Financial Statements and Compliance Section

Tampa Bay Water
(A Regional Water Supply Authority)
Years Ended September 30, 2014 and 2013
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, 2014 and 2013

Contents

Ernst & Young LLP
Suite 1200
401 East Jackson Street
Tampa, FL 33602

Tel: +1 813 225 4800
Fax: +1 813 225 4711
ey.com

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, 2014 and 2013, 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.

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

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, 2014 and 2013, 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.

Adoption of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities

As discussed in Note 2 to the financial statements, the Agency restated its financial statements as a result of the adoption of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective October 1, 2012. Our opinion is not modified with respect to this matter.

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 18 and page 60, 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 on page 65 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated January 21, 2015, 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

January 21, 2015

Tampa Bay Water
(A Regional Water Supply Authority)

Management's Discussion and Analysis

Years Ended September 30, 2014 and 2013

This section of Tampa Bay Water, A Regional Water Supply Authority's (the Agency) annual financial report presents management's discussion and analysis of the Agency's financial performance during the fiscal years ended September 30, 2014 and 2013. 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 $1.30 billion to provide water to its six member governments. Financial data for the years ended September 30, 2014 and 2013 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 2014 and 2013 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 (the 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 net position increased $21.1 million or 2.83% in fiscal 2014, reflecting, most notably, a $44.8 million increase in capital assets.

- The Agency's restricted assets, consisting of cash, investments, and grants receivable, decreased by $11.4 million or 20.8% from 2013 to 2014, largely due to the payout of the $20.9 million for the HDR litigation settlement.

Financial Highlights (continued)

- There were no capital contributions 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 slight decrease in water production from 157.8 mgd in 2013 to 157.0 mgd in 2014. Increased rainfall and conservation efforts contributed to the decreased demand.

- During 2014, the Agency's revenue from water sales was $155.3 million. In addition, $5.8 million was transferred from the Rate Stabilization Account in accordance with contractual obligations with the Agency's members and Agency accounting policies, resulting in an increase in revenue recognized of $10.8 million from 2013 to 2014.

- The Agency's operating expenses increased by $2.4 million or 3.85% from 2013 to 2014, as a result of its 2014 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 Reservoir's flat-plate soil-cement as an erosion control measure. The procurement process was completed in 2011, and a permanent fix is currently near completion with an initial filling in late July 2014, and FDEP approval in November 2014 to fully operate the Reservoir.

Overview of the Financial Statements

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

Required Financial Statements

The financial statements of the Agency use accounting methods similar to those used by private sector companies. The statements of net position include all of the Agency's assets and deferred outflows of resources and liabilities and deferred inflows of resources 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 statements of net position also provide 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 statements 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 statements 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.

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 2014	FY 2013 *(Restated)*	FY 2012
Assets			
Current non-restricted assets	**$ 15.9**	$ 40.4	$ 46.2
Current restricted assets	**210.7**	293.8	235.0
Non-current assets	**1,688.0**	1,630.8	1,594.8
Total assets	**1,914.6**	1,965.0	1,876.0
Deferred outflows			
Loss on refunding of debt	**53.1**	61.1	69.2
Liabilities and net position			
Liabilities:			
Long-term debt outstanding	**1,092.7**	1,135.7	1,092.0
Other liabilities	**78.8**	109.4	92.7
Total liabilities	**1,171.5**	1,245.1	1,184.7
Deferred inflows			
Rate stabilization	**30.9**	36.8	30.7
Net position:			
Net investment in capital assets	**686.2**	671.9	663.1
Restricted	**43.4**	54.8	29.4
Unrestricted	**35.7**	17.5	37.3
Total net position	**$ 765.3**	$ 744.2	$ 729.8

Financial Analysis of the Agency (continued)

As shown in the table above, total net position increased $21.1 million or 2.83% to $765.3 million in fiscal 2014 from $744.2 million in fiscal 2013. The major component of net position is the net investment in capital assets which increased by $14.3 million during the fiscal year. This increase results primarily from a $44.8 million increase in fixed assets, net of depreciation expense.

Total net position increased $14.4 million or 1.97% to $744.2 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 $8.8 million during the fiscal year. This increase results primarily from a $43.4 million increase in fixed assets, net of depreciation expense.

