AGENDA ITEM # 2
April 23, 2013

2. REPORTS TO BE RECEIVED FOR FILING

a. City of Largo West Bay Drive Community Redevelopment District Annual Report for Fiscal Year 2012.

b. City of Safety Harbor Community Redevelopment Agency Fiscal Year 11-12 Annual Report.

c. Tampa Bay Water Annual Financial Report and Audited Financial Statements for the Fiscal Year ended September 30, 2012.

FINANCIAL STATEMENTS

Tampa Bay Water (A Regional Water Supply Authority)
Years Ended September 30, 2012 and 2011
With Reports of Independent Certified Public Accountants

Ernst & Young LLP

ERNST & YOUNG

Board of Directors Susan Latvala, Ted Schrader, Robert Consalvo, Charlie Miranda, John Morroni, Sandro Murman, Karl Nurse, Mark Sharpe, Henry Wilson

General Manager Gerald J. Seeber

General Counsel Barrie S. Buenaventura, *Pennington, Moore, Wilkinson, Bell & Dunbar, P.A.*

2575 Enterprise Road, Clearwater, FL 33763-1102
Phone: 727.796.2355 / Fax: 727.791.2388
www.tampabaywater.org

TAMPA BAY WATER
Supplying Water To The Region

RECEIVED BOARD OF
2013 MAR 28 AM 9:57
BOARD OF COUNTY COMMISSIONERS PINELLAS COUNTY FLORIDA

CERTIFIED MAIL RETURN RECEIPT

March 26, 2013

Mr. Ken Burke
Clerk of the Circuit Court
Pinellas County Records
315 Court Street
Clearwater, FL 33756-3894

Re: Required Filing of Annual Financial Report and Audited Financial Statements

Dear Mr. Burke:

In accordance with Florida Statutes, 11.45, 189.418 and 218.32, enclosed please find for filing with the Clerk, the Annual Financial Report and the Audited Financial Statements of Tampa Bay Water, A Regional Water Supply Authority, for the fiscal year ending September 30, 2012.

Thank you for your attention to this matter.

Sincerely,

Christina R. Sackett
Chief Financial Officer

Enclosures

RECEIVED ADMINISTRATION
2013 MAR 27 PM 1:30
KEN BURKE CLERK OF CIRCUIT/COUNTY COURT

Unit Information

Unit ID: 300049 Year: 2012

Unit Name: Tampa Bay Water, A Regional Water Supply Authority

Unit Status: Active Unit Dependency: Independent

Location Information

Name: Mrs. Christina Sackett

Title: Chief Financial Officer

Phone: (727) 796-2355

Fax: (727) 669-1848

Address:

2575 Enterprise Road
Clearwater, FL 33763-1102

Contact Information

Name: Mrs. Christina Sackett

Title: Chief Financial Officer

Phone: (727) 796-2355

Email: csackett@tampabaywater.org

Address:

2575 Enterprise Road
Clearwater, FL 33763-1102

AFR Details

Original AFR

AFR Status: Submitted

AFR Received Date: 3/26/2013

Audit Received Date:

Submission Type: Electronic

Debt Information

Long-Term Debt: $1,022,760,786

Audit Information

Was an audit performed? Yes

Audit Performed Date: 2/18/2013

Auditor Name: Ernst & Young LLP

Address:
401 E. Jackson Street, Suite 1200
Tampa, FL 33602

Certification

Chief Financial Officer

Name: Christina Sackett

Title: Chief Financial Officer

Chairman/Elected Official

Name: Susan Latvala

Title: Chair

	Yes	No
Have You Experienced a Financial Emergency in this year?		X
If Yes, Have You Complied With Section 218.503(2), Florida Statutes?		X
Auditor General Rule: Section 10.554(1)(h)6.b): If applicable, does the Annual Financial Report agree with the Audited Financial Statement? (Do total revenues and expenditures per fund group on the AFR balance to the audited Statement of Revenues and Expenditures?)	X	

Revenues Report for FYE 2012

Account Code	General	Special Revenue	Debt Service	Capital Projects	Permanent	Enterprise	Internal Service	Pension	Trust	Component Units	Total
343300 - Service Charge - Water Utility						166,045,833					166,045,833
361300 - Net Increase (Decrease) in Fair Value of Investments						-611,606					-611,606
362000 - Rents and Royalties						19,320					19,320
364000 - Disposition of Fixed Assets						-2,718,584					-2,718,584
389100 - Proprietary - Interest						1,252,905					1,252,905
389700 - Proprietary - Capital Contributions from Other Public Source						2,451,041					2,451,041
389900 - Proprietary - Other Non-Operating Sources						864,450					864,450
Grand Total						167,303,359					167,303,359

Expenditures Report for FYE 2012

Account/Object Code	General	Special Revenue	Debt Service	Capital Projects	Permanent	Enterprise	Internal Service	Pension	Trust	Component Units	Total
533.10 - Water Utility Services - Personal Services						10,265,932					10,265,932
533.30 - Water Utility Services - Operating Expenses						96,931,629					96,931,629
533.70 - Water Utility Services - Debt Service						46,995,990					46,995,990
Grand Total						154,193,551					154,193,551

Component Unit	Type	Total Revenues	Total Expenditues	Total Debt

Tampa Bay Water
(A Regional Water Supply Authority)

Financial Statements and Compliance Section

Years Ended September 30, 2012 and 2011

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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, 2012 and 2011, 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, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with US generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2013, 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.

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Accounting principles generally accepted in the United States require that management's discussion and analysis and schedule of funding progress on pages 3 through 20 and page 64, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The schedule of debt service coverage is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst & Young LLP

January 24, 2013

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Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis

Years Ended September 30, 2012 and 2011

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, 2012 and 2011. 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 $1.22 billion to provide water to its six member governments. Financial data for the years ended September 30, 2012 and 2011, 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 2012 and 2011 included 15 regional wellfield systems, the Enhanced Surface Water System, and the Seawater Desalination Facility. The Enhanced Surface Water System is comprised of the Regional Surface Water Treatment Plant, High Service Pumping Station, Tampa Bypass Canal Pump Station and Pipeline, Alafia River Intake and Pump Station, and C.W. Bill Young Regional Reservoir. Additionally, operating facilities include Cypress Creek Pump Station and Keller Hydrogen Sulfide Treatment Facility, as well as various booster stations, water treatment facilities, and approximately 200 miles of collection mains and large-diameter potable water transmission mains. The Agency also has administrative, laboratory, and infrastructure management facilities at Cypress Creek Wellfield and an administrative facility in Clearwater. The Agency is focused on the efficient and cost-effective management of this integrated system through improved processes, utilization of new technologies, and appropriate staffing. The Agency is currently engaged in a strategic planning process, which will further focus Agency activities for the future. A management and performance audit was also completed in fiscal 2010, which outlines the Agency's strengths and provides additional focus for enhancements in operational efficiency.

- The Agency's resources are also dedicated to the development of additional water supplies to meet the future water needs of the Hillsborough-Pasco-Pinellas County region. It can require 10 years to plan, permit, design, and build drinking water facilities. In 2006, the Agency's Board of Directors selected the System Configuration II projects to increase the supply capacity of our regional system. Demand projections and analysis of current needs indicate that our water supply system, inclusive of the System Configuration II projects, will meet the region's future water supply needs for at least 10-15 years. By December 2011, all of the System Configuration II projects achieved final completion of construction and were placed in service. These activities resulted in a $11.8 million or 0.98% increase in capital assets from 2011 to 2012. Construction activities on these same projects also resulted in the

Financial Highlights (continued)

$16.7 million or 1.4% increase in capital assets from 2010 to 2011. The projects that were built allow use of additional environmentally-sustainable withdrawals from the Hillsborough River and Tampa Bypass Canal. The projects also included expansion of various facilities, including a new South Central Hillsborough Booster Station, a new Offstream Reservoir Pump Station, and several additional interconnecting pipelines. In December 2008, the Board approved an update to their Master Water Plan which includes potential future projects for continued study. The Master Water Plan contains alternatives that have more than sufficient capacity to meet the region's future long-term needs. The current update to the Master Water Plan that is underway this year indicates that the projects in the Plan should provide more than sufficient capacity to meet the long-term needs of the region past 2030.

- The Agency's net assets increased $13.1 million or 1.83% in fiscal 2012, reflecting, most notably, a $11.8 million net increase in the Agency's investment in property and construction-in-progress, of which $2.5 million was funded from capital contributions.

- The Agency's restricted assets, consisting of cash, investments, and grants receivable, decreased by $29.7 million or 11.2% from 2011 to 2012 due to expenditure of construction funds on the Config II projects, Reservoir and other bond approved projects of $29.9 million and a reduction in grants receivable of $0.9 million.

- Capital contributions of $2.5 million from reimbursement from the Southwest Florida Water Management District (the District) include $2.3 million for Configuration II project costs.

- Increased water demand from its six members resulted in an increase in water production from 161.43 mgd in 2011 to 164.30 mgd in 2012. A drier rainy season contributed to the increased demand.

- During the year, the Agency's revenue from water sales was $158.1 million. In addition, $7.9 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 $22.5 million from 2011 to 2012.

- As a result of its 2012 budget policies, the Agency's operating expenses declined by $1.7 million or 2.69% from 2011 to 2012.

Financial Highlights (continued)

- During 2010, the Agency assembled an advisory team and commenced a competitive procurement process in furtherance of its plan to find a permanent solution to the failure of the regional reservoir's flat-plate soil-cement as an erosion control measure. The procurement process was completed in 2011 and a permanent fix is scheduled to be completed in late 2014. Currently, the Agency is withdrawing water for treatment and potable distribution and draining the reservoir in preparation for remediation to begin in January 2013. The reservoir will be taken out of service for approximately 22 months for the remediation process. The Agency has coordinated with the District to accommodate unusual circumstances related to usage of the other water supplies which may be needed if the region experiences drought conditions at that time and must rely more heavily on ground water supplies.

Overview of the Financial Statements

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

Required Financial Statements

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

Financial Analysis of the Agency

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

Financial Analysis of the Agency (continued)

Net Assets

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 2012	FY 2011	FY 2010
Assets			
Current and other assets	$ **106.3**	$ 89.9	$ 131.2
Restricted assets	**235.0**	264.7	309.8
Capital assets and water capacity rights	**1,534.7**	1,522.9	1,506.2
Total assets	$ **1,876.0**	$ 1,877.5	$ 1,947.2
Liabilities and net assets			
Liabilities:			
Long-term debt outstanding	$ **1,022.8**	$ 1,056.1	$ 1,087.2
Other liabilities	**123.4**	104.7	176.7
Total liabilities	**1,146.2**	1,160.8	1,263.9
Net assets:			
Invested in capital assets, net of related debt	**663.1**	649.9	611.1
Restricted	**29.4**	35.4	39.1
Unrestricted	**37.3**	31.4	33.1
Total net assets	**729.8**	716.7	683.3
Total liabilities and net assets	$ **1,876.0**	$ 1,877.5	$ 1,947.2

As shown in the table above, total net assets increased $13.1 million or 1.83% to $729.8 million in fiscal 2012 from $716.7 million in fiscal 2011. The major component of net assets is the amount invested in capital assets, net of related debt, which increased by $13.2 million during the fiscal year. This increase results primarily from a $11.8 million increase in property and construction-in-progress of which approximately $2.5 million was funded from capital contributions.

