6,261,030</u> | <u>–</u> | <u>150,707,629</u> |
| Total depreciated capital assets, net | <u>877,079,665</u> | <u>23,247,286</u> | <u>1,093,695</u> | <u>–</u> | <u>899,233,256</u> |
| Total capital assets, net | <u>\$ 1,026,148,759</u> | <u>\$ 82,071,195</u> | <u>\$ 45,290,947</u> | <u>\$ –</u> | <u>\$ 1,062,929,007</u> |

Deletions from construction-in-progress of \$27,058,988 and \$44,129,461 during the year ended September 30, 2009 and 2008, respectively, consist of transfers of completed projects to various capital assets.

Depreciation expense was \$24,982,405 and \$22,297,214 for the years ended September 30, 2009 and 2008, 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.

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. In anticipation of demolition \$1,052,258 of its \$2,570,275 carrying value was included in asset dispositions in 2008. A change in estimate of the useful life of the remaining asset components from 50 to 20 years resulted in an increase in depreciation expense of \$110,457 in 2008. The remaining components were permanently removed from service in 2009 and the carrying value at that time of \$1,056,842 is included in asset dispositions for 2009.

Tampa Bay Water
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Notes to Financial Statements (continued)

8. Capital Assets (continued)

Commitments on construction contracts at September 30, 2009 and 2008, were approximately \$139,203,186 and \$43,453,166, respectively.

Interest is capitalized under the provisions of SFAS No. 34, *Capitalization of Interest Cost*, and SFAS No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants, an Amendment of SFAS No. 34*. Interest cost incurred was \$58,060,213 and \$57,512,820 for the years ended September 30, 2009 and 2008, respectively. Of the interest cost incurred, \$7,549,785 and \$9,061,397 was capitalized for the years ended September 30, 2009 and 2008, offset by interest income earned on funds restricted for construction of \$3,753,968 and \$3,855,562 for the respective years.

9. Accounts Payable

Accounts payable and accrued expenses at September 30, 2009 and 2008, consist of amounts owed for operating and payroll expenses as follows:

| | 2009 | 2008 |
|--------------------------|---------------|---------------|
| Accounts payable | \$ 8,969,908 | \$ 8,355,057 |
| Accrued payroll expenses | 2,617,098 | 2,434,256 |
| | \$ 11,587,006 | \$ 10,789,313 |

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 are 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, the bonds are classified as a current liability on the balance sheets. On October 2, 2006, \$18,030,000 of the bonds was refunded by the Tampa Bay Water Utility System Refunding and Improvement Bonds, Series 2006. The bonds have been redeemed in the amounts of \$42,500,000, \$21,250,000, and \$1,885,000 on February 26, 2009; March 26, 2008; and October 1, 2006, respectively. At September 30, 2009, the remaining bonds outstanding of \$21,250,000 are subject to mandatory redemption according to the following schedule:

| | |
|-----------|---------------|
| 2024-2028 | 925,000 |
| 2029-2031 | 20,325,000 |
| Total | \$ 21,250,000 |

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. The rates at September 30, 2009 and 2008, were 0.55% and 7.50%, respectively. In late 2008 and early 2009 interest rates were fluctuating significantly with market conditions. Since that period interest rates remained low consistent with market conditions. The Remarketing Agent is to use their best efforts to sell the bonds at a price equal to 100% of the principal amount.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

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

Under an irrevocable, direct-pay Letter of Credit and Reimbursement Agreement between the Agency and Bank of America, N.A. dated May 15, 2002, the paying agent, USBank, 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. The letter of credit was amended April 1, 2004, and again on December 21, 2006, to extend the termination date to November 15, 2009, subject to extension or early termination. Any amounts borrowed under the letter of credit bear interest at a variable rate based on the 30-day London Interbank Offered Rate (LIBOR) plus 0.90% per annum. Any such borrowings must be repaid within 120 days. The Agency has paid no interest to date on the letter of credit.

