

2. REPORTS TO BE RECEIVED FOR FILING:

- a. Tampa Bay Water Annual Financial Report and Audited Financial Statements for the Fiscal Year ended September 30, 2013.
- b. City of Largo West Bay Drive Community Redevelopment District Annual Report for Fiscal Year 2013.

Board of Directors Susan Latvala, Ted Schrader, Robert Consalvo, Ken Hagan,
Charlie Miranda, John Morroni, Sandra Murman, Karl Nurse, Kathryn Sturkey

General Manager Matthew W. Jordan

General Counsel Barrie S. Buenaventura, Pennington, P.A.

2575 Enterprise Road, Clearwater, FL 33763-1102

Phone: 727.796.2355 / Fax: 727.791.2388

www.tampabaywater.org



CERTIFIED MAIL RETURN RECEIPT

March 21, 2014

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, 2013.

Thank you for your attention to this matter.

Sincerely,

Christina R. Sackett
Chief Financial Officer

Enclosures

RECEIVED
ADMINISTRATION
2014 MAR 25 AM 11:08
KEN BURKE
CLERK OF CIRCUIT/COUNTY COURT

RECEIVED
BOARD OF
2014 MAR 26 AM 9:06
BOARD OF COUNTY
COMMISSIONERS
PINELLAS COUNTY FLORIDA

Unit Information

Unit ID: 300049

Year: 2013

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: 3/20/2014

Audit Received Date:

Submission Type: Electronic

Debt Information

Long-Term Debt: \$1,074,567,969

Audit Information

Was an audit performed? Yes

Audit Performed Date: 2/4/2014

Auditor Name: Ernst & Young LLP

Address:
401 East Jackson Street, Suite 1200
Tampa, FL 33607

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?

<input type="checkbox"/>	<input checked="" type="checkbox"/>
--------------------------	-------------------------------------

If Yes, Have You Complied With Section 218.503(2), Florida Statutes?

<input type="checkbox"/>	<input checked="" type="checkbox"/>
--------------------------	-------------------------------------

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?)

<input checked="" type="checkbox"/>	<input type="checkbox"/>
-------------------------------------	--------------------------

Revenues Report for FYE 2013

Account Code	General	Special Revenue	Debt Service	Capital Projects	Permanent	Enterprise	Internal Service	Pension	Trust	Component Units	Total
343300 - Service Charge - Water Utility						150,401,451					150,401,451
361300 - Net Increase (Decrease) in Fair Value of Investments						-76,864					-76,864
362000 - Rents and Royalties						19,320					19,320
364000 - Disposition of Fixed Assets						-1,165					-1,165
389100 - Proprietary - Interest						-285,188					-285,188
389700 - Proprietary - Capital Contributions from Other Public Source						204,569					204,569
389900 - Proprietary - Other Non-Operating Sources						12,733					12,733
Grand Total						150,274,856					150,274,856

Expenditures Report for FYE 2013

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						10,507,059					10,507,059
533.30 - Water Utility Services - Operating Expenses						77,507,021					77,507,021
533.70 - Water Utility Services - Debt Service						45,761,231					45,761,231
Grand Total						133,775,311					133,775,311

Component Unit	Type	Total Revenues	Total Expenditures	Total Debt
----------------	------	-------------------	-----------------------	------------

FINANCIAL STATEMENTS AND
COMPLIANCE SECTION

Tampa Bay Water (A Regional Water Supply Authority)
Years Ended September 30, 2013 and 2012
With Reports of Independent Certified Public Accountants

Ernst & Young LLP



Building a better
working world

Tampa Bay Water
(A Regional Water Supply Authority)

Financial Statements and Compliance Section

Years Ended September 30, 2013 and 2012

Contents

Report of Independent Certified Public Accountants	1
Management's Discussion and Analysis	4
Financial Statements	
Statements of Net Position	22
Statements of Revenues, Expenses, and Changes in Net Position	24
Statements of Cash Flows	25
Notes to Financial Statements	27
Required Supplementary Information – Other Post-Employment Benefits	
Schedule of Funding Progress	62
Compliance Section	
Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing</i> <i>Standards</i>	63
Report of Independent Certified Public Accountants on Compliance	65
Schedule of Debt Service Coverage – Utility System Revenue Bonds, Series 2001A, 2004, 2005, 2006, 2008, 2010, 2011, 2011A, 2011B and 2013	67
Management Letter on Internal Control and State Reporting Requirements	68

Report of Independent Certified Public Accountants

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

Report on the Financial Statements

We have audited the accompanying financial statements of Tampa Bay Water, A Regional Water Supply Authority (the Agency) as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



Building a better
working world

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of September 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis and schedule of funding progress on pages 4 through 21 and page 62, 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 which 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The schedule of debt service coverage is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of debt service coverage is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of debt service coverage is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Building a better
working world

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated February 4, 2014, on our consideration of the Agency's internal control over financial reporting and on 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* in considering the Agency's internal control over financial reporting and compliance.

Ernst & Young LLP

February 4, 2014

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis

Years Ended September 30, 2013 and 2012

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, 2013 and 2012. 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 \$1.26 billion to provide water to its six member governments. Financial data for the years ended September 30, 2013 and 2012, 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 2013 and 2012, included 15 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, Keller Hydrogen Sulfide Treatment Facility and Lithia 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

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Highlights (continued)

final completion of construction and were placed in service. Construction activities on these same projects also resulted in the \$11.8 million or 0.98% increase in capital assets during 2012. 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 position increased \$20.4 million or 2.79% in fiscal 2013, reflecting, most notably, a \$43.4 million increase in capital assets offset by an increase of \$28.4 million in the outstanding debt allocable to acquisition of these capital assets.
- The Agency's restricted assets, consisting of cash, investments, and grants receivable, increased by \$25.4 million or 86.5% from 2012 to 2013, largely due to funding a \$20.6 million escrow account for the HDR litigation settlement.
- Capital contributions of \$0.2 million from reimbursement from the Southwest Florida Water Management District (the District) for Surface Water & Recharge Projects.
- Decreased water demand from its six members resulted in a decrease in water production from 164.30 mgd in 2012 to 157.8 mgd in 2013. Increased rainfall and conservation efforts contributed to the decreased demand.
- During 2013, the Agency's revenue from water sales was \$156.5 million. In addition, \$6.1 million was transferred to the Rate Stabilization Account in accordance with contractual obligations with the Agency's members and Agency accounting policies, resulting in a decrease in revenue recognized of \$15.6 million from 2012 to 2013.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Highlights (continued)

- The Agency's operating expenses declined by \$0.1 million or 0.21% from 2012 to 2013, as a result of its 2013 budget policies.
- 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 currently in progress with an initial filling expected in late July 2014, and final completion expected in December 2014. The Agency has coordinated with the District to accommodate unusual circumstances related to usage of the other water supplies which may be needed if the region experiences drought conditions at that time and must rely more heavily on ground water supplies.