Financial Analysis of the Agency (continued)

Total net assets increased $33.4 million or 4.88% from $683.3 million in fiscal 2010 to $716.7 million in 2011 due primarily to the $38.8 million increase in net assets invested in capital assets, net of related debt. This was the result of an increase in property and construction-in-progress of $16.7 million of which approximately $19.1 million was funded from capital contributions, a $6.2 million decrease in the outstanding debt allocable to acquisition of capital assets, and a $43.3 million decrease in deferred outflow of resources from derivative instruments, offset by a $59.2 million decrease in derivative instruments.

Further examination of net assets shows that restricted net assets (those established by debt covenants, enabling legislation, or other legal requirements) experienced a decrease of $6.0 million in fiscal 2012. This decrease is due primarily to a decrease in restricted grants receivable of $0.9 million, which reflects the collection of the final amounts due under a grant related to the Configuration II projects. A $29.0 million decrease in restricted cash and investments is offset by a corresponding decrease of $23.7 million in the allocation of outstanding debt whose proceeds generated the restricted cash and investments.

From 2010 to 2011, restricted net assets decreased $3.7 million. This decrease resulted from a decrease in restricted grants receivable of $4 million, which reflects the collection of the final amounts due under a grant related to the Configuration II projects

Unrestricted net assets increased by $5.9 million from 2011 to 2012 and represent the funds generated from current year activities that are available to finance day-to-day operations.

Unrestricted net assets decreased by $1.7 million from 2010 to 2011.

Financial Analysis of the Agency (continued)

Change in Net Assets

Table A-2

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

	FY 2012	FY 2011	FY 2010
Operating revenues	$ **166.0**	$ 143.5	$ 154.7
Operating expenses	**(61.5)**	(63.2)	(68.5)
Operating income before depreciation	**104.5**	80.3	86.2
Depreciation	**(25.5)**	(24.6)	(21.7)
Operating income	**79.0**	55.7	64.5
Investment revenue, net	**.6**	1.6	11.7
Interest expense, net	**(47.0)**	(48.3)	(48.0)
Loss on disposal of capital assets, net	**(2.7)**	(0.7)	(10.1)
Litigation recoveries (settlements)	**(19.3)**	6.0	1.1
Income before contributions	**10.6**	14.3	19.2
Capital contributions	**2.5**	19.1	60.8
Change in net assets	**13.1**	33.4	80.0
Total net assets – beginning	**716.7**	683.3	603.3
Total net assets – ending	$ **729.8**	$ 716.7	$ 683.3

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, 2012 income before contributions decreased from 2011 by $3.7 million or 25.8%. This decrease is due primarily to a $25.3 million decrease in litigation recoveries, a $0.9 million increase in depreciation expense, a $1.3 million decrease in interest expense, a $2.0 million increase in loss on disposal of capital assets plus a $1.0 million decrease in investment revenue this is offset by an increase of $24.2 million in operating income before depreciation. The loss on disposal of capital assets of $2.7 million reflects the Agency's equipment dispositions during the current year. The overall increase in net assets of $13.1 million results primarily from the $10.6 million in income before contributions.

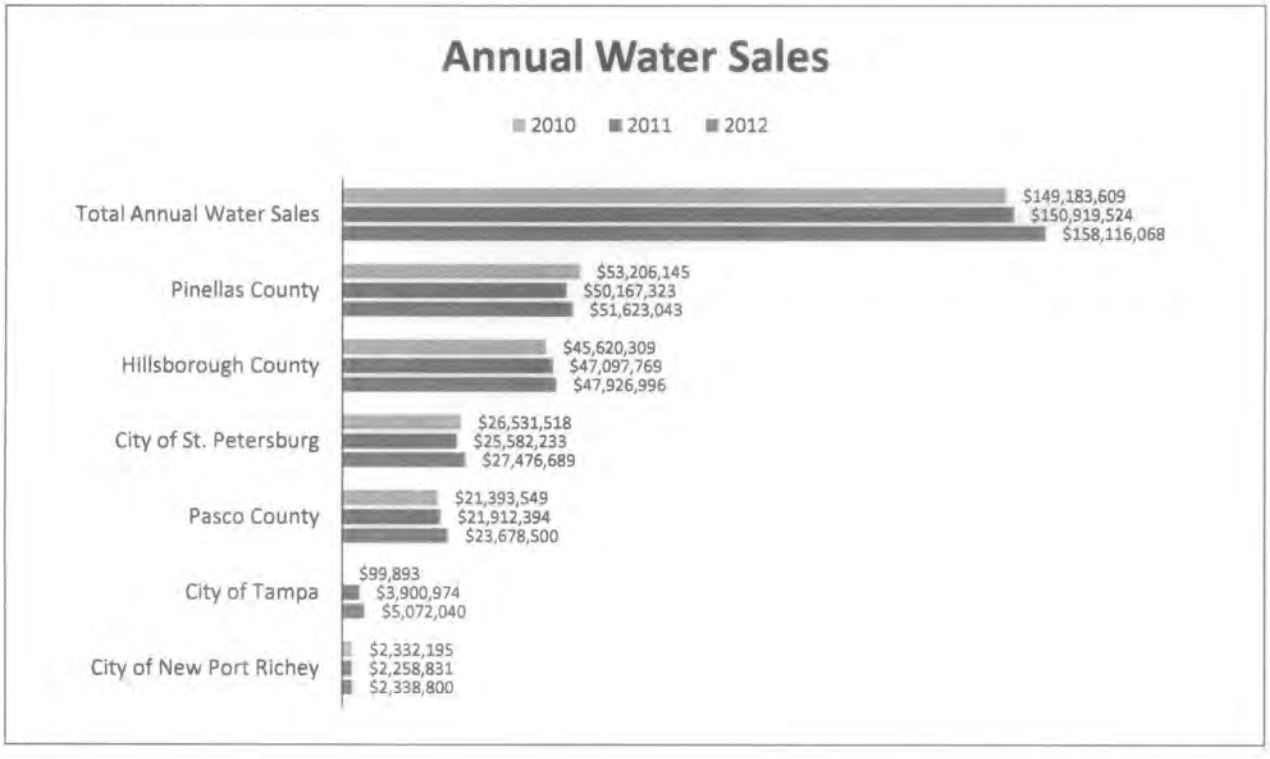
Financial Analysis of the Agency (continued)

In 2011, income before contributions decreased from 2010 by $4.9 million or 25.5%. The overall increase in net assets of $33.4 million primarily results from $19.1 million capital contributions received from the District for reimbursement of costs related to the Configuration II projects.

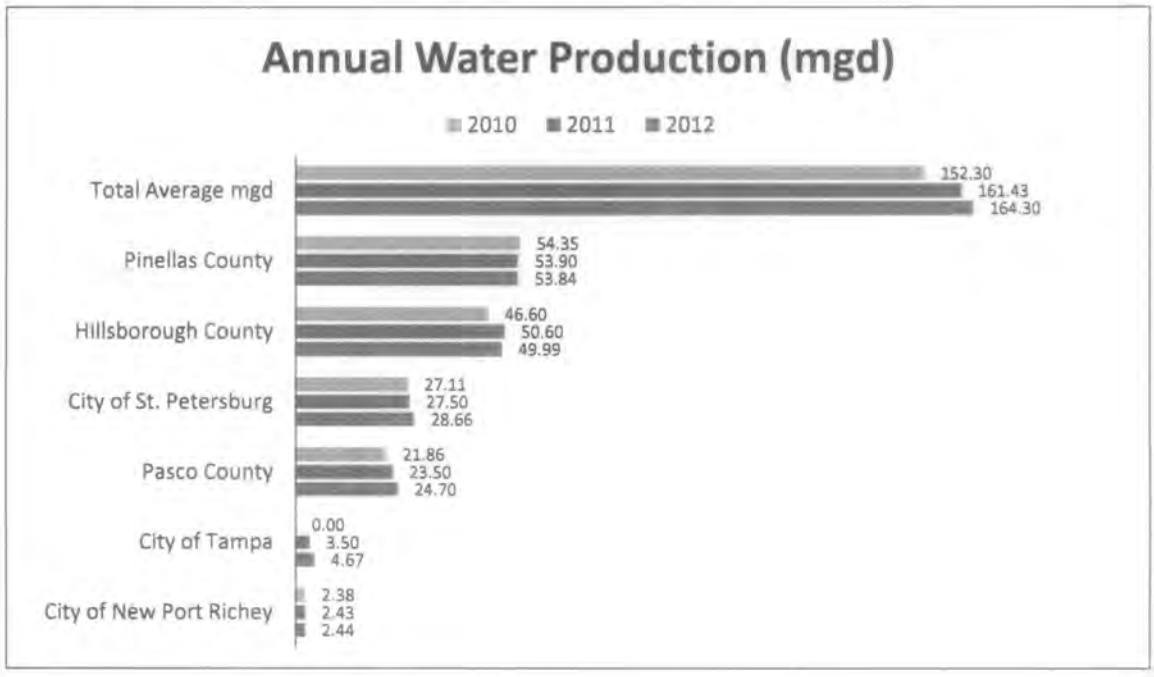
As illustrated in the following charts, total water sales billed to Member Governments were $158.1 million in 2012 compared to $150.9 million in 2011 and $149.2 million in 2010. Demand increased by 1.77% from 161.43 mgd (millions of gallons per day) in 2011 to 164.3 mgd in 2012. This followed an increase in demand of 6% from 152.3 mgd in 2010. The increase in demand results from a combination of factors, including the continued impacts of regional economic conditions, as well as a continued drier rainy season. Consequently, with Hillsborough River flows not sufficient to meet its self-supplied needs, regional water demand for City of Tampa increased from 3.50 mgd in 2011 to 4.67 mgd in 2012. Water sales to Tampa had increased from zero in 2010 to 3.50 mgd in 2011 as a result of the impact of a drier rainy season.

Amounts billed differ from total water sales revenue by the amount of water sales revenue that is collected but deferred to subsequent periods or recognized from deferred revenue of previous periods. In 2012, deferred revenue decreased by $7.9 million or 20.5% from 2011 with a corresponding increase in revenue as a result of budgeted use of rate stabilization funds to meet future operating expenses. Deferred revenue increased by $7.3 million and decreased by $5.5 million as the result of budgeted use of rate stabilization funds for operations in 2011 and 2010, respectively.