In August 2009, the Board of Directors approved an extension of the Letter of Credit and Reimbursement Agreement effective November 15, 2009, and expiring November 15, 2010. 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%.

Based on the terms of this Letter of Credit and Reimbursement Agreement, the Agency was required to use the lesser of \$75 million or an amount sufficient to reduce the outstanding principal to \$40 million for repayment of the bonds within 60 days of receipt of grant funds from the District. \$21,250,000 of grant funds received in 2008 was applied to reduction of the outstanding principal of the bonds in satisfaction of this requirement.

The Agency pays an annual commitment fee to Bank of America, N.A. for the letter of credit. Commencing May 15, 2007 the rate in effect decreased from 0.27% to 0.23% of the maximum amount available to be drawn on the letter of credit, payable quarterly in advance. 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, 2009 and 2008, were \$161,351 and \$241,138, respectively.

Operating Agreement

In September 2004, the Agency selected American Water-Pridesa LLC, as the remediation contractor to correct deficiencies in the Seawater Desalination Plant. Under this Agreement, American Water-Pridesa, LLC continued to operate the plant during the remediation period and the Agency paid a service fee consisting of a base Interim Operations, Maintenance, & Management (IOM&M) charge, certain pass-through charges and various fee adjustments. Total operating fees under this contract which ended November 2007, were \$568,473 for 2008.

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 continues to operate and maintain the plant after completion of remediation and the Agency will pay a service fee consisting of a base OM&M charge, certain pass-through charges, maintenance reserve fund charges, and various fee adjustments. American Water-Pridesa, LLC was not eligible for this fee structure until it passed the plant acceptance testing criteria required under the Construction Completion Agreement. 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 \$5,778,971 and \$4,982,522 for 2009 and 2008, respectively.

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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 is to receive reimbursement for eligible Seawater Desalination Plant construction costs of \$85,000,000 upon meeting certain requirements. Under the agreement, the Agency could request 25% of the reimbursement amount upon the occurrence of the In-Service Date, as defined in the agreement and submission of the engineer's acceptance report. An additional 50% of the reimbursement amount could be requested after the first year of operation and achievement of production at an annual average rate of at least 12.5 mgd over the previous 12 consecutive months. Another 25% of the reimbursement amount could be requested after achieving a production level of a monthly average of 25 mgd for four consecutive months. Interest accruing on the \$85,000,000 held in trust is payable to the Agency upon completion of 12 consecutive months of operation following November 1, 2007, at an average rate of 20 mgd. 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. As of September 30, 2009, these additional grant fundings approximate \$10,300,000 and are included in grant receivable. These funds and subsequent accrued interest will be requested from the Trust in 2010. The amounts received or due are included in Capital Contributions of the respective years. At September 30, 2009, the requirements under the funding agreement for receiving the remaining \$21,250,000 had not been met and no capital contribution has been recognized in the financial statements for that amount.

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.

Series 2008 Bonds

On June 5, 2008, the Agency issued \$101,375,000 of Utility System Revenue Bonds, Series 2008. The 2008 bonds were issued at a premium of \$3,165,142, bear interest at 5% and mature 2032 through 2038. After issuance costs of \$973,669, capitalized interest of \$1,633,264, and debt service reserve funding of \$1,323,333, net proceeds of \$100,609,876 were deposited to a construction fund for funding of design and construction of various capital projects for expansion of the Utility System.

Derivative Financial Instruments

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.

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Notes to Financial Statements (continued)

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

Derivative Financial Instruments (continued)

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, 2009 and 2008, the unexpended premium payments received are recorded on the Agency's balance sheet in restricted assets for construction projects. The estimated fair values of these swaptions are recorded under noncurrent liabilities in the amounts of \$44,641,278 and \$26,198,828 at September 30, 2009 and 2008, respectively, in accordance with SFAS No. 133, *Accounting for Derivative Financial Instruments and Hedging Activities*.