Overview of the Financial Statements

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

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Required Financial Statements

The financial statements of the Agency use accounting methods similar to those used by private sector companies. The statements of net position include all of the Agency's assets and deferred outflows and liabilities and deferred inflows and provide information about the nature and amounts of investment in resources (assets) and the obligations to Agency creditors (liabilities). The assets and deferred outflows and liabilities and deferred inflows are presented in a classified format, which distinguishes between current and noncurrent assets and deferred outflows and liabilities and deferred inflows. 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 statement of net position 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 position. 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 deferred outflows and liabilities and deferred inflows and the difference between them, the "net position." Over time, increases or decreases in the Agency's net position 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 position provide information that is useful in evaluating whether the Agency has successfully recovered all its costs through its water rates and other charges, as well as its credit worthiness.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Net Position

A summary of the Agency's Statements of Net Position is presented in Table A-1.

Table A-1

Condensed Statements of Net Position
(In Millions of Dollars)

	FY 2013	FY 2012	FY 2011
Assets			
Current non-restricted assets	\$ 40.4	\$ 46.2	\$ 32.3
Current restricted assets	293.8	235.0	264.7
Non-current assets	1,636.8	1,594.8	1,580.5
Total assets	<u>\$ 1,971.0</u>	<u>\$ 1,876.0</u>	<u>\$ 1,877.5</u>
Liabilities and net position			
Liabilities:			
Long-term debt outstanding	\$ 1,074.6	\$ 1,022.8	\$ 1,056.1
Other liabilities	146.2	123.4	104.7
Total liabilities	<u>1,220.8</u>	<u>1,146.2</u>	<u>1,160.8</u>
Net position:			
Net investment in capital assets	677.9	663.1	649.9
Restricted	54.8	29.4	35.4
Unrestricted	17.5	37.3	31.4
Total net position	<u>750.2</u>	<u>729.8</u>	<u>716.7</u>
Total liabilities and net position	<u>\$ 1,971.0</u>	<u>\$ 1,876.0</u>	<u>\$ 1,877.5</u>

As shown in the table above, total net position increased \$20.4 million or 2.79% to \$750.2 million in fiscal 2013 from \$729.8 million in fiscal 2012. The major component of net position is the net investment in capital assets which increased by \$14.8 million during the fiscal year. This increase results primarily from a \$43.4 million increase in fixed assets offset by an increase of \$28.4 million in the outstanding debt allocable to acquisition of these capital assets.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Total net position 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 position is the net investment in capital assets which increased by \$13.2 million during the fiscal year. This increase results primarily from an \$11.8 million increase in property and construction-in-progress of which approximately \$2.5 million was funded from capital contributions.

Further examination of net position shows that restricted net position (those established by debt covenants, enabling legislation, or other legal requirements) experienced an increase of \$25.4 million in fiscal 2013. This increase is due primarily to funding a \$20.6 million escrow account for the HDR litigation settlement.

From 2011 to 2012, restricted net position decreased \$6.0 million. This decrease was the net impact of a \$23.7 million decrease in debt related to the acquisition of construction of capital assets offset by a \$29.7 million decrease in construction funds resulting from payment of project expenditures.

Unrestricted net position decreased by \$19.8 million from 2012 to 2013 and represent the funds generated from current year activities that are available to finance day-to-day operations.

Unrestricted net position increased by \$5.9 million from 2011 to 2012.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Change in Net Position

Table A-2

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

	FY 2013	FY 2012	FY 2011
Operating revenues	\$ 150.4	\$ 166.0	\$ 143.5
Operating expenses	(61.3)	(61.5)	(63.2)
Operating income before depreciation	89.1	104.5	80.3
Depreciation	(25.8)	(25.5)	(24.6)
Operating income	63.3	79.0	55.7
Investment revenue, net of realized and unrealized loss of \$1.3 and \$0.6 in 2013 and 2012, respectively	0.6	1.2	4.3
Less capitalized interest	(1.0)	(0.6)	(2.7)
Interest expense	(51.8)	(50.9)	(54.0)
Less capitalized interest	6.0	3.9	5.7
Loss on disposal of capital assets, net	0.0	(2.7)	(0.7)
Arbitrage recovery	3.9	0.0	0.0
Litigation recoveries (settlements)	(0.8)	(19.3)	6.0
Income before contributions	20.2	10.6	14.3
Capital contributions	0.2	2.5	19.1
Change in net assets	20.4	13.1	33.4
Total net position – beginning	729.8	716.7	683.3
Total net position – ending	\$ 750.2	\$ 729.8	\$ 716.7

Table A-2 reflects the statements of revenues, expenses, and changes in net position and provides information as to the nature and source of these changes.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

As shown above, 2013 income before contributions increased from 2012 by \$9.6 million or 90.6%. This increase is due primarily to an \$18.5 million decrease in loss associated with the HDR litigation settlement primarily recorded in 2012, an arbitrage recovery of \$3.9, a \$0.3 million increase in depreciation expense, a \$1.2 million net decrease in interest expense, a \$2.7 million decrease in loss on disposal of capital assets plus a \$0.2 million net decrease in investment revenue this is offset by an decrease of \$15.4 million in operating income before depreciation. The overall increase in net position of \$20.4 million results primarily from the \$20.2 million in income before contributions.

In 2012 income before contributions decreased from 2011 by \$3.7 million or 25.8%. The overall increase in net position of \$13.1 million results primarily from the \$10.6 million in income before contributions.

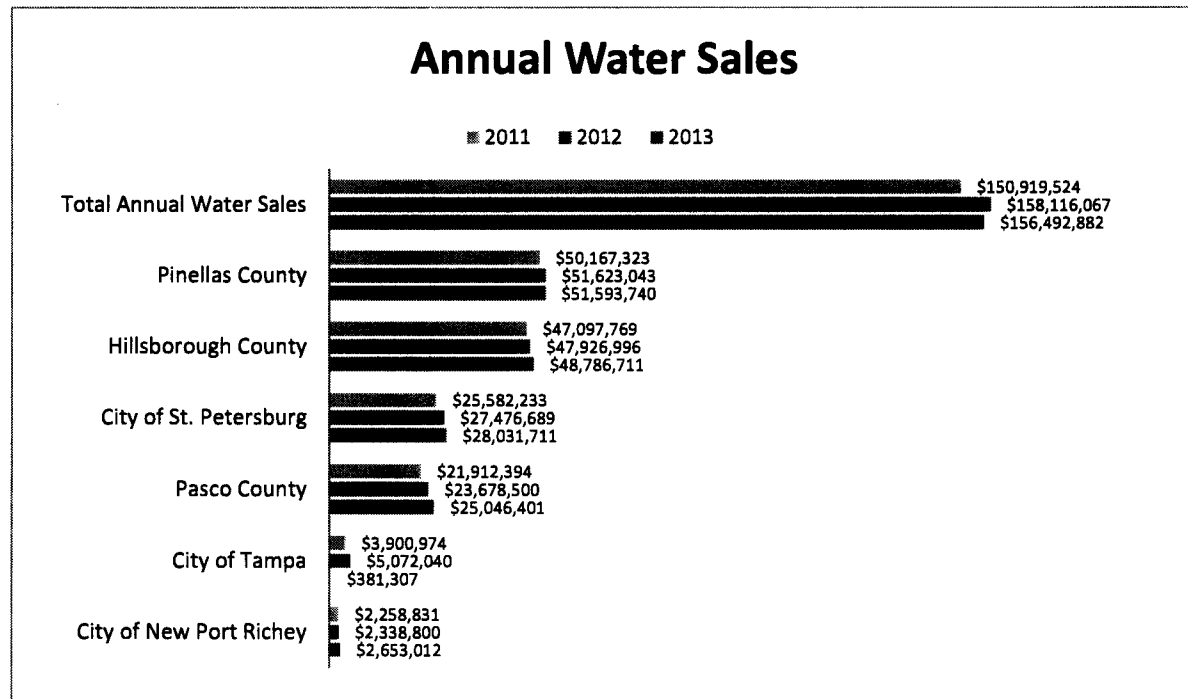
As illustrated in the following charts, total water sales billed to Member Governments were \$156.5 million in 2013 compared \$158.1 million in 2012 and \$150.9 million in 2011. Demand decreased by 3.96% from 164.3 mgd (millions of gallons per day) in 2012 to 157.79 mgd in 2013. This followed an increase in demand of 1.77% from 161.43 mgd in 2011. The decrease in demand results from a combination of factors, including the continued impacts of regional economic conditions, as well as a rainy season. Consequently, with Hillsborough River flows sufficient to meet its self-supplied needs, regional water demand for City of Tampa decreased from 4.67 mgd in 2012 to 0.03 mgd in 2013. Water sales to Tampa had increased from 3.50 mgd in 2011 to 4.67 mgd in 2012 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 2013, deferred revenue increased by \$6.1 million or 19.84% from 2012 with a corresponding decrease in revenue as a result of budgeted use of rate stabilization funds to meet future operating expenses. Deferred revenue decreased by \$7.9 million and increased by \$7.3 million as the result of budgeted use of rate stabilization funds for operations in 2012 and 2011, respectively.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