Financial Analysis of the Agency (continued)



Financial Analysis of the Agency (continued)



In its 2012 budget process, the Agency continued to focus on holding its controllable expenses to its previous year's actual expenditures levels wherever operationally feasible. As a result of this focus, the Agency's operating expenses in 2012 declined by $1.7 million or 2.69% from 2011. Notable reductions included a $1.7 million reduction in power costs.

In its 2011 budget process, the Agency focused on holding its controllable expenses to its 2010 actual expenditures levels wherever operationally feasible. As a result of this focus, the Agency's operating expenses in 2011 declined by $5.3 million or 7.74% from 2010. Notable reductions included a $1.6 million reduction because further funding was not needed in the Operations and Maintenance Reserve, a $2.5 million reduction in power costs, and a $0.9 million decrease in chemicals associated with reduced production. In 2010, the focus of holding controllable expenses to a previous year caused decreased expenses of $12.5 million or 15.4% from 2009 to 2010.

Financial Analysis of the Agency (continued)

Depreciation expense increased $0.9 million in 2012 from 2011 due to a partial or full year of depreciation for the various facilities placed in service in 2012. Depreciation increased $2.9 million from 2010 to 2011 due to a partial or full year of depreciation for the various facilities placed in service in 2011. Depreciation decreased $3.3 million from 2009 to 2010 due primarily to the final removal of the alkalinity adjustment facility at the Regional Water Treatment Plant.

Concerns over the stability of financial markets continue to delay investing in higher yielding investments. Investment revenue after capitalization, decreased by $0.9 million from 2011 to 2012. The continued decrease is due primarily to expenditure of construction funds and the continuing impact of historically low interest rates, particularly as they affect public deposit account and certificate of deposit rates. Agency funds remained largely in public deposit accounts, including certificates of deposit, due to concerns with the financial markets. Investment revenue after capitalization decreased by $10.1 million from 2010 to 2011 primarily due to the impact of terminating certain derivative instruments. Investment revenue before capitalization decreased $10.5 million due to the recording of derivative fair value changes. Investment revenue increased $6.8 million (before capitalization) in 2010 due to the recording of derivative fair value changes, offset by a reduction in realized earnings of $0.9 million from 2009 to 2010.

Interest expense decreased $1.3 million net of interest capitalized in 2012. This reduction is due primarily to a $1.7 million decrease in the portion capitalized resulting from decreased construction project activity offset by a $3.0 million decrease in interest costs resulting from the annual amortization of principal. Interest expense decreased $0.3 million net of interest capitalized in 2011 and is due primarily to a $3.4 million decrease in the portion capitalized resulting from decreased construction project activity offset by a $3.7 million decrease in interest costs resulting from the annual amortization of principal. Interest expense decreased $3.1 million in 2010 due in part to a $1.6 million increase in the portion capitalized resulting from increased construction project activity, as well as a $1.6 million decrease in interest costs resulting from the annual amortization of principal and final redemption of the 2002 bonds.

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 2012, the net loss resulted primarily from the $2.1 million write-off of costs

Financial Analysis of the Agency (continued)

associated with a future surface water expansion study determined to not be feasible for further development. In 2011, the net loss resulted primarily from the write-off of pump station equipment.

In 2010, the net loss resulted primarily from the write-off of costs related to an investigatory and feasibility study costs of several water supply development projects determined to not be technologically or financially feasible for further development.

Capital Assets

The Agency had invested $1,216.7 million, $1,204.8 million, and $1,188.2 million at September 30, 2012, 2011, and 2010, 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.

Financial Analysis of the Agency (continued)

Table A-3

Capital Assets
(In Millions of Dollars)

	FY 2012	FY 2011	FY 2010
Land and improvements	$ **82.3**	$ 82.2	$ 81.9
Wells and wellfield improvements	**131.0**	129.9	157.1
Water treatment and pumping facilities	**630.5**	629.8	453.8
Transmission mains	**335.9**	335.2	297.3
Buildings	**17.6**	17.3	17.3
Reservoir	**160.7**	160.5	147.6
Other equipment and software	**17.5**	17.3	16.2
	1,375.5	1,372.2	1,171.2
Less accumulated depreciation	**229.1**	205.5	181.5
	1,146.4	1,166.7	989.7
Construction-in-progress:			
Water treatment plants and booster stations	**21.6**	8.0	143.0
Transmission mains	**0.2**	0.1	6.3
Surface water sources and pumping facilities	**26.4**	13.6	35.2
Wellfields and improvements	**11.4**	9.3	7.7
Desalination facilities	**9.7**	6.2	6.0
Other supply and infrastructure	**0.9**	0.8	0.2
Software in development	**0.1**	0.1	0.1
	70.3	38.1	198.5
Capital assets, net	$ **1,216.7**	$ 1,204.8	$ 1,188.2

Financial Analysis of the Agency (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 2012, construction-in-progress increased $32.2 million over 2011 due to increased construction activity on the Reservoir, SCHIP H2S Facility and Desalination Facilities.

In 2011, construction-in-progress decreased $160.4 million over 2010 due to construction completion of the System Configuration II projects. Of these projects, the Surface Water Treatment Plant expansion, Offstream Reservoir Pump Station, Cypress Creek Pump Station expansion, South Central Hillsborough Booster Station, Tampa Bypass Canal Pump Station expansion, and the Northwest Hillsborough Pipeline were placed in service in 2011.

Financial Analysis of the Agency (continued)

Bond Ratings	Limitations on Debt
Agency ratings from Moody's, Standard & Poor's and Fitch are Aa2, AA+, and AA+, respectively. All outstanding bonds prior to the 2008 Series bonds carry insurance with Financial Guaranty Insurance Company. The 2008, 2010, 2011, 2011A, and 2011B Series bonds do not carry insurance. 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.

Financial Analysis of the Agency (continued)

Table A-4

Cost of Capital

	Debt Balance	Average Coupon Rate
	(In Millions)	
2001A Bonds	$ 50.0	5.93%
2004 Bonds	88.9	5.22
2005 Bonds	164.1	5.49
2006 Bonds	71.0	4.56
2008 Bonds	101.4	5.00
2010 Bonds	67.0	4.97
2011 Bonds	104.6	5.00
2011A Bonds	140.3	4.80
2011B Bonds	148.6	4.87
	$ 935.9	

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 1.40, 1.50, and 1.37 at September 30, 2012, 2011, and 2010, respectively. These coverage ratios are another indicator of the Agency's financial strength and future borrowing capability.

Financial Analysis of the Agency (continued)

Table A-5

Debt Coverage Ratio
(In Millions of Dollars)

	FY 2012	FY 2011	FY 2010
Revenue from sales	$ **166.0**	$ 143.5	$ 154.7
Less: Purchase price amortization credit	**(10.2)**	(10.2)	(10.3)
Litigation and insurance recoveries	**0.9**	6.0	1.1
Investment revenue – unrestricted *(Note 1)*	**1.2**	2.2	2.7
Total revenue	**157.9**	141.5	148.2
Operation and maintenance expenditures *(Note 2)*	**81.9**	(65.1)	(70.2)
Net revenue for coverage calculation	$ **76.0**	$ 76.4	$ 78.0
Total debt service on bonds	$ **73.1**	$ 67.4	$ 74.4
Required deposit to Capital Improvement Fund	**0.9**	1.4	0.2
Required deposit to Renewal and Replacement Fund	**0.8**	1.2	1.2
Total debt service and reserve requirements	$ **74.8**	$ 70.0	$ 75.8
Debt service and reserve coverage (times)	**1.02**	1.09	1.03
Fund balance *(Note 3)*	$ **26.1**	$ 24.4	$ 23.9
Net revenue plus fund balance	$ **102.1**	$ 100.8	$ 101.9
Debt service coverage (times)	**1.40**	1.50	1.37

Note 1: Investment revenue does not include interest on construction funds of $.02, $0.16 million, and $0.40 million in 2012, 2011, and 2010, respectively, or unrealized investment losses from investments of $(0.6) and ($0.8 million) in 2012 and 2011, respectively.

Note 2: Operation and maintenance expenditures include capital expenditures for maintenance of the existing system of $0.3, $1.9 million, and $1.7 million in 2012, 2011, and 2010, respectively. Expenditures also include litigation settlement of $20.2 in 2012.

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.

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 2013 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 2013 is $2.5590 per thousand gallons as compared to a rate of $2.5590 in 2012 and $2.5295 in 2011. Though the budgeted expenditures for 2013 increased by $1.1 million or 0.65% from the 2012 budgeted expenditures, the rate is not increasing.

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 2013.

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

Financial Statements

Tampa Bay Water
(A Regional Water Supply Authority)

Balance Sheets

	September 30 2012	September 30 2011
Assets		
Current assets:		
Cash and cash equivalents	**$ 24,775,410**	$ 4,212,157
Accounts receivable from sale of water	**8,153,284**	11,939,005
Interest receivable, unrestricted	**202,276**	569,196
Investments	**65,282,692**	64,790,195
Other accounts receivable	**180,972**	6,422
Inventories	**802,560**	731,690
Other current assets	**166,148**	127,070
Total current assets	**99,563,342**	82,375,735
Restricted assets:		
Cash and cash equivalents	**190,345,763**	249,053,234
Interest receivable, restricted	**252,593**	23
Investments	**44,287,606**	14,613,585
Grants receivable	**99,440**	1,017,749
Total restricted assets	**234,985,402**	264,684,591
Noncurrent assets:		
Capital assets, net	**1,216,677,761**	1,204,843,319
Water capacity rights	**318,058,360**	318,058,360
Bond issue costs, net of accumulated amortization of $3,173,201 and $3,236,569 as of September 30, 2012 and 2011, respectively	**6,742,066**	7,488,449
Total assets	**$ 1,876,026,931**	$ 1,877,450,454

See accompanying notes.

Tampa Bay Water
(A Regional Water Supply Authority)

Balance Sheets (continued)

	September 30 2012	September 30 2011
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 9,314,930**	$ 8,391,054
Credits due to customers	**2,028,354**	3,953,288
Deferred revenue	**9,640,747**	20,116,014
Total current liabilities	**20,984,031**	32,460,356
Current liabilities payable from restricted assets:		
Construction funds accounts payable	**7,088,627**	6,013,373
Accrued interest payable	**23,612,383**	17,616,580
Current portion of long-term debt	**30,574,094**	30,044,628
Total current liabilities payable from restricted assets	**61,275,104**	53,674,581
Noncurrent liabilities:		
Litigation settlement	**20,163,800**	–
Long-term debt, net of current portion	**1,022,760,786**	1,056,127,616
Deferred revenue	**21,058,204**	18,512,703
Total noncurrent liabilities	**1,063,982,790**	1,074,640,319
Total liabilities	**1,146,241,925**	1,160,775,256
Net assets:		
Invested in capital assets, net of related debt	**663,058,283**	649,880,194
Restricted	**29,369,416**	35,343,493
Unrestricted	**37,357,307**	31,451,511
Total net assets	**729,785,006**	716,675,198
Total liabilities and net assets	**$ 1,876,026,931**	$ 1,877,450,454

See accompanying notes.