The unrealized change in fair value of the swaptions for the years ended September 30, 2009 and 2008, of \$(18,442,450) and \$(9,982,908), respectively, are included as a component of nonoperating revenues and expenses in the statements of revenues, expenses, and changes in net assets. Many market factors can affect the value of swaption transactions. Two significant factors that contributed to the increase in market value of the transactions at September 30, 2009, 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 market value of the transactions. Likewise, an increase in market volatility increases the 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 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.

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Notes to Financial Statements (continued)

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

Derivative Financial Instruments (continued)

Both providers experienced credit rating downgrades in the current year. The credit ratings of the providers at September 30, 2009 and 2008, are as follows:

| | Moody's | | Standard & Poor's | |
|---------------------------------------|---------|------|-------------------|------|
| | 2009 | 2008 | 2009 | 2008 |
| Bear Stearns Financial Products, Inc. | – | Aaa | – | AA |
| Citibank, N.A. (see Note 17) | A1 | Aa1 | A+ | AA |
| JPMorgan Chase Bank, N.A. | Aa1 | Aaa | AA- | AA |

Long-term debt and other noncurrent liabilities as of September 30, 2009 and 2008, consist of:

| | 2009 | 2008 |
|---|--------------------|--------------------|
| 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 | <u>101,375,000</u> | <u>101,375,000</u> |
| 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 | 21,680,000 | 24,240,000 |
| 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 | <u>79,325,000</u> | <u>81,885,000</u> |
| 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 | 174,965,000 | 174,965,000 |

Continued on next page

Tampa Bay Water
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Notes to Financial Statements (continued)

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

| | <u>2009</u> | <u>2008</u> |
|---|-----------------------|----------------|
| Utility System Refunding Revenue Bonds, Series 2004 | | |
| 2.0% to 5.25% serial bonds, due annually at varying amounts through 2019, interest payable semiannually | <u>106,900,000</u> | 107,150,000 |
| Utility System Revenue Bonds, Series 2001B | | |
| 3.3% to 3.9% serial bonds, due annually at varying amounts through 2011, interest payable semiannually | 10,160,000 | 13,310,000 |
| 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 | <u>140,565,000</u> | 140,565,000 |
| Total Series 2001B | <u>164,545,000</u> | 167,695,000 |
| Utility System Revenue Bonds, Series 2001A | | |
| 4.0% to 5.25% serial bonds, due annually at varying amounts through 2024, interest payable semiannually | \$ 161,245,000 | \$ 162,130,000 |
| 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 | 57,945,000 | 57,945,000 |
| 6.0% term bonds due October 1, 2029, subject to mandatory redemption 2028 and 2029, interest payable semiannually | <u>50,000,000</u> | 50,000,000 |
| Total series 2001A | <u>303,810,000</u> | 304,695,000 |
| Utility System Revenue Bonds, Series 1999 | | |
| 4.8% to 5.0% serial bonds, due annually at varying amounts through 2011, interest payable semiannually | 21,690,000 | 28,265,000 |
| 5.06% capital appreciation bonds, due 2007 | - | - |
| Total Series 1999 | <u>21,690,000</u> | 28,265,000 |
| Utility System Revenue Bonds, Series 1998A | | |
| 4.1% to 4.2% serial bonds, due annually at varying amounts through 2008, interest payable semiannually | - | 3,350,000 |
| 4.75% term bonds, due October 2027, subject to mandatory redemption from 2025 through 2027, interest payable semiannually | <u>27,360,000</u> | 27,360,000 |
| Total Series 1998A | <u>27,360,000</u> | 30,710,000 |
| Utility System Revenue Bonds, Series 1998B | | |
| 4.1% to 5.0% serial bonds, due annually at varying amounts through 2008, interest payable semiannually | - | 5,330,000 |
| 4.75% term bonds, due October 2027, subject to mandatory redemption from 2025 through 2027, interest payable semiannually | <u>38,340,000</u> | 38,340,000 |
| Total Series 1998B | <u>38,340,000</u> | 43,670,000 |

Tampa Bay Water
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Notes to Financial Statements (continued)