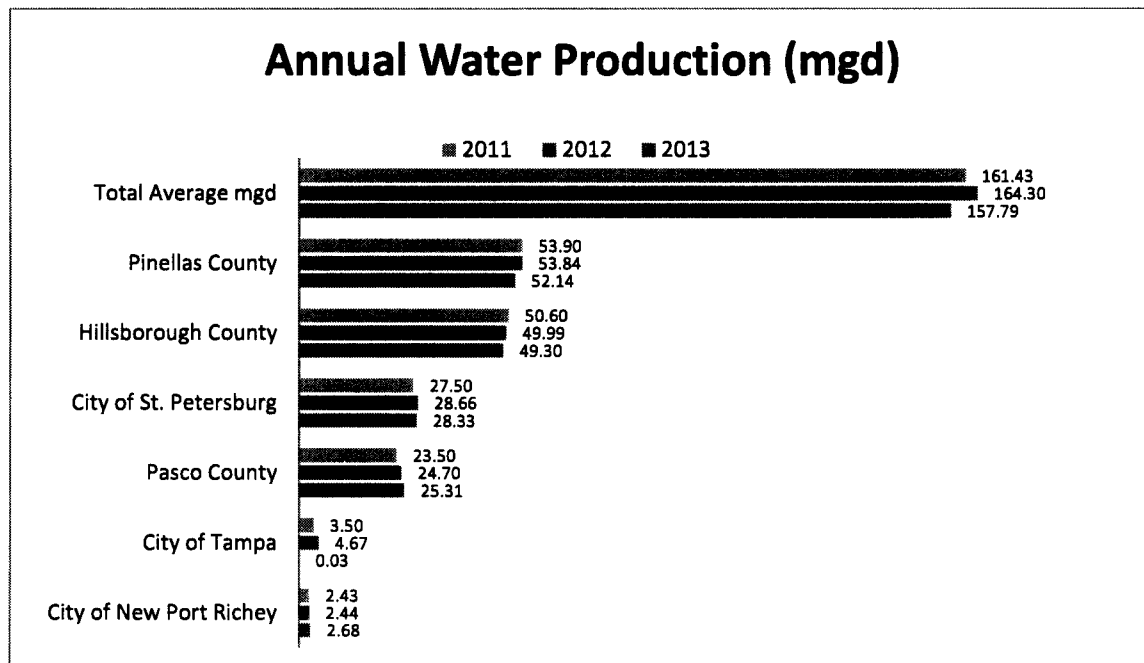
Financial Analysis of the Agency (continued)



Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)



The Agency's operating expenses declined by \$0.1 million or 0.21% from 2012 to 2013, as a result of the Agency's continued focus on holding its controllable expenses to its previous year's actual expenditures levels wherever operationally feasible.

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.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Depreciation expense increased \$0.3 million in 2013 from 2012, due to a partial or full year of depreciation for the various facilities placed in service in 2013. Depreciation increased \$0.9 million from 2011 to 2012, due to a partial or full year of depreciation for the various facilities placed in service in 2012.

Concerns over the stability of financial markets continue to delay investing in higher yielding investments. Investment revenue after capitalization, decreased by \$1 million from 2012 to 2013. Investment revenue after capitalization decreased by \$0.9 million from 2011 to 2012, primarily due to the impact of terminating certain derivative instruments. The 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.

Interest expense decreased \$1.2 million net of interest capitalized in 2013. This reduction is due primarily to a \$2.1 million increase in the portion capitalized resulting from decreased construction project activity offset by a \$0.9 million increase in interest costs resulting from the annual amortization of principal. Interest expense decreased \$1.3 million net of interest capitalized in 2012 and 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.

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 2013, the net loss resulted primarily from the write-off of costs associated

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

with various small assets. In 2012, the net loss resulted primarily from the \$2.1 million write-off of costs 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.

Capital Assets

The Agency had invested \$1,260.1 million, \$1,216.7 million, and \$1,204.8 million at September 30, 2013, 2012, and 2011, respectively, in a broad range of infrastructure including wellfields, water treatment and pumping facilities, transmission mains, buildings, a reservoir, and other maintenance and administration equipment as shown in Table A-3. The Agency has an additional \$318.1 million invested in water rights at the various wellfields.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Table A-3

Capital Assets
(In Millions of Dollars)

	FY 2013	FY 2012	FY 2011
Land and improvements	\$ 82.3	\$ 82.3	\$ 82.2
Wells and wellfield improvements	132.3	131.0	129.9
Water treatment and pumping facilities	667.0	630.5	629.8
Transmission mains	339.7	335.9	335.2
Buildings	19.5	17.6	17.3
Reservoir	160.8	160.7	160.5
Other equipment and software	18.2	17.5	17.3
	<u>1,419.8</u>	<u>1,375.5</u>	<u>1,372.2</u>
Less accumulated depreciation	254.2	229.1	205.5
	<u>1,165.6</u>	<u>1,146.4</u>	<u>1,166.7</u>
Construction-in-progress:			
Water treatment plants and booster stations	2.1	21.6	8.0
Transmission mains	0.2	0.2	0.1
Surface water sources and pumping facilities	74.3	26.4	13.6
Wellfields and improvements	7.9	11.4	9.3
Desalination facilities	9.9	9.7	6.2
Other supply and infrastructure	0.0	0.9	0.8
Software in development	.1	0.1	0.1
	<u>94.5</u>	<u>70.3</u>	<u>38.1</u>
Capital assets, net	<u>\$ 1,260.1</u>	<u>\$ 1,216.7</u>	<u>\$ 1,204.8</u>

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

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 2013, construction-in-progress increased \$24.2 million over 2012 largely due to increased construction activity on the Reservoir.