Tampa Bay Water
(A Regional Water Supply Authority)

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended September 30 2012	2011
Revenue from sale of water	**$ 158,116,067**	$ 150,919,524
Rate stabilization transfer	**7,929,766**	(7,329,961)
Total operating revenue	**166,045,833**	143,589,563
Operating expenses	**(61,463,474)**	(63,226,414)
Operating income before depreciation	**104,582,359**	80,363,149
Depreciation expense	**(25,550,967)**	(24,627,685)
Operating income	**79,031,392**	55,735,464
Nonoperating revenues (expenses):		
Investment revenue, net of capitalized amounts of $629,725 and $2,787,581 in 2012 and 2011, respectively	**641,299**	1,551,078
Interest expense, net of capitalized amounts of $3,987,122 and $5,734,632 in 2012 and 2011, respectively	**(46,995,990)**	(48,339,849)
Loss on disposal of capital assets	**(2,718,584)**	(676,717)
Litigation losses net of recoveries of $864,450 and $6,014,144 in 2012 and 2011, respectively	**(19,299,350)**	6,014,144
Total nonoperating expenses	**(68,372,625)**	(41,451,344)
Income before contributions	**10,658,767**	14,284,120
Capital contributions	**2,451,041**	19,060,143
Change in net assets	**13,109,808**	33,344,263
Total net assets – beginning	**716,675,198**	683,330,935
Total net assets – ending	**$ 729,785,006**	$ 716,675,198

See accompanying notes.

Tampa Bay Water
(A Regional Water Supply Authority)

Statements of Cash Flows

	Year Ended September 30 2012	2011
Operating activities		
Receipts from customers	**$ 159,976,853**	$ 153,778,673
Payments for goods and services	**(52,022,004)**	(53,824,364)
Payments to employees	**(8,641,883)**	(8,744,135)
Net cash provided by operating activities	**99,312,966**	91,210,174
Capital and related financing activities		
Net proceeds from issuance of bonds	–	520,688,742
Bond proceeds paid to refund debt	–	(475,489,938)
Termination of Swaption agreements	–	(59,110,000)
Capital contributions	**3,369,349**	23,044,935
Acquisition and construction of capital assets	**(36,831,411)**	(39,151,113)
Proceeds from disposition of capital assets	**84,816**	157,480
Litigation recoveries	**753,076**	6,014,144
Increase in accounts payable from restricted assets	**1,026,419**	(10,379,002)
Principal paid on capital and other long-term debt	**(30,044,628)**	(28,263,588)
Payment of bond issue costs	**(77,770)**	(4,066,020)
Interest paid on capital and other long-term debt	**(46,955,892)**	(61,775,858)
Net cash used in capital and related financing activities	**(108,676,041)**	(128,330,218)
Investing activities		
Proceeds from sales and maturities of investments	**51,185,900**	172,891,650
Purchase of investments	**(81,964,024)**	(77,164,705)
Interest received on investments	**1,996,981**	5,389,919
Arbitrage rebate payment	–	2,013
Net cash (used in) provided by investing activities	**(28,781,143)**	101,118,877
Net change in cash and cash equivalents	**(38,144,218)**	63,998,833
Cash and cash equivalents, beginning of year	**253,265,391**	189,266,558
Cash and cash equivalents, end of year	**$ 215,121,173**	$ 253,265,391

Continued on next page.

Tampa Bay Water
(A Regional Water Supply Authority)

Statements of Cash Flows (continued)

	Year Ended September 30 2012	2011
Reconciliation of operating income to net cash provided by operating activities		
Operating income	**$ 79,031,392**	$ 55,735,464
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	**25,550,967**	24,627,685
Changes in operating assets and liabilities:		
Accounts receivable	**3,722,544**	6,834,352
Inventories	**(70,870)**	(28,345)
Other current assets	**(39,078)**	734,480
Accounts payable and accrued expenses	**972,711**	(51,042)
Credits due to customers	**(1,924,934)**	(3,972,381)
Revenue deferred for rate stabilization	**(7,929,766)**	7,329,961
Total adjustments	**20,281,574**	35,474,410
Net cash provided by operating activities	**$ 99,312,966**	$ 91,210,174

Supplemental schedule of noncash investing and financing activities

The Agency recognized a decrease in the fair value of its investments of $611,606 in 2012 and an increase in the fair value of its investments of $88,785 in 2011.

As a result of implementation of GASB 53, *Accounting and Financial Reporting for Derivatives*, the Agency recognized an investment loss of $792,889 and accretion on borrowings of $551,368 relative to its swaption instruments for the year ended September 30, 2011.*(Note 2)*.

See accompanying notes.

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 2007, the District and the Agency entered into a new cooperative funding agreement for additional water supply projects comprising the System Configuration II projects (consisting of expansion of various surface water facilities and interconnections). Under this agreement the District agreed to provide District funding of $105,100,000, pass-through of state Community Budget Issue Request funding (CBIR) of $6,250,000, and pass-through of state Water Protection and Sustainability Program funding (WPSPTF) of $15,500,000. District funding of $2,288,482 and $18,826,868 was received under these grants in 2012 and 2011, respectively.

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.

2. Summary of Significant Accounting Policies (continued)

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.

The Agency capitalizes certain costs or defers 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.

2. Summary of Significant Accounting Policies (continued)

Investments

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

Inventories

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

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:

	Life in Years
Land improvements	10–99
Buildings	20–40
Wells and wellfield improvements	10–55
Water treatment and pumping facilities	10–50
Transmission mains	49–75
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.

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, 2012 or 2011.

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 2012 or 2011.

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.

2. Summary of Significant Accounting Policies (continued)

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.

Derivatives

The Agency accounts for its derivatives in accordance with GASB Statement 53, *Accounting and Financial Reporting for Derivative Instruments*. Under GASB 53 the fair value of financial arrangements, called "derivatives" or "derivative instruments," are reported in the financial statements of state and local governments. For hedging instruments, the "time value" component is recorded as an asset or liability at fair value at inception. Subsequent changes in fair value are recorded as an element of investment revenue. The "at-the-market swap" component, for hedging instruments, is also recorded at fair value with an offsetting entry to "deferred outflow or inflow of resources from derivatives."

During the year ended September 30, 2011, the Agency terminated its swaption in conjunction with certain refunding transactions. See Note 10 for further discussion.

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.

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 of Directors 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 of Directors approves their use 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 Community Budget Issue Request (CBIR) and Water Protection and Sustainability Program Trust Fund (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 10.

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.

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

GASB Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

This Statement is effective for periods beginning after December 15, 2011. The Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: Financial Accounting Standards Board (FASB) Statements and Interpretations; Accounting Principles Board Opinions; Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement is effective for the Agency in FY13.

GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

This Statement is effective for periods beginning after December 15, 2011. The Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. This Statement is effective for the Agency in FY13.

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 water sources, and state and federal regulations applicable to operation of the Agency's drinking water treatment facilities and distribution systems. Withdrawals of water are regulated under Water Use Permits issued by the Southwest Florida Water Management District (District). The water treatment facilities and distribution systems are regulated through permits issued by the Florida Department of Environmental Protection (FDEP).

3. Permits and Regulations (continued)

The Consolidated Permit, first issued by the District in January 1999, regulates withdrawals from 11 of the 15 regional wellfield systems operated by the Agency. The original Consolidated Permit included initial withdrawal limits for each wellfield (annual average) and for each well within each wellfield (peak month and annual average). A condition of the Consolidated Permit is to manage withdrawals from the wellfields to minimize environmental impacts through optimum distribution of pumping among all wells according to an approved Operations Plan.

Since January 1, 2003, the 11 wellfields of the Consolidated Permit no longer have individual withdrawal limits and are considered a single system for the purpose of measuring compliance with the permitted annual average withdrawal quantity. Combined withdrawals from the 11 wellfields are currently limited to 90 million gallons per day (mgd) on a 12-month running average basis. The Consolidated Permit was renewed in January 2011 granting continued authorization to withdraw an annual average of 90 mgd from these 11 wellfields for the next 10-year period. All of the conditions of the renewed Consolidated Permit remain essentially unchanged from the original permit authorization.

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

The two surface water facilities that comprise the withdrawal component of the Enhanced Surface Water System are the Tampa Bypass Canal Pump Station and the Alafia River Pump Station. The Water Use Permits for these two surface water sources allow the harvesting of a percentage of flow from these river systems above either a minimum threshold flow or pool elevation. It is estimated that the Enhanced Surface Water System yields on a long-term average basis approximately 90 mgd under normal hydrologic conditions. The Tampa Bypass Canal Pump Station and transmission facilities convey water from the Tampa Bypass Canal and Hillsborough River to the Regional Surface Water Treatment Plant and the Regional Reservoir.

3. Permits and Regulations (continued)

The Alafia River Pump Station and transmission facilities also convey water from the Alafia River to the Regional Surface Water Treatment Plant and the Regional Reservoir. It is estimated that the expanded permitted withdrawals of the Tampa Bypass Canal and the expanded Enhanced Surface Water System (including the Tampa Bypass Canal/Hillsborough River System, Alafia River, the Regional Reservoir and Surface Water Treatment Plant), will allow the Agency to meet the future drinking water needs of its six Member Governments through at least 2025.

The Regional Surface Water Treatment Plant was originally designed to treat up to 72 mgd from the surface water sources and deliver that water to the Regional System. Completion of the Plant expansion occurred in fall of 2010. The Plant is now permitted to treat up to 120 mgd from the surface water sources. The C.W. Bill Young Regional Reservoir provides off-stream storage capacity 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 current designed storage capacity of the reservoir is approximately 15.5 billion gallons. Tampa Bay Water will remove the reservoir from service in January 2013 for approximately two years to replace the soil cement erosion control layer lining the reservoir's embankment interior. Production from the Tampa Bay Seawater Desalination Plant is also used to meet drinking water demands. The desalination facility is permitted to treat up to 28.75 mgd. The operational sustainable production capacity of the Regional Surface Water Treatment Plant and the desalination facility are less than each facility's permitted capacity.