Further examination of net position shows that restricted net position (those established by debt covenants, enabling legislation, or other legal requirements) experienced a decrease of $11.4 million in fiscal 2014, largely due to the payout of the $20.9 million HDR litigation.

From 2012 to 2013, restricted net position increased $25.4 million. This increase was primarily due to funding a $20.6 million escrow account for the HDR litigation settlement.

Unrestricted net position increased by $18.2 million from 2013 to 2014 and represent the funds generated from current year activities that are available to finance day-to-day operations.

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.

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 2014	FY 2013 *(Restated)*	FY 2012
Operating revenues	**$ 161.2**	$ 150.4	$ 166.0
Operating expenses	**(63.7)**	(61.3)	(61.5)
Operating income before depreciation	**97.5**	89.1	104.5
Depreciation	**(24.8)**	(25.8)	(25.5)
Operating income	**72.7**	63.3	79.0
Investment revenue, net of realized and unrealized loss of $0.2 and $1.3 in 2014 and 2013, respectively	**0.8**	0.6	1.2
Less capitalized amount	**(0.1)**	(1.0)	(0.6)
Interest expense	**(50.9)**	(51.8)	(50.9)
Less capitalized amount	**3.3**	6.0	3.9
Loss on disposal of capital assets, net	**(4.7)**	–	(2.7)
Arbitrage recovery	**–**	3.9	–
Litigation recoveries (settlements)	**–**	(0.8)	(19.3)
Income before contributions	**21.1**	20.2	10.6
Capital contributions	**–**	0.2	2.5
Change in net assets	**21.1**	20.4	13.1
Total net position – beginning	**744.2**	729.8	716.7
Cumulative effect of adoption of GASB Statement No. 65	**–**	(6.0)	–
Total net position – beginning, as restated	**744.2**	723.8	716.7
Total net position – ending	**$ 765.3**	$ 744.2	$ 729.8

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.

Financial Analysis of the Agency (continued)

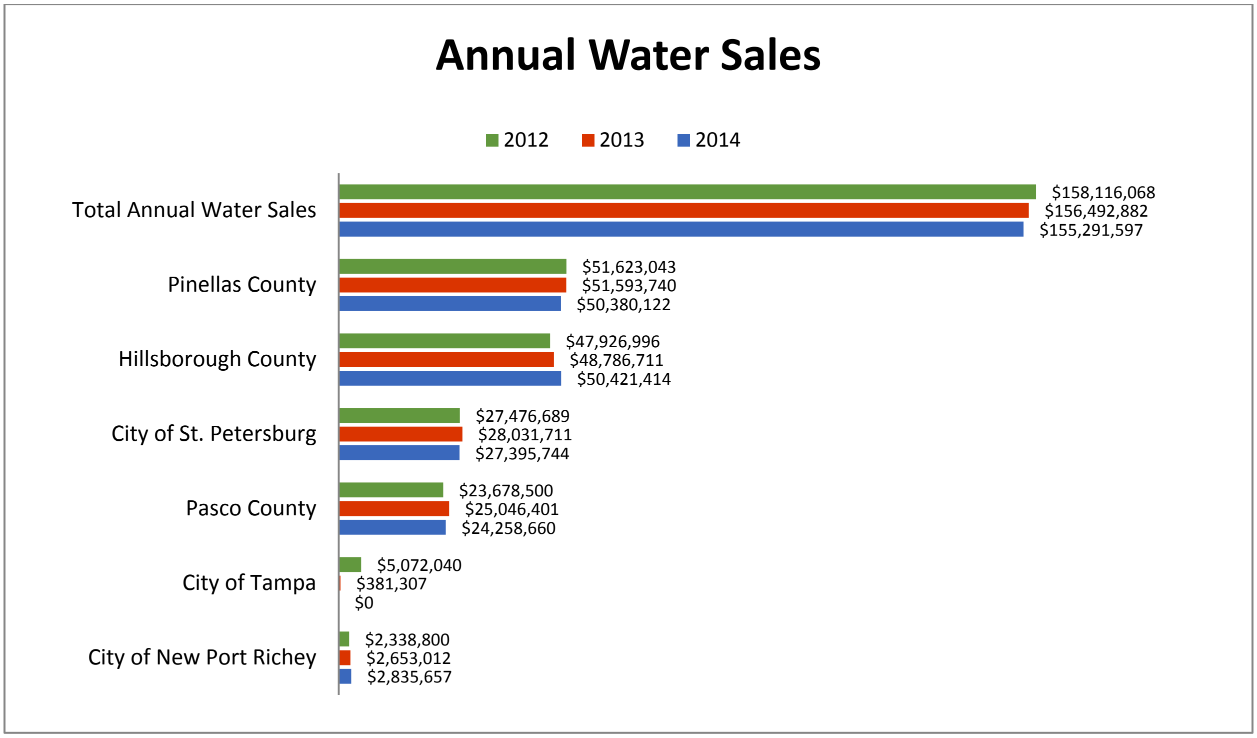
As shown above, 2014 income before contributions increased from 2013 by $0.9 million or 4.61%.