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. 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.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

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, 2011B, and 2013 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.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Table A-4

Cost of Capital

	Debt Balance	Average Coupon Rate
	<i>(In Millions)</i>	
2001A Bonds	\$ 50.0	5.93%
2004 Bonds	79.2	5.24
2005 Bonds	159.7	5.49
2006 Bonds	67.9	4.56
2008 Bonds	101.4	5.00
2010 Bonds	67.0	4.97
2011 Bonds	96.3	5.00
2011A Bonds	140.1	4.81
2011B Bonds	148.4	4.87
2013 Bonds	75.3	4.81
	<u>\$ 985.3</u>	

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 1.44, 1.40, and 1.50 at September 30, 2013, 2012, and 2011, respectively. These coverage ratios are another indicator of the Agency's financial strength and future borrowing capability.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Table A-5

Debt Coverage Ratio
(In Millions of Dollars)

	FY 2013	FY 2012	FY 2011
Revenue from sales	\$ 150.4	\$ 166.0	\$ 143.5
Less: Purchase price amortization credit	(10.2)	(10.2)	(10.2)
Litigation and insurance recoveries	0.0	0.9	6.0
Arbitrage recoveries	3.9		
Investment revenue -- unrestricted (Note 1)	.9	1.2	2.2
Total revenue	145.0	157.9	141.5
Operation and maintenance expenditures (Note 2)	(64.2)	(81.9)	(65.1)
Net revenue for coverage calculation	\$ 80.8	\$ 76.0	\$ 76.4
Total debt service on bonds	\$ 75.4	\$ 73.1	\$ 67.4
Required deposit to Capital Improvement Fund	1.7	0.9	1.4
Required deposit to Renewal and Replacement Fund	3.5	0.8	1.2
Total debt service and reserve requirements	\$ 80.6	\$ 74.8	\$ 70.0
Debt service and reserve coverage (times)	1.00	1.02	1.09
Fund balance (Note 3)	\$ 27.8	\$ 26.1	\$ 24.4
Net revenue plus fund balance	\$ 108.6	\$ 102.1	\$ 100.8
Debt service coverage (times)	1.44	1.40	1.50

Note 1: Investment revenue does not include interest on construction funds of \$1.0, \$0.02 million and \$0.16 million in 2013, 2012, and 2011, respectively, or realized investment losses of \$(1.2) million in 2013 or unrealized investment losses of \$(0.08) million and \$(0.6) million in 2013 and 2012, respectively.

Note 2: Operation and maintenance expenditures include capital expenditures for maintenance of the existing system of \$2.0 million, \$0.3 million and \$1.9 million in 2013, 2012, and 2011, respectively. Expenditures also include litigation settlement of \$0.8 and \$20.2, in 2013 and 2012, respectively.

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.

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis (continued)

Financial Analysis of the Agency (continued)

Economic Factors and Next Year's Budget and Rates

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

The Agency's Board of Directors and management considered many factors when setting the fiscal year 2014, 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 2014 is \$2.5590 per thousand gallons which is consistent with the 2013 and 2012 rates. Though the budgeted expenditures for 2014, increased by \$1.7 million or 1.04% from the 2013, 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 2014.

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)

Statements of Net Position

	September 30	
	2013	2012
Assets		
Current assets:		
Non-restricted assets:		
Cash and cash equivalents	\$ 11,240,495	\$ 24,775,410
Accounts receivable from sale of water	7,837,787	8,153,284
Interest receivable	211,048	202,276
Investments	15,914,116	11,927,741
Other accounts receivable	4,065,776	180,972
Inventories	887,765	802,560
Other current assets	247,999	166,148
Total non-restricted assets	<u>40,404,986</u>	<u>46,208,391</u>
Restricted assets:		
Cash and cash equivalents	278,465,750	190,345,763
Interest receivable	137,109	252,593
Investments	15,218,475	44,287,606
Grants receivable	—	99,440
Total restricted assets	<u>293,821,334</u>	<u>234,985,402</u>
Total current assets	<u>334,226,320</u>	<u>281,193,793</u>
Noncurrent assets:		
Investments, non-restricted	51,899,417	53,354,951
Capital assets, net	1,260,099,437	1,216,677,761
Water capacity rights	318,058,360	318,058,360
Bond issue costs, net of accumulated amortization of \$3,994,625 and \$3,173,201 as of September 30, 2013 and 2012, respectively	<u>6,699,352</u>	<u>6,742,066</u>
Total noncurrent assets	<u>1,636,756,566</u>	<u>1,594,833,138</u>
Total assets	<u>\$ 1,970,982,886</u>	<u>\$ 1,876,026,931</u>

Tampa Bay Water
(A Regional Water Supply Authority)

Statements of Net Position (continued)

	September 30	
	2013	2012
Liabilities and net position		
Current liabilities:		
Accounts payable and accrued expenses	\$ 13,260,595	\$ 9,314,930
Credits due to customers	3,787,779	2,028,354
Litigation settlement	20,966,264	—
Deferred revenue	15,422,213	9,640,747
Total current liabilities	<u>53,436,851</u>	<u>20,984,031</u>
Current liabilities payable from restricted assets:		
Construction funds accounts payable	14,577,127	7,088,627
Accrued interest payable	24,797,408	23,612,383
Current portion of long-term debt	32,056,599	30,574,094
Total current liabilities payable from restricted assets	<u>71,431,134</u>	<u>61,275,104</u>
Noncurrent liabilities:		
Litigation settlement	—	20,163,800
Long-term debt, net of current portion	1,074,567,969	1,022,760,785
Deferred revenue	21,368,168	21,058,205
Total noncurrent liabilities	<u>1,095,936,137</u>	<u>1,063,982,790</u>
Total liabilities	<u>1,220,804,122</u>	<u>1,146,241,925</u>
Net position:		
Net investment in capital assets	677,906,520	663,058,283
Restricted	54,772,859	29,369,416
Unrestricted	17,499,384	37,357,307
Total net position	<u>750,178,764</u>	<u>729,785,006</u>
Total liabilities and net position	<u>\$ 1,970,982,886</u>	<u>\$ 1,876,026,931</u>

See accompanying notes.

Tampa Bay Water
(A Regional Water Supply Authority)

Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended September 30	
	2013	2012
Revenue from sale of water	\$ 156,492,882	\$ 158,116,067
Rate stabilization transfer	(6,091,430)	7,929,766
Total operating revenue	150,401,452	166,045,833
Operating expenses	(61,331,673)	(61,463,474)
Operating income before depreciation	89,069,779	104,582,359
Depreciation expense	(25,827,068)	(25,550,967)
Operating income	63,242,711	79,031,392
Nonoperating revenues (expenses):		
Investment revenue, net of realized and unrealized loss of \$1,288,680 and \$573,259 in 2013 and 2012, respectively	614,831	1,271,024
Less capitalized amount	(976,883)	(629,725)
Interest expense	(51,835,568)	(50,983,112)
Less capitalized amount	6,074,337	3,987,122
Loss on disposal of capital assets	(1,165)	(2,718,584)
Arbitrage recovery	3,894,212	—
Litigation losses net of recoveries of \$12,733 and \$864,450 in 2013 and 2012, respectively	(823,286)	(19,299,350)
Total nonoperating expenses, net	(43,053,522)	(68,372,625)
Income before contributions	20,189,189	10,658,767
Capital contributions	204,569	2,451,041
Change in net position	20,393,758	13,109,808
Total net position – beginning	729,785,006	716,675,198
Total net position – ending	\$ 750,178,764	\$ 729,785,006

See accompanying notes.