3. Permits and Regulations (continued)

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

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

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

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

3. Permits and Regulations (continued)

The following table summarizes the actual annual water quantity sold and billed to the Member Governments of the Agency for the years ended September 30, 2012 and 2011:

	Annual Water Quantity Sold (mgd)		Amounts Billed	
Member Government	**2012**	**2011**	**2012**	**2011**
Hillsborough County	**49.99**	50.60	**$ 47,926,996**	$ 47,097,769
City of New Port Richey	**2.44**	2.43	**2,338,800**	2,258,831
Pasco County	**24.70**	23.50	**23,678,500**	21,912,394
Pinellas County	**53.84**	53.90	**51,623,043**	50,167,323
City of St. Petersburg	**28.66**	27.50	**27,476,688**	25,582,233
City of Tampa	**4.67**	3.50	**5,072,040**	3,900,974
Total current year water sales	**164.30**	161.43	**$158,116,067**	$ 150,919,524
Peak day production	**221.92**	203.40		

4. Rate-Making Policies and Procedures

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

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

4. Rate-Making Policies and Procedures (continued)

during the previous fiscal year divided by such usage of all Member Governments during such year. At the end of the fiscal year, each member's share of this fixed cost is recalculated based on the current year's usage. The intent and purpose of the rate structure is to provide an equitable means of matching the monthly billings with the Agency's monthly cash flow needs. Based on analyses and forecasts, fixed costs are currently estimated to constitute approximately 84% of the Annual Estimate.

5. Restricted Assets

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

	2012	2011
Construction funds	$ **88,991,031**	$ 119,633,637
Sinking funds	**49,472,383**	43,156,580
Renewal and replacement funds	**13,148,153**	12,673,343
Capital improvement funds	**11,149,192**	14,998,497
Operations and maintenance funds	**4,720,037**	6,653,882
Debt service reserve funds	**67,504,606**	67,568,652
	$ **234,985,402**	$ 264,684,591

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

Sinking Funds – Sinking funds represent the principal and interest amounts for the next debt service payment due on the 2001A, 2004, 2005, 2006, 2008, 2010, 2011, 2011A, and 2011B bonds.

5. Restricted Assets (continued)

Renewal and Replacement Funds – Renewal and replacement funds are required for renewal and replacement of the water production, transmission, and treatment facilities and are based on 5% of gross revenues for the preceding fiscal year or such greater or lesser amount as may be determine appropriate 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 2001A, 2004, 2005, 2006, 2008, 2010, 2011, 2011A, and 2011B.

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

6. Deposits and Investments

Deposits

As of September 30, 2012, the total carrying amount of the Agency's deposits, (unrestricted and restricted), exclusive of petty cash of $1,450, was $215,119,723. 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.

6. Deposits and Investments (continued)

Investments

In April 2011, the Board of Directors approved Resolution 2011-2010, which adopted a revised investment policy. The policy was revised to reflect more recent financial market conditions and investment practices. It also reflects the currently available investment instruments that the Agency wishes to utilize in the future. The scope of the revised investment policy clarifies that overall policy applies to all surplus funds, to the extent there is no conflict with the Master Bond Resolution, and if there is a conflict, the Master Bond Resolution governs. Authorized investments in this policy will also be considered authorized investments for bond proceeds under the Master Bond Resolution, as amended, under other permitted investments. The Agency's investment policy permits investment in the following: (1) United States Government Securities; (2) United States Government Agencies (full faith and credit of the United States Government); (3) federal instrumentalities (United States Government-sponsored agencies that are non-full faith and credit); (4) bank accounts and non-negotiable interest bearing time certificates of deposit; (5) Repurchase agreements; (6) commercial paper; (7) corporate notes; (8) corporate obligations (guaranteed by United States Government); (9) bankers' acceptances; (10) state and/or local government taxable and/or tax-exempt debt; (11) registered investment companies (money market mutual funds); and (12) intergovernmental investment pools.

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*.

6. Deposits and Investments (continued)

Investments made by the Agency (restricted and unrestricted) at September 30, 2012, 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	Credit Rating Moody's
U.S. Treasury Notes	3/31/13-9/30/15	0.005 to 1.25	60,248,142	AA+	Aaa
U.S. Government Agency	4/15/13-8/15/15	0.243 to 2.21	43,320,214	AA+	Aaa
Johnson & Johnson Global Note	5/15/2014	1.2	1,024,817	AAA	Aaa
GE Capital Corporate Note	5/13/2014	5.90	1,081,640	AA+	Aa2
Caterpillar Financial SE	12/15/2014	1.125	1,266,525	A	A2
John Deere Capital Corp	9/4/2015	.70	480,859	A	A2
Toyota Motor Credit Corp	5/24/2013	.0	996,737	A-1+	P-1
Toyota Motor Credit Corp	5/24/2013	.0	647,879	A-1+	P-1
John Deere Corporate Global Notes	4/17/2015	.875	503,485	A	A2
Total investments > 91 days			$109,570,298		

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

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

Concentration of Credit Risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Exclusive of investments issued or explicitly guaranteed by the U.S. Government and investments in external investment pools and other pooled investments, the Agency had no investment concentrations in individual issuers in excess of 5% of its total investments at September 30, 2012.

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, 2012 and 2011, is $99,440 and $1,017,749, respectively.

Capital contributions include $2,451,041 and $19,060,143 billed to the District under various grant agreements for the years ended September 30, 2012 and 2011, respectively.

8. Capital Assets

The following are summaries of capital asset changes for the years ended September 30, 2012 and 2011:

	Balance October 1, 2011	Additions	Deletions	Transfer	Balance September 30, 2012
Capital assets, nondepreciable:					
Land	$ 79,009,159	$ 2,665	$ –	$ –	$ 79,011,824
Construction-in-progress	38,053,485	39,309,058	7,191,176	–	70,171,367
Software in development	59,579	29,230	–	–	88,809
Total nondepreciable assets	117,122,223	39,340,953	7,191,176	–	149,272,000
Capital assets, depreciable:					
Land improvements	3,167,178	127,759	–	–	3,294,937
Wells and wellfield improvements	129,879,100	1,536,023	324,228	(50,000)	131,040,895
Water treatment and pumping facilities	629,775,737	1,001,237	339,645	1,681	630,439,010
Transmission mains	335,233,710	660,076	–	–	335,893,786
Buildings	17,311,530	806,394	516,125	(12,949)	17,588,850
Reservoir	160,528,812	183,309	–	–	160,712,121
Other equipment and software	17,298,301	1,261,007	1,098,703	61,268	17,521,873
Total depreciable capital assets	1,293,194,368	5,575,805	2,278,701	–	1,296,491,472
Less accumulated depreciation:					
Land improvements	403,684	87,280	–	–	490,964
Wells and wellfield improvements	48,652,851	2,791,790	129,267	(30,834)	51,284,540
Water treatment and pumping facilities	91,656,470	14,204,138	323,736	1,415	105,538,287
Transmission mains	42,873,705	4,565,279	–	–	47,438,984
Buildings	3,136,078	491,961	413,875	(12,949)	3,201,215
Reservoir	9,422,677	1,734,529	–	–	11,157,206
Other equipment and software	9,327,807	1,675,990	1,071,650	42,368	9,974,515
Total accumulated depreciation	205,473,272	25,550,967	1,938,528	–	229,085,711
Total depreciated capital assets, net	1,087,721,096	(19,975,162)	340,173	–	1,067,405,761
Total capital assets, net	$ 1,204,843,319	$ 19,365,791	$ 7,531,349	$ –	$ 1,216,677,761

8. Capital Assets (continued)

	Balance October 1, 2010	Additions	Deletions	Transfer	Balance September 30, 2011
Capital assets, nondepreciable:					
Land	$ 78,765,870	$ 243,514	$ 225	$ –	$ 79,009,159
Construction-in-progress	198,380,184	41,315,297	201,641,996	–	38,053,485
Software in development	143,507	59,579	143,507	–	59,579
Total nondepreciable assets	277,289,561	41,618,390	201,785,728	–	117,122,223
Capital assets, depreciable:					
Land improvements	3,167,178	–	–	–	3,167,178
Wells and wellfield improvements	157,088,451	121,297	–	(27,330,648)	129,879,100
Water treatment and pumping facilities	453,766,151	176,818,431	833,938	25,094	629,775,737
Transmission mains	297,278,505	10,649,652	–	27,305,554	335,233,710
Buildings	17,305,980	5,550	–	–	17,311,530
Reservoir	147,645,314	12,883,498	–	–	160,528,812
Other equipment and software	16,199,886	1,561,151	462,736	–	17,298,301
Total depreciable capital assets	1,092,451,465	202,039,579	1,296,674	–	1,293,194,368
Less accumulated depreciation:					
Land improvements	324,921	78,763	–	–	403,684
Wells and wellfield improvements	51,073,286	2,808,791	–	(5,229,226)	48,652,851
Water treatment and pumping facilities	78,658,203	13,256,747	272,700	14,220	91,656,470
Transmission mains	33,301,227	4,357,472	–	5,215,006	42,873,705
Buildings	2,692,957	443,121	–	–	3,136,078
Reservoir	7,860,234	1,562,443	–	–	9,422,677
Other equipment and software	7,663,161	2,120,348	455,702	–	9,327,807
Total accumulated depreciation	181,573,989	24,627,685	728,402	–	205,473,272
Total depreciated capital assets, net	910,877,476	177,411,894	568,272	–	1,087,721,096
Total capital assets, net	$ 1,188,167,037	$ 219,030,284	$ 202,354,000	$ –	$ 1,204,843,319

Deletions from construction-in-progress in 2012 of $7,191,176 consist of project costs expensed of $2,411,309 and completed projects transferred to capital asset accounts of $4,733,017. Deletions in 2011 of $201,641,996 consist of $558,121 in costs for projects that were expensed and $201,083,875 for transfers of completed projects to various capital assets. Expensed project costs generally are preliminary design and planning costs of projects which have been discontinued because they have been determined to not be either technologically feasible or cost effective for future development.

Depreciation expense was $25,550,967 and $24,627,685 for the years ended September 30, 2012 and 2011, respectively.

8. Capital Assets (continued)

Commitments on construction contracts at September 30, 2012 and 2011, were approximately $179,475,587 and $293,018,929, respectively. The large increase in 2011 was due to the contract for the Reservoir repair (see Note 14).

Interest is capitalized net of earnings from related tax-exempt debt proceeds. Interest cost incurred was $50,983,112 and $53,523,113 for the years ended September 30, 2012 and 2011, respectively. Of the interest cost incurred, $3,987,122 and $5,734,632 were capitalized for the years ended September 30, 2012 and 2011, respectively, offset by investment revenue earned on tax-exempt debt funds restricted for construction of $629,725 and $2,787,581 for the respective years.

9. Accounts Payable

Accounts payable and accrued expenses at September 30, 2012 and 2011, consist of amounts owed for operating and payroll expenses as follows:

	2012	**2011**
Accounts payable	**$ 6,968,567**	$ 5,932,286
Accrued payroll expenses	**2,346,363**	2,458,768
	$ 9,314,930	$ 8,391,054

10. Long-Term Debt and Other Noncurrent Liabilities

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

Derivative Financial Instruments

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 were refunded in 2011.