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

| | 2009 | 2008 |
|---|------------------|------------------|
| Acquisition Credits | | |
| \$867,969 due monthly, deducted from water revenue billed to Member Governments, including interest at 4.865%, through 2029, interest calculated semiannually | 123,732,433 | 127,791,109 |
| Total debt outstanding | 1,142,042,433 | 1,168,201,109 |
| Less current maturities | (27,215,024) | (26,158,676) |
| | 1,114,827,409 | 1,142,042,433 |
| Add unamortized bond premium | 34,856,747 | 38,411,599 |
| Less unamortized bond discount | (3,474,770) | (3,662,671) |
| Less unamortized losses on bond refundings | (30,045,720) | (32,638,225) |
| Total long-term debt | \$ 1,116,163,666 | \$ 1,144,153,136 |

The Agency's changes in noncurrent liabilities for the fiscal years ended September 30, 2009 and 2008, were as follows:

| | Balance October 1, 2008 | Additions | Deletions | Balance September 30, 2009 | 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 |
| Fair value of interest rate swaption | 26,198,828 | 18,442,450 | — | 44,641,278 | — |
| Deferred revenue | 25,320,012 | — | 13,162,938 | 12,157,074 | — |
| Total noncurrent liabilities | \$ 1,195,671,976 | \$ (8,772,574) | \$ 13,937,384 | \$ 1,172,962,018 | \$ 27,215,024 |

Tampa Bay Water
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Notes to Financial Statements (continued)

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

| | Balance October 1, 2007 | Additions | Deletions | Balance September 30, 2008 | Due Within One Year |
|---|-------------------------------|---------------|--------------|----------------------------------|------------------------|
| 1998A bonds | \$ 33,930,000 | \$ — | \$ 3,220,000 | \$ 30,710,000 | \$ 3,350,000 |
| 1998B bonds | 48,790,000 | — | 5,120,000 | 43,670,000 | 5,330,000 |
| 1999 bonds | 49,685,000 | — | 21,420,000 | 28,265,000 | 6,575,000 |
| 2001A bonds | 305,545,000 | — | 850,000 | 304,695,000 | 885,000 |
| 2001B bonds | 168,965,000 | — | 1,270,000 | 167,695,000 | 3,150,000 |
| 2004 bonds | 107,395,000 | — | 245,000 | 107,150,000 | 250,000 |
| 2005 bonds | 174,965,000 | — | — | 174,965,000 | — |
| 2006 Bonds | 81,885,000 | — | — | 81,885,000 | 2,560,000 |
| 2008 Bonds | — | 101,375,000 | — | 101,375,000 | — |
| Acquisition credits | 131,757,064 | — | 3,965,955 | 127,791,109 | 4,058,676 |
| Unamortized bond issue premium | 38,729,487 | 3,165,142 | 3,483,030 | 38,411,599 | — |
| Unamortized bond issue discount | (3,862,628) | — | (199,957) | (3,662,671) | — |
| Deferred refunding losses | (35,230,730) | — | (2,592,505) | (32,638,225) | — |
| | 1,102,553,193 | 104,540,142 | 36,781,523 | 1,170,311,812 | 26,158,676 |
| Less current portion | (36,090,955) | (26,158,676) | (36,090,955) | (26,158,676) | — |
| Total long-term debt | 1,066,462,238 | 78,381,466 | 690,568 | 1,144,153,136 | 26,158,676 |
| Fair value of interest rate swaption | 16,215,920 | 9,982,908 | — | 26,198,828 | — |
| Deferred revenue | 30,899,410 | — | 5,579,398 | 25,320,012 | — |
| Total noncurrent liabilities | \$ 1,113,577,568 | \$ 88,364,374 | \$ 6,269,966 | \$ 1,195,671,976 | \$ 26,158,676 |