Tampa Bay Water
(A Regional Water Supply Authority)

Statements of Cash Flows

	Year Ended September 30	
	2013	2012
Operating activities		
Receipts from customers	\$ 158,567,804	\$ 159,976,853
Payments for goods and services	(49,076,164)	(52,022,004)
Payments to employees	(8,578,865)	(8,641,883)
Net cash provided by operating activities	100,912,775	99,312,966
Capital and related financing activities		
Net proceeds from issuance of bonds	86,695,075	—
Capital contributions	304,010	3,369,349
Acquisition and construction of capital assets	(64,218,344)	(36,831,411)
Proceeds from disposition of capital assets	32,333	84,816
Litigation recoveries	124,106	753,076
Increase in accounts payable from restricted assets	7,488,500	1,026,419
Principal paid on capital and other long-term debt	(30,574,094)	(30,044,628)
Payment of bond issue costs	(778,711)	(77,770)
Interest paid on capital and other long-term debt	(52,660,413)	(46,955,892)
Net cash used in capital and related financing activities	(53,587,538)	(108,676,041)
Investing activities		
Proceeds from sales and maturities of investments	76,036,210	51,185,900
Purchase of investments	(50,786,599)	(81,964,024)
Interest received on investments	2,010,224	1,996,981
Net cash provided by (used in) investing activities	27,259,835	(28,781,143)
Net change in cash and cash equivalents	74,585,072	(38,144,218)
Cash and cash equivalents, beginning of year	215,121,173	253,265,391
Cash and cash equivalents, end of year	\$ 289,706,245	\$ 215,121,173

Continued on next page.

Tampa Bay Water
(A Regional Water Supply Authority)

Statements of Cash Flows (continued)

	Year Ended September 30	
	2013	2012
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 63,242,711	\$ 79,031,392
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	25,827,068	25,550,967
Changes in operating assets and liabilities:		
Accounts receivable	213,531	3,722,544
Inventories	(85,205)	(70,870)
Other current assets	(81,851)	(39,078)
Accounts payable and accrued expenses	3,945,666	972,711
Credits due to customers	1,759,425	(1,924,934)
Revenue deferred for rate stabilization	6,091,430	(7,929,766)
Total adjustments	37,670,064	20,281,574
Net cash provided by operating activities	<u>\$ 100,912,775</u>	<u>\$ 99,312,966</u>

Supplemental schedule of noncash investing and financing activities

The Agency recognized a decrease in the fair value of its investments of \$76,864 and \$611,606 in 2013 and 2012, respectively.

See accompanying notes.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements

September 30, 2013

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

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

1. Organization (continued)

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. The System Configuration II projects were completed in Fiscal Year 2012 and there was no additional funding from the District in Fiscal Year 2013. District funding of \$2,288,482 was received under these grants in Fiscal Year 2012.

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 Position

Net position is classified into three components:

- Net investment in capital assets – This component of net position 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 net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted – This component of net position consists of net position 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 position – This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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

Measurement Focus and Basis of Accounting

The Agency is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting in the preparation of its annual financial statements. The accounting and reporting policies of the Agency conform to the accounting rules prescribed by the Governmental Accounting Standards Board (GASB). The Agency follows private sector guidance contained in GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements, which was adopted effective October 1, 2012.

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.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investments

Investments are reported at fair value in the statements of net position, 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 position (Note 6).

Materials and Supplies Inventories

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

Capital Assets

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

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

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

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Water Capacity Rights

Water Capacity Rights represent the Agency's rights in certain wholesale water supply wellfields. The Agency accounts for the Water Capacity Rights in accordance with the provisions of GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that indefinite-lived intangible assets not be amortized, but instead be tested for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Agency has not identified any indicators of impairment relative to the Water Capacity Rights at September 30, 2013 or 2012.

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 2013 or 2012.

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.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

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.

Commitments and Contingencies

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

Deferred Revenue for Rate Stabilization

Under the Amended and Restated Interlocal Agreement and the Master Water Supply Contract, the Board 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.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

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. The Agency adopted the provisions of GASB Statement No. 62 effective October 1, 2012.

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. The Agency adopted the provisions of GASB Statement No. 63 effective October 1, 2012. The implementation of this statement had no impact on the Agency's accounting or financial reporting, but updated the title of certain basic financial statements and captions within the statements.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

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).

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.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

3. Permits and Regulations (continued)

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. 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 removed 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.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

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.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

3. Permits and Regulations (continued)

The following table summarizes the actual annual water quantity sold and billed to the Member Governments of the Agency for the years ended September 30, 2013 and 2012:

Member Government	Annual Water Quantity Sold (mgd)		Amounts Billed	
	2013	2012	2013	2012
Hillsborough County	49.30	49.99	\$ 48,786,711	\$ 47,926,996
City of New Port Richey	2.68	2.44	2,653,012	2,338,800
Pasco County	25.31	24.70	25,046,401	23,678,500
Pinellas County	52.14	53.84	51,593,740	51,623,043
City of St. Petersburg	28.33	28.66	28,031,711	27,476,688
City of Tampa	0.03	4.67	381,307	5,072,040
Total current year water sales	157.79	164.30	\$ 156,492,882	\$ 158,116,067
Peak day production	191.74	221.92		

4. Rate-Making Policies and Procedures

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

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

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

4. Rate-Making Policies and Procedures (continued)

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

	2013	2012
Construction funds	\$ 113,551,626	\$ 88,991,031
Sinking funds	55,100,803	49,472,383
Renewal and replacement funds	15,280,000	13,148,153
Capital improvement funds	10,865,017	11,149,192
Operations and maintenance funds	4,698,683	4,720,037
Debt service reserve funds	73,716,549	67,504,606
Litigation escrow funds	20,608,656	—
	<u>\$ 293,821,334</u>	<u>\$234,985,402</u>

Construction Funds – Construction funds account for unexpended debt proceeds and investment revenue thereon from the Utility System Revenue Bonds, Series 2001B, 2008, and 2013; 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, 2011B, and 2013 bonds.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

5. Restricted Assets (continued)

Renewal and Replacement Funds – Renewal and replacement funds are required for renewal and replacement of the water production, transmission, and treatment facilities and are based on 5% of gross revenues for the preceding fiscal year or such greater or lesser amount as may be 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, 2011B, and 2013.

Litigation Escrow Funds – As part of the supplemental motion to stay execution of final judgment in the HDR litigation case, the escrow agreement between the Agency, HDR, and Regions bank was court approved instead of bond pending disposition. Per the escrow agreement, the funds were held for the express benefit of the beneficiary and were to only be disbursed upon conclusion of the appeal from the Judgment.

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, 2013, the total carrying amount of the Agency's deposits, (unrestricted and restricted), exclusive of petty cash of \$1,450, was \$289,740,795. All of the Agency's deposits with financial institutions are made with depository institutions that are members of the state of Florida's collateral pool, are placed in accounts designated as "public deposit" accounts covered by the collateral pool and, therefore, are considered to be insured.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

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 statements of financial position, 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*.