10. Long-Term Debt and Other Noncurrent Liabilities (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 were refunded in 2011.

The purpose of these swaption transactions was 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.

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

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

The providers had 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 exercised their options on October 3, 2011, the Agency would have been obligated to issue variable rate debt refunding the applicable 2001A and 2001B Bonds.

Under the agreements, the Agency would 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 would pay the Agency interest at a variable rate on the same notional amount. The payments would be due monthly beginning November 1, 2011, and ending October 1, 2031. The variable rate paid to the Agency by the providers would reset weekly based on the Bond Market Association Swap Index (BMA). Use of BMA was expected to approximate the variable rate that was paid by the Agency on its refunding bonds, thereby minimizing the Agency's risk that the variable rate required to be paid would exceed the variable rate received from the providers.

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

Under the terms of the agreements, the providers could terminate the agreements only if a termination event occurred. The Agency reserved the right to terminate the agreements at any time subject to payment of a settlement amount equivalent to the fair value of the agreements at the time of termination.

Both providers experienced credit rating downgrades. The credit ratings of the providers at September 30, 2011, were as follows:

	Moody's	Standard & Poor's
Citibank, N.A. *(Note 17)*	A1	A
JPMorgan Chase Bank, N.A.	Aa1	A+

On July 18, 2011, the Agency entered into an agreement with Citibank, N.A. and JPMorgan Chase Bank, N.A. to terminate the swaption transactions. The swaption transactions were booked to fair market value as of July 18, 2011 which resulted in a $4.4 million decrease of the deferred outflow of resources from derivatives. This was offset by a $3.1 million decrease of the derivative instruments and created a $0.8 million loss on swaptions. The termination agreements with Citibank, N.A. and JPMorgan Chase Bank, N.A. were subject to Tampa Bay Water issuing its Utility System Refunding Revenue Bonds, Series 2011A and 2011B on August 16, 2011 and paying termination amounts to Citibank and JPMorgan Chase. Termination payments to Citibank were $10,400,000 and $9,100,000, for swaption transactions 2005 and 2007 respectively. Termination payments to JPMorgan Chase were $21,000,000 and $18,610,000 for swaption transactions 2005 and 2007 respectively. At the time of termination, deferred outflow of resources from derivatives had a $38.8 million balance and the derivative instruments had a $56 million balance. The termination resulted in a $41.9 million loss on the swaptions.

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

Long-term debt and other noncurrent liabilities as of September 30, 2012 and 2011, consist of:

	2012	2011
Utility System Refunding Revenue Bonds, Series 2011B		
2% to 5% serial bonds due annually at varying amounts through 2019, interest payable semiannually	**$ 1,220,000**	$ 1,545,000
5% bullet maturities due annually at varying amounts through 2019, interest payable semiannually	**132,425,000**	132,425,000
3% to 4% bullet maturities (retail coupon) due annually at varying amounts through 2019, interest payable semiannually	**14,950,000**	14,950,000
Total Series 2011B	**148,595,000**	148,920,000
Utility System Refunding Revenue Bonds, Series 2011A		
5% bullet maturities due annually at varying amounts through 2017, interest payable semiannually	**72,510,000**	72,510,000
3% to 4% bullet maturities (retail coupon) due annually at varying amounts through 2017, interest payable semiannually	**20,000,000**	20,000,000
2% to 5% serial bonds due annually at varying amounts through 2024, interest payable semiannually	**43,285,000**	43,595,000
4% serial bonds (retail coupon) due annually at varying amounts through 2024, interest payable semiannually	**4,540,000**	4,540,000
Total Series 2011A	**140,335,000**	140,645,000
Utility System Refunding Revenue Bonds, Series 2011		
5% forward delivery bonds due annually at varying amounts through 2021, interest payable semiannually	**104,645,000**	104,645,000
Utility System Refunding Revenue Bonds, Series 2010		
5% serial bonds due annually at varying amounts through 2027, interest payable semiannually	**65,260,000**	65,260,000
4% serial bonds due annually at varying amounts through 2027, interest payable semiannually	**1,720,000**	1,720,000
Total Series 2010	**66,980,000**	66,980,000
Utility System Revenue Bonds, Series 2008		
5% term bonds, due October 1, 2034, subject to mandatory redemption 2032 through 2034, interest payable semiannually	**29,365,000**	29,365,000
5% term bonds, due October 1, 2038, subject to mandatory redemption 2035 through 2038, interest payable semiannually	**72,010,000**	72,010,000
Total Series 2008	**101,375,000**	101,375,000

Continued on next page.

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

	2012	2011
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	**$ 13,310,000**	$ 16,215,000
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	**70,955,000**	73,860,000
Utility System Refunding and Improvement Revenue Bonds, Series 2005		
3.5% to 5.5% serial bonds due annually at varying amounts through 2024, interest payable semiannually	**164,135,000**	167,865,000
Utility System Refunding Revenue Bonds, Series 2004		
3.0% to 5.25% serial bonds, due annually at varying amounts through 2019, interest payable semiannually	**88,875,000**	95,050,000
Utility System Revenue Bonds, Series 2001B		
3.8% to 5.0% serial bonds, due annually at varying amounts through 2011, interest payable semiannually	–	3,510,000
Total Series 2001B	–	3,510,000
Utility System Revenue Bonds, Series 2001A		
4.25% to 5.25% serial bonds, due annually at varying amounts through 2024, interest payable semiannually	–	1,000,000
5.1% term bonds, due October 1, 2028, subject to mandatory redemption 2027 and 2028, interest payable semiannually	**4,225,000**	4,225,000
6.0% term bonds due October 1, 2029, subject to mandatory redemption 2028 and 2029, interest payable semiannually	**45,775,000**	45,775,000
Total series 2001A	**50,000,000**	51,000,000
Utility System Revenue Bonds, Series 1999		
5.0% serial bonds, due annually at varying amounts through 2011, interest payable semiannually	–	7,585,000
	935,895,000	961,435,000

Continued on next page.

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

	2012	2011
Acquisition Credits		
$867,969 due monthly, deducted from water revenue billed to Member Governments, including interest at 4.865%, through 2029, interest calculated semiannually	**$ 110,794,193**	$ 115,298,821
Total debt outstanding	**1,046,689,193**	1,076,733,821
Less current maturities	**(30,574,094)**	(30,044,628)
	1,016,115,099	1,046,689,193
Add unamortized bond premium	**75,844,431**	86,705,946
Less unamortized losses on bond refundings	**(69,198,744)**	(77,267,523)
Total long-term debt	**$ 1,022,760,785**	$ 1,056,127,616

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

The Agency's changes in noncurrent liabilities for the fiscal years ended September 30, 2012 and 2011, were as follows:

	Balance October 1, 2011	Additions	Deletions	Balance September 30, 2012	Due Within One Year
1999 bonds	$ 7,585,000	$	$ 7,585,000	$ –	$ –
2001A bonds	51,000,000		1,000,000	50,000,000	–
2001B bonds	3,510,000		3,510,000	–	–
2004 bonds	95,050,000		6,175,000	88,875,000	9,660,000
2005 bonds	167,865,000		3,730,000	164,135,000	4,415,000
2006 Bonds	73,860,000		2,905,000	70,955,000	3,015,000
2008 Bonds	101,375,000		–	101,375,000	–
2010 Bonds	66,980,000		–	66,980,000	–
2011 Bonds	104,645,000		–	104,645,000	8,325,000
2011A Bonds	140,645,000		310,000	140,335,000	285,000
2011B Bonds	148,920,000		325,000	148,595,000	160,000
Acquisition credits	115,298,821		4,504,628	110,794,193	4,714,094
Unamortized bond issue premium	86,705,946		10,861,515	75,844,431	–
Deferred refunding losses	(77,267,523)		(8,068,779)	(69,198,744)	–
	1,086,172,244		32,837,364	1,053,334,880	30,574,094
Less current portion	(30,044,628)	(30,574,094)	(30,044,628)	(30,574,094)	
Total long-term debt	1,056,127,616	(30,574,094)	2,792,736	1,022,760,786	–
Legal Settlement	–	20,163,800	–	20,163,800	–
Deferred revenue	18,512,703	17,135,000	14,589,499	21,058,204	–
Total noncurrent liabilities	$ 1,074,640,319	$ (7,864,793)	$ 2,792,736	$ 1,063,982,790	$ –

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

	Balance October 1, 2010	Additions	Deletions	Balance September 30, 2011	Due Within One Year
1998A bonds	$ 27,360,000	$ –	$ 27,360,000	$ –	$ –
1998B bonds	38,340,000	–	38,340,000	–	–
1999 bonds	14,805,000	–	7,220,000	7,585,000	7,585,000
2001A bonds	302,890,000	–	251,890,000	51,000,000	1,000,000
2001B bonds	161,280,000	–	157,770,000	3,510,000	3,510,000
2004 bonds	101,045,000	–	5,995,000	95,050,000	6,175,000
2005 bonds	171,475,000	–	3,610,000	167,865,000	3,730,000
2006 bonds	76,650,000	–	2,790,000	73,860,000	2,905,000
2008 bonds	101,375,000	–	–	101,375,000	–
2010 bonds	–	66,980,000	–	66,980,000	–
2011 bonds	–	104,645,000	–	104,645,000	–
2011A bonds	–	140,645,000	–	140,645,000	310,000
2011B bonds	–	148,920,000	–	148,920,000	325,000
Acquisition credits	119,607,409	–	4,308,588	115,298,821	4,504,628
Unamortized bond issue premium	31,409,898	60,353,036	5,056,988	86,705,946	–
Unamortized bond issue discount	(3,289,100)	3,212,433	(76,667)	–	–
Deferred refunding losses	(27,476,043)	(53,340,137)	(3,548,657)	(77,267,523)	–
	1,115,472,164	471,415,332	500,715,252	1,086,172,244	30,044,628
Less current portion	(28,263,588)	(30,044,628)	(28,263,588)	(30,044,628)	–
Total long-term debt	1,087,208,576	441,370,704	472,451,664	1,056,127,616	30,044,628
Derivative instruments	59,168,913	–	59,168,913	–	–
Deferred revenue	18,481,864	30,839	–	18,512,703	–
Total noncurrent liabilities	$ 1,164,859,353	$ 441,401,543	$ 531,620,577	$ 1,074,640,319	$ 30,044,628

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

Annual debt service requirements to maturity for all long-term debt as of September 30, 2012, are as follows:

	Principal	Interest	Total
2013	$ 25,860,000	$ 46,600,016	$ 72,460,016
2014	27,120,000	45,314,016	72,434,016
2015	27,065,000	43,984,173	71,049,173
2016	26,770,000	42,630,673	69,400,673
2017	73,260,000	40,194,541	113,454,541
2018–2022	356,735,000	138,657,537	495,392,537
2023–2027	168,995,000	77,791,298	246,786,298
2028–2032	74,110,000	45,993,181	120,103,181
2033–2037	106,075,000	25,577,394	131,652,394
2038–2039	49,905,000	2,525,625	52,430,625
	$ 935,895,000	$ 509,268,454	$ 1,445,163,454

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 $935,895,000 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 $73,084,766 in 2012 and $73,861,657 in 2011. 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, 2012 and 2011, the Agency complied with all debt covenants.