Annual debt service requirements to maturity for all long-term debt as of September 30, 2009, are as follows:

| Year Ending September 30 | Principal | Interest | Total |
|--------------------------|------------------|----------------|------------------|
| 2010 | \$ 27,215,024 | \$ 56,837,337 | \$ 84,052,361 |
| 2011 | 28,263,587 | 55,744,585 | 84,008,172 |
| 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 |
| 2015–2019 | 172,336,471 | 233,029,529 | 405,366,000 |
| 2020–2024 | 220,006,702 | 182,550,231 | 402,556,933 |
| 2025–2029 | 272,760,328 | 118,534,143 | 391,294,471 |
| 2030–2034 | 212,460,000 | 49,474,209 | 261,934,209 |
| 2035–2039 | 116,520,000 | 14,848,425 | 131,368,425 |
| | \$ 1,142,042,433 | \$ 870,130,742 | \$ 2,012,173,175 |

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Notes to Financial Statements (continued)

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

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 \$1,142,042,433 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 \$74,909,796 in 2009 and \$71,445,253 in 2008. 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, 2009 and 2008, the Agency complied with all debt covenants.

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, 2009, the principal amount outstanding of the 1984 defeased bonds (refunded in 1985), 1989A defeased bonds (refunded in 1998), 1995 defeased bonds (refunded in 1998), 1998A defeased bonds (refunded in 2004 and 2005), 1998B defeased bonds (refunded in 2004 and 2005), 1999 defeased bonds (refunded in 2001), and the 2001B defeased bonds (refunded in 2004 and 2005) is \$387,867,919 (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. In 2009 legislation continued these rates for the plan year effective July 1, 2009. 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, Florida 32315-9000, by calling (850) 488-5706, or by accessing their Internet site at www.frs.state.fl.us.

The Agency is required to contribute at an actuarially determined rate as established and amended by the state of Florida. Effective July 1, 2008, the contribution rates were increased to 9.85% (previously 7.83%) of covered payroll for regular class, 13.12% (previously 10.45%) for senior management and 10.91% (previously 9.33%) for employees in the Deferred Retirement Option Program. These are blended rates applicable to both plans. The Agency's contributions to the plan for the years ended September 30, 2009, 2008, and 2007 were \$828,223, \$792,005, and \$767,779, respectively, and were equal to the required contributions for each year.

13. Postemployment Healthcare Benefits

Effective for the year ending September 30, 2008, the Agency implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits provided by the Agency. The requirements of this Statement are being implemented prospectively, with the actuarially determined liability of \$781,073 at the October 1, 2007 date of transition amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment health care insurance benefits liability at the date of transition.

Plan Description – The Postemployment Healthcare 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.

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Notes to Financial Statements (continued)

13. Postemployment Healthcare Benefits (continued)

Funding Policy – For the Postemployment Healthcare 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 Postemployment Benefit (OPEB) costs or the net OPEB obligation. As of September 30, 2009, there were three retirees and two eligible dependents receiving postemployment healthcare benefits. 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. For the year ending September 30, 2008, the Agency provided required contributions of (\$7,939) 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 \$26,811. Required contributions are based on projected pay-as-you-go financing.

Annual OPEB Cost and Net OPEB Obligation – The following table shows the Agency’s annual OPEB cost for the years ending September 30, 2009 and 2008, the amount actually contributed to the plan, and changes in the Agency’s net OPEB obligation:

| | Year Ending September 30, 2009 | Year Ending September 30, 2008 |
|---|-----------------------------------|-----------------------------------|
| (1) Normal Cost | \$ 39,442 | \$ 55,173 |
| (2) Amortization of Unfunded Accrued Liability | 15,837 | 27,896 |
| (3) Interest | 2,211 | 3,323 |
| (4) Annual Required Contribution | 57,490 | 86,392 |
| (5) Interest of Net OPEB Obligation (NOO) | 3,773 | – |
| (6) Amortization of NOO | (3,369) | – |
| (7) Total Expense or Annual OPEB Cost (AOC) | 57,894 | 86,392 |
| (8) Actual Receipts (Contribution) Toward OPEB Cost | 20,153 | 7,939 |
| (9) Increase in NOO | 78,047 | 94,331 |
| (10) NOO Beginning of Year | 94,331 | – |
| (11) NOO End of Year | \$ 172,378 | \$ 94,331 |

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 as of September 30, 2009 and 2008, is 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 |

Funded Status and Funding Progress – As of September 30, 2009, the actuarial accrued liability of benefits was \$468,424, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$468,424. The covered payroll (annual payroll for active participating employees) was \$8,262,444 for the year ending September 30, 2009, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 5.7% (See Required Supplementary Information).