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 below 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.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

6. Deposits and Investments (continued)

Investments (continued)

Investments made by the Agency (restricted and unrestricted) at September 30, 2013, are summarized below. The investments are summarized by type of investment, and show the maturity, interest rate, fair value, and credit rating.

Investments	Maturities	Interest Rate	Fair Value	Credit Rating	
				S&P	Moody's
U.S. Treasury Notes	12/31/13-8/31/16	0.005 to 3.25	\$ 54,068,218	AA+	Aaa
U.S. Government Agency	8/28/14-3/30/16	0.32 to 0.87	16,015,398	AA+	Aaa
Johnson & Johnson Corporate Note	5/15/2014	1.2	754,088	AAA	Aaa
GE Capital Corporate Note	10/9/15-7/12/16	0.72 to 1.00	1,875,843	AA+	Aa3/A1/Aa2
Caterpillar Financial SE	12/15/14-2/26/16	0.007 to 0.70	1,305,772	A	A2
John Deere Capital Corp	4-17-15-9/4/15	0.72 to 0.90	983,173	A	A2
Toyota Motor Credit Corp Comm Paper	2/18/14	0.25	648,799	A-1+	P-1
Anheuser-Busch Corp Note	7/15/15	0.67 to 0.80	904,068	A	A3
Apple Inc Corp Note	5/3/16	.051	695,100	AA+	Aa1
Toyota Motor Credit Corp Note	5/17/16	0.81	679,401	AA-	Aa3
Bank of New York Mellon Corp Note	10/23/15-3/4/16	.069 to .070	1,145,205	A+	Aa3
JP Morgan Chase & Co Corp. Note	10/15/15	1.11 to 1.14	2,003,820	A	A2
Pepsico Inc. Corp Note	2/16/16	0.007 to 0.70	598,236	A-	A1/Aa3
Wells Fargo & Co Corp Note	7/20/16	0.80	1,354,887	A+	A2
Total investments > 91 days			<u>\$ 83,032,008</u>		

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, 2013.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

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, 2013 and 2012, is \$0 and \$99,440, respectively.

Capital contributions include \$204,569 and \$2,451,041 billed to the District under various grant agreements for the years ended September 30, 2013 and 2012, respectively.

8. Capital Assets

The following are summaries of capital asset changes for the years ended September 30, 2013 and 2012:

	Balance October 1, 2012	Additions	Deletions	Transfer	Balance September 30, 2013
Capital assets, nondepreciable:					
Land	\$ 79,011,824	\$ -	\$ -	\$ -	\$ 79,011,824
Construction-in-progress	70,171,367	68,749,806	44,531,214	-	94,389,959
Software in development	88,809	31,523	-	-	120,332
Total nondepreciable assets	149,272,000	68,781,329	44,531,214	-	173,522,115
Capital assets, depreciable:					
Land improvements	3,294,937	-	-	-	3,294,937
Wells and wellfield improvements	131,040,895	1,233,318	-	-	132,274,213
Water treatment and pumping facilities	630,439,010	36,568,861	66,300	24,004	666,965,575
Transmission mains	335,893,786	3,779,381	-	-	339,673,167
Buildings	17,588,850	1,958,602	6,070	(24,004)	19,517,378
Reservoir	160,712,121	81,567	-	-	160,793,688
Other equipment and software	17,521,873	1,410,398	660,180	-	18,272,091
Total depreciable capital assets	1,296,491,472	45,032,127	732,550	-	1,340,791,049
Less accumulated depreciation:					
Land improvements	490,964	91,538	-	-	582,502
Wells and wellfield improvements	51,284,540	2,902,043	-	-	54,186,583
Water treatment and pumping facilities	105,538,287	14,481,420	47,521	200	119,972,386
Transmission mains	47,438,984	4,623,682	-	-	52,062,666
Buildings	3,201,215	557,294	6,070	(200)	3,752,239
Reservoir	11,157,206	1,737,889	-	-	12,895,095
Other equipment and software	9,974,515	1,433,200	645,459	-	10,762,256
Total accumulated depreciation	229,085,711	25,827,066	699,050	-	254,213,727
Total depreciated capital assets, net	1,067,405,761	19,205,061	33,500	-	1,086,577,322
Total capital assets, net	\$ 1,216,677,761	\$ 87,986,390	\$ 44,564,714	\$ -	\$ 1,260,099,437

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

8. Capital Assets (continued)

	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

Deletions from construction-in-progress in 2013, of \$44,531,215 consist of project costs expensed of \$525,984 and completed projects transferred to capital asset accounts of \$43,992,920. 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. 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 \$25,827,068 and \$25,550,967 for the years ended September 30, 2013 and 2012, respectively.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

8. Capital Assets (continued)

Commitments on construction contracts at September 30, 2013 and 2012, were approximately \$116,803,806 and \$179,475,587, respectively.

Interest is capitalized net of earnings from related tax-exempt debt proceeds. Interest cost incurred was \$51,835,568 and \$50,983,112 for the years ended September 30, 2013 and 2012, respectively. Of the interest cost incurred, \$6,074,337 and \$3,987,122 were capitalized for the years ended September 30, 2013 and 2012, respectively, offset by investment revenue earned on tax-exempt debt funds restricted for construction of \$976,883 and \$629,725 for the respective years.

9. Accounts Payable

Accounts payable and accrued expenses at September 30, 2013 and 2012, consist of amounts owed for operating and payroll expenses as follows:

	<u>2013</u>	<u>2012</u>
Accounts payable	\$ 11,024,578	\$ 6,968,567
Accrued payroll expenses	<u>2,236,017</u>	<u>2,346,363</u>
	<u>\$ 13,260,595</u>	<u>\$ 9,314,930</u>

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.

Series 2013 Bonds

On February 7, 2013, the Agency issued \$75,295,000 of Utility System Revenue Bonds, Series 2013. The 2013 bonds were issued at a premium of \$11,400,075, bear interest at 3.5% to 5% and mature 2032 through 2038. After issuance costs of \$774,097, capitalized interest of \$4,709,035 and debt service reserve funding of \$6,211,943, net proceeds of \$75,000,000 were deposited to a construction fund for funding of design and construction of various capital projects.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

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

Long-term debt and other noncurrent liabilities as of September 30, 2013 and 2012, consist of:

	2013	2012
Utility System Refunding Revenue Bonds, Series 2013		
3.5% to 5% serial bonds due annually at varying amounts through 2034, interest payable semiannually	\$ 29,050,000	—
5% term bonds, due October 1, 2034, subject to mandatory redemption 2035 through 2038, interest payable semiannually	46,245,000	—
Total Series 2013	75,295,000	—
Utility System Refunding Revenue Bonds, Series 2011B		
2% to 5% serial bonds due annually at varying amounts through 2019, interest payable semiannually	1,060,000	\$ 1,220,000
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	148,435,000	148,595,000
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	43,000,000	43,285,000
4% serial bonds (retail coupon) due annually at varying amounts through 2024, interest payable semiannually	4,540,000	4,540,000
Total Series 2011A	140,050,000	140,335,000
Utility System Refunding Revenue Bonds, Series 2011		
5% forward delivery bonds due annually at varying amounts through 2021, interest payable semiannually	96,320,000	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.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