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

Defeasance of Debt

In 2011, 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.

On October 1, 2011, $761,855,000 of defeased debt was called or matured. At September 30, 2012, the principal amount outstanding of the 1989A defeased bonds (refunded in 1998) and the 1995 defeased bonds (refunded in 1998) is $17,614,466 (including accreted interest through maturity).

11. 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.

11. 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, 2008, and 2009 the rates were at 9.85%, 13.12%, and 10.91% for the regular class, senior management class, and drop participants, respectively. In 2010, legislation raised the plan rates for the plan year beginning July 1, 2010, to 10.77%, 14.57%, and 12.25% for the regular class, senior management class, and drop participants, respectively. In 2011, legislation changed the plan making it mandatory for employees in the regular and senior management class to contribute 3% to the plan, while drop participants are not required to contribute. The Agency is required to contribute to the plans at these actuarially determined rates. The Agency's contributions for the years ended September 30, 2012, 2011, and 2010, were $419,558; $753,049 and $888,127, respectively, and were equal to the required contributions for each year.

The plans are administered by the State of Florida Division of Retirement, Department of Management Services. The System publishes an unaudited annual report that provides 10-year historical trend information about progress made in accumulating sufficient assets to pay benefits when due. The most recent available report is for the plan year ended June 30, 2010. This report may be obtained by writing to the Division of Retirement, Research Education and Policy Section, P.O. Box 9000, Tallahassee, FL 32315-9000, by calling (850) 488-5706, or by accessing their Internet site at: http://dms.myflorida.com/human_resource_support/retirement/publications /system_information/annual_reports.

12. Post-Employment Health Care Benefits

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

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

Funding Policy – For the Post-Employment Health Care Benefits Plan, contribution requirements of the Agency are established and may be amended through recommendations of the Chief Financial Officer and action from the Board of Directors. The Agency has not advanced-funded or established a funding methodology for the annual Other Post-employment Benefit (OPEB) costs or the net OPEB obligation. As of October 1, 2011, there were three retirees and two eligible dependents receiving post-employment health care benefits. For the year ending September 30, 2012, the Agency provided required contributions of $81,754 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 $34,473. For the year ending September 30, 2011, the Agency provided required contributions of $61,387 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 $29,881. Required contributions are based on projected pay-as-you-go financing.

12. Post-Employment Health Care Benefits (continued)

Annual OPEB Cost (AOC) and Net OPEB Obligation (NOO) – The following table shows the Agency's annual OPEB cost for the years ending September 30, 2012 and 2011, the amount actually contributed to the plan, and changes in the Agency's net OPEB obligation:

	Year Ending September 30	
	2012	**2011**
Normal cost	**$ 35,108**	$ 33,758
Amortization of unfunded accrued liability	**18,246**	16,262
Interest	**2,134**	2,001
Annual required contribution	**55,488**	52,021
Interest on net OPEB obligation (NOO)	**8,976**	9,311
Amortization of NOO	**(8,014)**	(8,313)
Total expense or annual OPEB cost (AOC)	**56,450**	53,019
Actual receipts (contribution) toward OPEB cost	**(81,754)**	(61,387)
Change in NOO	**(25,304)**	(8,368)
NOO beginning of year	**224,398**	232,766
NOO end of year	**$ 199,094**	$ 224,398

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

Fiscal Year	AOC	Net Contribution	Percentage of AOC Contributed	NOO
9/30/2010	$ 62,299	$ 1,911	3.1%	$ 232,766
9/30/2011	53,019	61,387	115.8	224,398
9/30/2012	56,450	81,754	144.8	199,094

12. Post-Employment Health Care Benefits (continued)

Funded Status and Funding Progress – As of September 30, 2012, the actuarial accrued liability for benefits was $471,904 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $471,904. The covered payroll (annual payroll for active participating employees) was $8,625,056 for the year ending September 30, 2012, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 5.5% (See Required Supplementary Information).

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

The Agency's initial OPEB actuarial valuation for the 2011-2012 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, general inflation of 2.5% per year and an annual health care cost trend rate of 9.5% pre-Medicare and 7.0% post-Medicare initially for the 2011-2012 fiscal year, reduced to an ultimate rate of 5.5% for the fiscal year ending September 30, 2018. 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.

13. 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 Risk Management Associates and Public Risk Insurance Agency/Brown and 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; government crime coverage; and environmental impairment liability coverage relative to the operation of the Desalination Plant. The Agency obtained its workers' compensation from Preferred Government Insurance Trust (PGIT), a pool open to state and local governments. In addition, the Agency purchases storage tank insurance through Commerce & Industry Insurance Company. There have been no significant reductions in insurance coverage from the prior year. Except as discussed in Note 15, no settlements have exceeded insurance coverage over the past three years.

14. 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 that may be incurred in connection with these matters are deemed by management to not be material to the Agency's financial statements.

On March 6, 2012, the Circuit Court of the Second Judicial Circuit issued an order striking down Chapter 2011-68, Laws of Florida, as applied to individuals initially enrolled before July 1, 2011. This law requires employees in the Florida Retirement System to contribute 3% of their salary towards their retirement benefits and reduced the cost-of-living adjustment for benefits earned on or after July 1, 2011. The trial court's decision was appealed, which resulted in an immediate stay of the order. On September 7, 2012, the Florida Supreme Court heard oral arguments relating to the Second Judicial Circuit Court's order. Accordingly, pending issuance of a decision by the Florida Supreme Court, no changes to benefits or deductions are being made by FRS.

14. Commitments and Contingencies (continued)

Legislation also adjusted the employer's portion effective July 1, 2011 to 4.91%, 6.27%, and 4.42% for regular class, senior management class, and drop participants, respectively. On April 20, 2012 HB 5005 was signed into law raising the employer's contribution rates effective July 1, 2012 to 5.18%, 6.3% and 5.44% for regular class, senior management class, and drop participants, respectively.

Grant Funds

The Agency is subject to audit examination by funding agencies 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 $40,064 and $38,890 in 2012 and 2011, respectively. Real estate taxes of $135,691 and $139,114 were also paid in 2012 and 2011, respectively. The basic rent is adjusted yearly by applying the Consumer Price Index for all urban consumers to the prior year basic rent.

The aggregate future minimum operating lease payments for the year ending September 30, 2012, are as follows:

	Desalination Plant Land Lease
2013	$ 40,890
2014	41,011
2015	41,011
2016	41,011
2017	41,011
2018–2033	625,418
	$ 830,352

14. Commitments and Contingencies (continued)

Operations and Maintenance Agreements

The 20-year Operation, Maintenance, and Management (OM&M) Services Agreement for operation of the desalination plant with American Water-Pridesa, LLC, approved by the Board of Directors in 2004, went into effect as of November 8, 2007. Under this agreement, American Water-Pridesa, LLC operates and maintains the plant and the Agency will pay a service fee consisting of a base OM&M charge, certain pass-through charges, maintenance reserve fund charges, and various fee adjustments. The base OM&M charge will be adjusted at the beginning of each contract year based on certain labor and plant cost indexes. The contract can be terminated for convenience with 90 days notice and payment for all services performed, reimbursable expenses due, a termination fee of $1 million gradually declining to zero after 15 years and demobilization fee of $50,000. Total operating fees under this contract were $6,387,711 and $5,969,269 for 2012 and 2011, respectively.

The Agency is a party to an Operations and Maintenance (O&M) Agreement with Veolia Water North America for the operation of its Surface Water Treatment Plant. The agreement, which became effective in 2004, provides for the payment by the Agency of a service fee that includes a base O&M charge that is payable regardless of plant production levels and several variable and pass-through cost components. The base O&M charge and certain other cost components increase yearly based on an index directly related to the expense. The agreement is fully cancellable with 90 days notice, payment of all accrued service fees, and any demobilization costs. Expense under this agreement was $6,429,731 and $5,623,584 for the years ended September 30, 2012 and 2011, 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 $149,326 and $136,843 for the years ended September 30, 2012 and 2011, respectively.

In 2005, the Agency entered into a Service Agreement with Veolia Water North America for operation and maintenance of the C.W. Bill Young Regional Reservoir. This agreement provides for payment of a monthly service fee and certain pass-through costs. The agreement is fully cancellable at the option of the Agency. Expense under this contract was $674,791 and $364,700 for the years ended September 30, 2012 and 2011, respectively.

14. Commitments and Contingencies (continued)

Regional Reservoir

The C.W. Bill Young Regional Reservoir, located in southern Hillsborough County, is designed to store up to 15.5 billion gallons from various surface water sources. The facility was completed and 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 the Florida Dept. of Environmental Protection (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 damaged areas had been repaired. In June 2009, the Agency completed a short-term repair program and received FDEP approval to return the reservoir to its current permitted fill volume and rate of withdrawal. In June 2009, the Board of Directors adopted a resolution that authorized the General Manager to proceed with a permanent fix for the facility. Between October 2009 and April 2010, staff assembled a team comprised of financial, technical, and legal advisors and commenced a competitive procurement process, which was completed in 2011. On June 20, 2011, the Board of Directors approved the proposal from design-builder Kiewit Infrastructure Group to renovate the Regional Reservoir and increase storage by three billion gallons. Kiewit's proposed cost was approximately $162 million, of which $42.0 million was to be used to increase the Reservoir's capacity. In April 2012 during the permitting process, the Bureau of Mining and Minerals Regulation of the Florida department of Environmental Protection (FDEP) informed Tampa Bay Water the application was complete but FDEP had concerns regarding the potential for impacts to the increased storage facility caused by freeze protection agricultural pumping in the region. As a result of these concerns Tampa Bay Water received Board of Directors approval in June 2012 to redesign the project by eliminating the increased storage component. The contract amendment for the redesign in the approximate amount of $130 million was approved by the Board of Directors August 2012. The design was completed and FDEP approved the project December 2012. In preparation for construction the reservoir water levels were drawn down and this action was complete December 2012. It is expected that notice to proceed for construction will be issued January 2013 and construction completed in late 2014. Also, see Note 15, Litigation Settlements.