Tampa Bay Water
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Notes to Financial Statements (continued)

13. Postemployment HealthCare Benefits (continued)

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 healthcare 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 2008–2009 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 healthcare cost trend rate of 10.5% initially for the 2008–2009 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.

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 AIG. 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.

Tampa Bay Water
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Notes to Financial Statements (continued)

15. Commitments and Contingencies (continued)

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.

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 \$37,787 and \$41,436 in 2009 and 2008, respectively. Real estate taxes of \$151,564 and \$165,044 were also paid in 2009 and 2008. 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 \$3,452 and \$575 in 2009 and 2008, respectively.

The aggregate future minimum lease payments for the year ending September 30, 2009, are as follows:

| | Desalination Plant | | |
|-----------|---------------------------|--------------|--------------|
| | Land Lease | Other | Total |
| 2010 | \$ 37,856 | \$ 2,877 | \$ 40,733 |
| 2011 | 37,856 | – | 37,856 |
| 2012 | 37,856 | – | 37,856 |
| 2013 | 37,856 | – | 37,856 |
| 2014 | 37,856 | – | 37,856 |
| 2015–2033 | 690,864 | – | 690,864 |
| | \$ 880,144 | \$ 2,877 | \$ 883,021 |

Operations and Maintenance Agreements

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 \$4,175,728 and \$4,024,219 for the years ended September 30, 2009 and 2008, 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 \$188,055 and \$301,156 for the years ended September 30, 2009 and 2008, respectively.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

15. Commitments and Contingencies (continued)

Operations and Maintenance Agreements (continued)

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 \$624,944 and \$504,898 for the years ended September 30, 2009 and 2008, respectively.

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, Tampa Bay Water completed test procedures that demonstrated 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, Tampa Bay Water 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. Tampa Bay Water 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 approved a program that will move forward with design and environmental permitting of the planned construction remedy, which will be planned for the 2010 to 2015 timeframe.

16. Litigation Settlements

In 2009, Tampa Bay Water settled a 2007 case with the Hartford Accident and Indemnity Company requiring Tampa Bay Water 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.

In 2008, the Agency settled a long-standing suit with Saddlewood Estates, Inc., arising from claims based on flooding events, in the amount of \$2 million.

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.

Tampa Bay Water
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Notes to Financial Statements (continued)

17. Subsequent Events

In November 2009, Tampa Bay Water settled with 3 of the 37 defendants in the ongoing MTBE litigation. The amount of the settlement from the three defendants was \$111,720. The case involves threatened contamination to certain Tampa Bay Water production wells from leaking underground gasoline storage tanks.

At its December 14, 2009 meeting, the Board approved use of \$3,500,000 from deferred revenues held in the rate stabilization fund to fund the costs of various legal activities in 2010 that were not anticipated and were not previously budgeted for.

Tampa Bay Water
(A Regional Water Supply Authority)

Required Supplementary Information
Other Post Employment Benefits
Schedule of Funding Progress

September 30, 2009

| 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 | 0.0% | \$8,061,228 | 10.5% |
| 09/30/2009 | – | \$ 468,424 | \$ 468,424 | 0.0% | \$8,262,444 | 5.7% |

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 two 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 of
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, 2009, and have issued our report thereon dated January 22, 2010. 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.

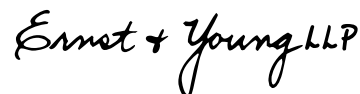
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination 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, 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.



January 22, 2010