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

	2013	2012
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	\$ 10,295,000	\$ 13,310,000
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	67,940,000	70,955,000
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	159,720,000	164,135,000
Utility System Refunding Revenue Bonds, Series 2004		
3.0% to 5.25% serial bonds, due annually at varying amounts through 2019, interest payable semiannually	79,215,000	88,875,000
Utility System Revenue Bonds, Series 2001A		
4.25% to 5.25% serial bonds, due annually at varying amounts through 2024, interest payable semiannually	—	—
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	50,000,000
Total Bonds	985,330,000	935,895,000
Acquisition Credits		
\$852,630 due monthly, deducted from water revenue billed to Member Governments, including interest at 4.865%, through 2029, interest calculated semiannually	106,080,100	110,794,193
Total debt outstanding	1,091,410,100	1,046,689,193
Less current maturities	(32,056,599)	(30,574,094)
	1,059,353,501	1,016,115,099
Add unamortized bond premium	76,344,434	75,844,431
Less unamortized losses on bond refundings	(61,129,966)	(69,198,744)
Total long-term debt	\$ 1,074,567,969	\$ 1,022,760,786

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

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

The Agency's changes in noncurrent liabilities for the fiscal years ended September 30, 2013 and 2012, were as follows:

	Balance October 1, 2012	Additions	Deletions	Balance September 30, 2013	Due Within One Year
2001A bonds	\$ 50,000,000	\$ —	\$ —	\$ 50,000,000	\$ —
2004 bonds	88,875,000	—	9,660,000	79,215,000	10,145,000
2005 bonds	164,135,000	—	4,415,000	159,720,000	4,640,000
2006 Bonds	70,955,000	—	3,015,000	67,940,000	3,145,000
2008 Bonds	101,375,000	—	—	101,375,000	—
2010 Bonds	66,980,000	—	—	66,980,000	—
2011 Bonds	104,645,000	—	8,325,000	96,320,000	8,735,000
2011A Bonds	140,335,000	—	285,000	140,050,000	290,000
2011B Bonds	148,595,000	—	160,000	148,435,000	165,000
2013 Bonds	—	75,295,000	—	75,295,000	—
Acquisition credits	110,794,193	—	4,714,093	106,080,100	4,936,599
Unamortized bond issue premium	75,844,431	11,400,075	10,900,072	76,344,434	—
Deferred refunding losses	(69,198,744)	—	(8,068,778)	(61,129,966)	—
	1,053,334,880	86,695,075	33,405,387	1,106,624,568	32,056,599
Less current portion	(30,574,094)	(32,056,599)	(30,574,094)	(32,056,599)	—
Total long-term debt	1,022,760,786	54,638,476	2,831,293	1,074,567,969	—
Legal settlement	20,163,800	802,464	—	20,966,264	20,966,264
Deferred revenue	21,058,204	5,349,503	5,039,539	21,368,168	—
Total noncurrent liabilities	\$ 1,063,982,790	\$ 60,790,443	\$ 7,870,832	\$ 1,116,902,401	\$ 53,022,863

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

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

	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	<u>\$1,074,640,319</u>	<u>\$ (7,864,793)</u>	<u>\$ 2,792,736</u>	<u>\$1,063,982,790</u>	<u>\$ 30,574,094</u>

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

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

Annual debt service requirements to maturity for all long-term debt as of September 30, 2013, are as follows:

	Principal	Interest	Total
2014	\$ 27,120,000	\$ 48,933,566	\$ 76,053,566
2015	27,065,000	47,603,723	74,668,723
2016	26,770,000	46,250,223	73,020,223
2017	73,260,000	43,814,091	117,074,091
2018	96,280,000	39,723,773	136,003,773
2019–2023	299,070,000	140,136,112	439,206,112
2024–2028	152,005,000	87,619,897	239,624,897
2029–2033	81,005,000	59,751,353	140,756,353
2034–2038	164,695,000	30,374,475	195,069,475
2039	38,060,000	951,500	39,011,500
	<u>\$ 985,330,000</u>	<u>\$ 545,158,713</u>	<u>\$ 1,530,488,713</u>

Revenues Pledged

The Agency has pledged its Net Revenues (Gross Revenues less Operating Expenses), all as defined by the master bond resolution, to repay its \$985,330,000 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 \$75,447,974 in 2013, and \$73,084,766 in 2012. 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, 2013 and 2012, the Agency complied with all debt covenants.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

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, 2013 and 2012, the principal amount outstanding of the 1989A defeased bonds (refunded in 1998) and the 1995 defeased bonds (refunded in 1998) is \$12,635,000 and \$17,614,466 respectively (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.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

11. Employee Retirement Plan (continued)

Under the defined benefit plan, employees who enrolled before July 1, 2011, and 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. Employees enrolled on or after July 1, 2011, and retire at or after age 65 with 8 years of credited service, or with 33 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 eight highest fiscal years of salary earned during credited service. Vested employees may retire before age 65 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). 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. Effective July 1, 2012, the rates were at 5.18%, 6.30%, and 5.44% for the regular class, senior management class, and drop participants, respectively. In 2013, legislation raised the plan rates for the plan year beginning July 1, 2013, to 6.95%, 18.31%, and 12.84% for the regular class, senior management class, and drop participants, respectively. The Agency's expense for the years ended September 30, 2013 and 2012, were \$493,347 and \$419,558, 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, 2012.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

11. Employee Retirement Plan (continued)

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, 2012, there were four retirees and two eligible dependents receiving post-employment health care benefits. For the year ending September 30, 2013, the Agency provided required contributions of \$78,490 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 \$34,953. For the year ending September 30, 2012, the Agency provided required contributions of \$56,450 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 \$81,754. Required contributions are based on projected pay-as-you-go financing.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

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, 2013 and 2012, the amount actually contributed to the plan, and changes in the Agency's net OPEB obligation:

	Year Ending September 30	
	2013	2012
Normal cost	\$ 51,792	\$ 35,108
Amortization of unfunded accrued liability	24,851	18,246
Interest	994	2,134
Annual required contribution	77,637	55,488
Interest on net OPEB obligation (NOO)	7,964	8,976
Amortization of NOO	(7,111)	(8,014)
Total expense or annual OPEB cost (AOC)	78,490	56,450
Actual receipts (contribution) toward OPEB cost	(34,953)	(81,754)
Change in NOO	43,537	(25,304)
NOO beginning of year	199,094	224,398
NOO end of year	<u>\$ 242,631</u>	<u>\$ 199,094</u>

The Agency's NOO is included in Accounts Payable and Accrued Expenses in the statements of net position. 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
9/30/2011	\$ 53,019	\$ 61,387	115.8%	\$ 224,398
9/30/2012	56,450	81,754	144.8	199,094
9/30/2013	78,490	34,953	44.5	242,631

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

12. Post-Employment Health Care Benefits (continued)

Funded Status and Funding Progress – As of September 30, 2013, the actuarial accrued liability for benefits was \$695,815 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$695,815. The covered payroll (annual payroll for active participating employees) was \$8,625,056 for the year ending September 30, 2013, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 8.1% (See Required Supplementary Information).