15. Litigation Settlements

On December 10, 2008, the Agency filed suit for damages related to the abnormal cracking of the soil-cement interior facing of the Regional Reservoir. On December 13, 2010, the Board of Directors approved a settlement with Construction Dynamics Group (CDG) and its insurers in the amount of $6,014,144 relative to the reservoir litigation. The settlement funds were received by the Agency on December 23, 2010. On February 21, 2011, the Board of Directors agreed to settle with Barnard Construction Company, the general contractor for the Regional Reservoir, and its surety, in the amount of $750,000. In April 2011 Barnard Construction Company made payment to Allen Dell, PA, Trust account and the funds were paid to Tampa Bay Water in 2012.

In April, 2012, following a trial that continued for several weeks, the jury returned a verdict of no liability in favor of HDR Engineering, Inc., the only remaining defendant in the case. Tampa Bay Water's motion for new trial was denied and the case is now on appeal in the United States Court of Appeals for the Eleventh Circuit, Case No. 12-14600. As the prevailing party in the case, HDR Engineering, Inc. is entitled to recover attorney fees, costs and expenses. Their motion for an award of such fees, costs and expenses was pending on September 30, 2012. The trial court subsequently awarded HDR, as the prevailing party, its attorneys' fees, costs and litigation expenses in the total amount of $20,147,406, inclusive of interest through 2013. For the year ended September 30, 2012, the Agency has recorded an estimated liability for these fees and costs plus accrued interest through September 30, 2012 in the amount of $20,163,800. Also see Note 16, Subsequent Events.

In August 2012, the Agency settled with two defendants in ongoing class action litigation concerning municipal bond derivative transactions. The Board approved a settlement with JP Morgan Chase & Co. in the amount of $81,970 and with Wachovia Bank, N.A. in the amount of $29,403. The total due to the Agency of $111,373 is included in other accounts receivable at September 30, 2012.

In March 2009, the Agency acquired, through an Order of Taking and subsequent deposit of $351,150, permanent and temporary easements over certain property for the Northwest Hillsborough Pipeline Project. The parties met for a mediation conference on December 2, 2010. At mediation, the parties reached a proposed settlement as to the compensation for the property in the amount of $465,000. The proposed settlement was approved by the Board on February 21, 2011, and the Agency paid an additional $113,850 in March 2011. This amount does not include the owners' reasonable attorneys' fees and expert costs, which was brought back to the Board of Directors in April 2011. The proposed settlement of $78,134 was approved by the Board of Directors and payment was made in May 2011.

15. Litigation Settlements (continued)

The Agency was party to litigation which involved threatened contamination to certain Agency production wells from leaking underground gasoline storage tanks. In 2009 and 2010 the Agency settled with various defendants in the ongoing Methyl Tertiary Butyl Ether (MTBE) litigation. On August 25, 2010, the Agency received a final settlement offer from the remaining defendants in the amount of $12,451, which was approved by the Board of Directors on October 18, 2010. The total amount received under these settlements at September 30, 2011, was $1,128,670.

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.

16. Subsequent Events

Reservoir Litigation

On November 5, 2012, a judgment in favor of HDR and against Tampa Bay Water was entered awarding HDR, as the prevailing party, its attorneys' fees, costs and litigation expenses in the total amount of $20,147,406. The judgment bears interest at the annual rate of 0.18% or $99.36 per day. That judgment is also now on appeal in the United States Court of Appeals for the Eleventh Circuit, Case No. 12-16204. Execution on the judgment has been stayed pending disposition of the appeal, based on Tampa Bay Water's establishment of an escrow account with Regions Bank for the full amount of the judgment, plus estimated interest and additional appellate attorneys' fees for HDR. If the appeal is dismissed for any reason or the judgment is affirmed with finality, the escrow agent will disburse the escrow funds to HDR in payment of the amounts due under the judgment. If the judgment is reversed on appeal, then the escrow agent will disburse the escrow funds to Tampa Bay Water and the escrow agreement will be terminated. These cases are in the early stages of the appellate process; no briefs have been filed and no briefing schedule has yet been established by the court. It is anticipated that these appeals will not be concluded within the 2013 fiscal year.

Municipal Bond Derivatives Class Action Litigation

On October 15, 2012, the Board of Directors voted to accept an out-of-court settlement of $10,000 with GE Funding Capital Market Services, Inc. in connection with ongoing class action litigation against multiple defendants relating to municipal bond derivatives.

Tampa Bay Water
(A Regional Water Supply Authority)

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

September 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded as a Percent of Covered Payroll
09/30/2008	$ –	$ 851,914	$ 851,914	–%	$ 8,078,391	10.5%
09/30/2009	–	468,424	468,424	–	8,262,444	5.7
09/30/2010	–	519,248	519,248	–	8,570,128	6.1
09/30/2011	–	435,574	435,574	–	8,679,082	5.0
09/30/2012	–	471,904	471,904	–	8,625,056	5.5

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, therefore only five years of data are available.

Compliance Section

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

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

We have audited the financial statements of Tampa Bay Water, A Regional Water Supply Authority (the Agency), as of and for the year ended September 30, 2012 and have issued our report thereon dated January 24, 2013. 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

Management of the Agency is responsible for establishing and maintaining effective 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.

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Compliance and other matters

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

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

Ernst + Young LLP

January 24, 2013

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Report of Independent Certified Public Accountants on Bond Compliance

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

We have audited, 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, the financial statements of Tampa Bay Water, A Regional Water Supply Authority (the Agency), as of the year ended September 30, 2012, and have issued our report thereon dated January 24, 2013.

In connection with our audit, nothing came to our attention that caused us to believe that the Agency failed to comply with the terms, covenants, provisions, or conditions of Sections 4 and 5 of the Master Bond Resolution dated August 31, 1998, insofar as they relate to accounting matters for the following bonds.

- $309,370,000 Utility System Refunding and Improvement Revenue Bonds, Series 2001A
- $107,870,000 Utility System Refunding Revenue Bonds, Series 2004
- $174,965,000 Utility System Refunding and Improvement Revenue Bonds, Series 2005
- $81,885,000 Utility System Refunding and Improvement Revenue Bonds, Series 2006
- $101,375,000 Utility System Refunding and Improvement Revenue Bonds, Series 2008
- $66,980,000 Utility System Refunding Revenue Bonds, Series 2010
- $104,645,000 Utility System Refunding Revenue Bonds, Series 2011
- $140,645,000 Utility System Refunding Revenue Bonds, Series 2011A
- $148,920,000 Utility System Refunding Revenue Bonds, Series 2011B

However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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

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January 24, 2013

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Tampa Bay Water
(A Regional Water Supply Authority)

Schedule of Debt Service Coverage – Utility System Revenue Bonds, Series 1999, 2001A, 2001B, 2004, 2005, 2006, 2008, 2010, 2011, 2011A, and 2011B

	Year Ended September 30 2012	2011
Revenue:		
Actual water demand (mgd)	**164.3000**	161.4300
Uniform rate (per 1,000 gallons)	**$ 2.5590**	$ 2.5295
Revenue from sales	**$ 158,116,067**	$ 150,919,524
Transfer (to) from Rate Stabilization Fund	**7,929,766**	(7,329,961)
	166,045,833	143,589,563
Purchase price amortization credit	**(10,231,557)**	(10,231,557)
Litigation and insurance recoveries	**864,450**	6,014,144
Investment revenue – unrestricted *(Note 1)*	**1,235,692**	2,185,545
Total revenue	**157,914,418**	141,557,695
Operation and maintenance expenditures *(Note 2)*	**(81,880,399)**	(65,144,693)
Net revenue	**$ 76,034,019**	$ 76,413,002
Annual debt service payments Series 1999 bonds	**$ –**	$ 7,964,250
Annual debt service payments Series 2001A bonds	**3,000,000**	10,300,512
Annual debt service payments Series 2001B bonds	**–**	7,349,015
Annual debt service payments Series 2004 bonds	**14,249,787**	11,073,538
Annual debt service payments Series 2005 bonds	**13,370,175**	12,881,000
Annual debt service payments Series 2006 bonds	**6,202,454**	6,208,654
Annual debt service payments Series 2008 bonds	**5,068,750**	5,068,750
Annual debt service payments Series 2010 bonds	**3,331,800**	2,970,855
Annual debt service payments Series 2011 bonds	**13,557,250**	1,220,858
Annual debt service payments Series 2011A bonds	**6,924,250**	1,140,681
Annual debt service payments Series 2011B bonds	**7,380,300**	1,228,350
Total debt service *(Note 4)*	**73,084,766**	67,406,463
Required deposit to Capital Improvement Fund	**976,653**	1,376,116
Required deposit to Renewal and Replacement Fund	**775,437**	1,257,486
Total debt service and reserve requirements	**$ 74,836,856**	$ 70,040,065
Debt service and reserve coverage (times)	**1.02**	1.09
Fund balance *(Note 3)*	**$ 26,078,117**	**$ 24,429,774**
Net revenue plus fund balance	**$ 102,112,136**	**$ 100,842,776**
Debt service coverage (times) *(Note 4)*	**1.40**	1.50

Note 1: Investment revenue does not include interest on construction funds of $17,213 and $158,422 in 2012 and 2011, respectively, or unrealized investment losses from investments of $(611,606) and ($792,889) in 2012 and 2011, respectively.

Note 2: Operation and maintenance expenditures include capital expenditures for maintenance of the existing system of $253,124 and $1,918,279 in 2012 and 2011, respectively. Expenditures also include litigation settlement of $20,163,800 in 2012.

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.

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Management Letter on Internal Control and State Reporting Requirements

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

In planning and performing our audit of the financial statements of Tampa Bay Water, A Regional Water Supply Authority (the Agency) for the year ended September 30, 2012, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Recommendations

There were no recommendations in either the current or prior year.

Required Disclosures

The following items are disclosed pursuant to the *Rules of the Auditor General*:

The Agency was created on October 25, 1974, by enabling state legislation, and governance was implemented on September 29, 1998, all under Sections 163.01 and 373.1962 and 373.1963, *Florida Statutes*, and a five-party interlocal agreement between Hillsborough, Pasco, and Pinellas counties and the cities of Tampa and St. Petersburg, with the addition of the city of New Port Richey in 1982, as modified by the Amended and Restated Interlocal Agreement and Master Water Supply Contract.

During the course of the audit of the Agency, nothing came to our attention that would cause us to believe the Agency did not comply with Section 218.415, *Florida Statutes*, regarding the investment of public funds.

As part of our audit procedures, we have applied financial condition assessment procedures pursuant to Rule 10.556(8), *Rules of the Auditor General*.

During the course of the audit of the Agency, nothing came to our attention that would cause us to believe that the Agency was in a state of financial emergency, as defined by Section 218.503(1), *Florida Statutes*.

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We determined that the financial report filed by the Agency with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), *Florida Statutes*, is in agreement with the audited financial statements for the current audit period.

This report is intended solely for the information and use of the Agency, the Agency's member governments and the Auditor General of the State of Florida and is not intended to be, and should not be, used by anyone other than these specified parties.

Ernst + Young LLP

January 24, 2013

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