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

The Agency's initial OPEB actuarial valuation for the 2012-2013, 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 2.75% per year and an annual health care cost trend rate of 8.0% pre-Medicare initially for the 2012-2013, fiscal year, reduced to an ultimate rate of 5.0% for the fiscal year ending September 30, 2030. 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.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

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 15, 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.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

14. Commitments and Contingencies (continued)

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 \$40,890 and \$40,064 in 2013 and 2012, respectively. Real estate taxes of \$131,305 and \$135,691 were also paid in 2013 and 2012, 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, 2013, are as follows:

	Desalination Plant Land Lease
2014	\$ 41,380
2015	41,503
2016	41,503
2017	41,503
2018	41,503
2019-2034	664,045
	<u>\$ 871,437</u>

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

14. Commitments and Contingencies (continued)

Operating Leases (continued)

In 2013, the Agency entered into a three-year operating lease for temporary office space in Hillsborough County. The lease is non-cancellable during the initial term of 36 months. After the initial term, the lease can be cancelled with 30 days written notice or can be extended on a month-to-month basis until such 30 day notice is given. Rental expense on this lease was \$2,113 in 2013, with initial set up costs of \$42,017.

The aggregate future minimum operating lease payments for the year ending September 30, 2013, are as follows:

	<u>South Office Building Lease</u>
2014	\$ 23,862
2015	25,356
2016	23,243

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 \$6,000,755 and \$6,387,711 for 2013 and 2012, respectively.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

14. Commitments and Contingencies (continued)

Operations and Maintenance Agreements (continued)

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 \$6,597,825 and \$6,429,731 for the years ended September 30, 2013 and 2012, 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 \$147,837 and \$149,326 for the years ended September 30, 2013 and 2012, 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 \$319,338 and \$674,791 for the years ended September 30, 2013 and 2012, respectively.

In October 2012, the Agency entered into an Operation and Maintenance Services Agreement with CH2MHILL for operation and maintenance of the Lithia Hydrogen Sulfide Removal Facility beginning January 1, 2013, and terminating September 30, 2014. Upon termination, the agreement is renewable for three years, one year at a time or any portion thereof. This agreement provides for payment of a monthly service fee and certain pass-through costs. Expense under this contract was \$224,401 for the year ended September 30, 2013.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

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 \$162,366,875, of which \$41,630,885 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 \$129,376,976 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. Full notice to proceed for construction was issued February 2013. Initial filling is scheduled to begin late July 2014, and construction completed in late 2014. Also, see Note 15, Litigation Settlements.

Tampa Bay Water
(A Regional Water Supply Authority)

Notes to Financial Statements (continued)

15. Litigation Settlements

In 2008, the Agency filed suit for damages related to the abnormal cracking of the soil-cement interior facing of the Regional Reservoir. 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, 2013, The Agency has recorded an estimated liability for these fees and costs plus accrued interest in the amount of \$20,966,264 and \$20,163,800 as of September 30, 2013 and 2012, respectively. The full amount of the judgment was paid in full to HDR in November, 2013.

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 and was paid to Tampa Bay Water in 2013.

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

Tampa Bay Water
(A Regional Water Supply Authority)

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

September 30, 2013

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
10/01/2012	—	695,815	695,815	—	8,625,056	8.1

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

Compliance Section

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

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), which comprise the statements of statements of net position as of September 30, 2013 and 2012, and the related statements of revenue, expenses and change in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 4, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Agency's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Building a better
working world

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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

February 4, 2014

Report of Independent Certified Public Accountants on 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, the financial statements of Tampa Bay Water, A Regional Water Supply Authority (the Agency), which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report, with an unmodified opinion thereon, dated February 4, 2014.

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

\$72,295,000 Utility System Refunding Revenue Bonds, Series 2013



Building a better
working world

However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Agency's noncompliance with the above referenced terms, covenants, provisions, or conditions of Section 4 and 5 of the Master Bond Resolution dated August 31, 1998, in so far as they relate to accounting matters.

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

Ernst & Young LLP

February 4, 2014

Tampa Bay Water
(A Regional Water Supply Authority)

**Schedule of Debt Service Coverage – Utility System Revenue Bonds,
Series 2001A, 2004, 2005, 2006, 2008, 2010, 2011,
2011A, 2011B and 2013**

	Year Ended September 30	
	2013	2012
Revenue:		
Actual water demand (mgd)	157.7900	164.3000
Uniform rate (per 1,000 gallons)	\$ 2.5590	\$ 2.5590
Revenue from sales	\$ 156,492,882	\$ 158,116,067
Transfer (to) from Rate Stabilization Fund	(6,091,430)	7,929,766
Purchase price amortization credit	150,401,452	166,045,833
Litigation and insurance recoveries	(10,231,557)	(10,231,557)
Arbitrage recoveries	12,733	864,450
Investment revenue – unrestricted (Note 1)	3,894,212	–
Total revenue	899,766	1,235,692
Operation and maintenance expenditures (Note 2)	144,976,605	157,914,418
Net revenue	(64,206,886)	(81,880,399)
	\$ 80,769,719	\$ 76,034,019
Annual debt service payments Series 2001A bonds	\$ 3,000,000	\$ 3,000,000
Annual debt service payments Series 2004 bonds	14,251,787	14,249,787
Annual debt service payments Series 2005 bonds	13,374,425	13,370,175
Annual debt service payments Series 2006 bonds	6,211,854	6,202,454
Annual debt service payments Series 2008 bonds	5,068,750	5,068,750
Annual debt service payments Series 2010 bonds	3,331,800	3,331,800
Annual debt service payments Series 2011 bonds	13,551,000	13,557,250
Annual debt service payments Series 2011A bonds	6,923,550	6,924,250
Annual debt service payments Series 2011B bonds	7,382,100	7,380,300
Annual debt service payments Series 2013 bonds	2,352,708	–
Total debt service (Note 4)	75,447,974	73,084,766
Required deposit to Capital Improvement Fund	1,727,032	976,653
Required deposit to Renewal and Replacement Fund	3,533,711	775,437
Total debt service and reserve requirements	\$ 80,708,717	\$ 74,836,856
Debt service and reserve coverage (times)	1.00	1.02
Fund balance (Note 3)	\$ 27,873,673	\$ 26,078,117
Net revenue plus fund balance	\$ 108,643,392	\$ 102,112,136
Debt service coverage (times) (Note 4)	1.44	1.40

Note 1: Investment revenue does not include interest on construction funds of \$1,002,959 and \$17,213 in 2013 and 2012, respectively, or realized investment losses of \$(1,211,030) or unrealized investment losses of \$(76,864) and \$(611,606) in 2013 and 2012, respectively.

Note 2: Operation and maintenance expenditures include capital expenditures for maintenance of the existing system of \$2,039,194 and \$253,124 in 2013 and 2012, respectively. Expenditures also include litigation settlement of \$836,019 and \$20,163,800 in 2013 and 2012, respectively.

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.

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, 2013, in accordance with auditing standards generally accepted in the United States, we considered its internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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 was for the limited purpose described in the first paragraph 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 that we consider to be material weaknesses, as defined above.

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.



Building a better
working world

As part of our audit procedures, we have applied financial condition assessment procedures pursuant to Rule 10.556(7), *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*.

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 communication is intended solely for the information and use of management, the Agency, the Agency's member governments, others within the organization and 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

February 4, 2014

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2013 Ernst & Young LLP.
All Rights Reserved.

ey.com