In 2013 income before contributions increased from 2012 by $9.6 million or 90.6%. The overall increase in net position of $20.4 million results primarily from the $20.2 million in income before contributions.

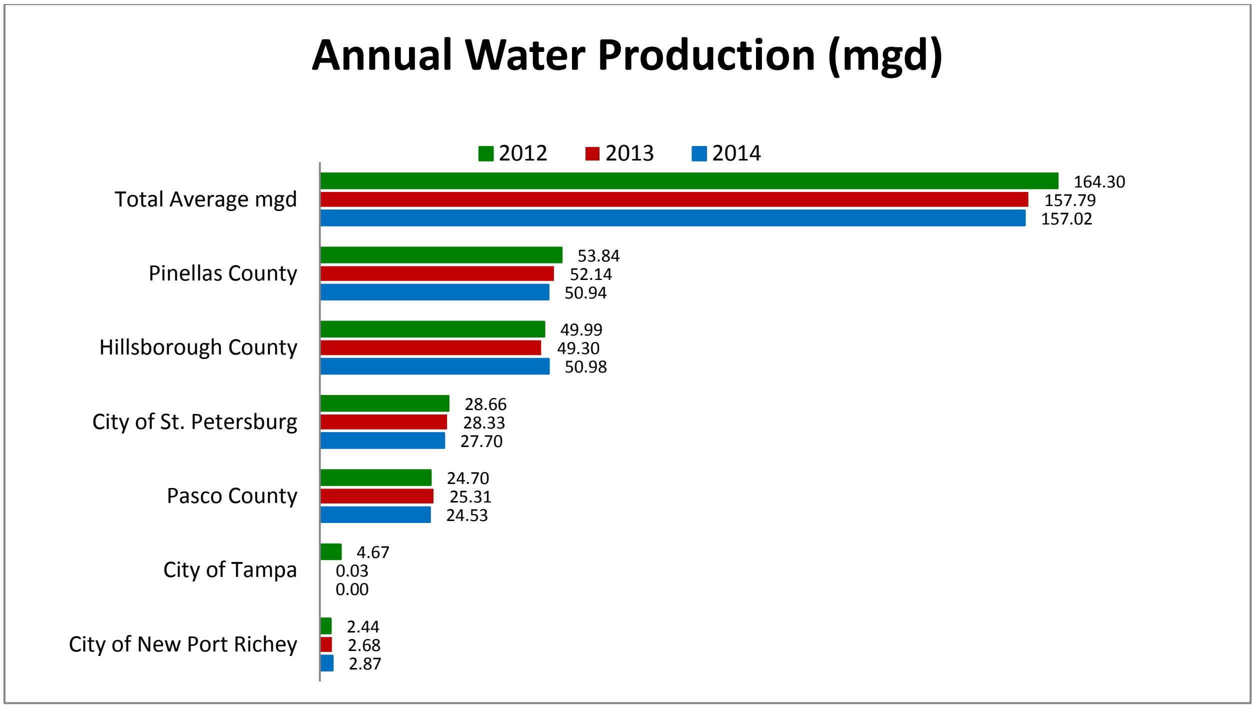
As illustrated in the following charts, total water sales billed to Member Governments were $155.3 million in 2014 compared $156.5 million in 2013 and $158.1 million in 2012. Demand decreased by 0.49% from 157.79 mgd (millions of gallons per day) in 2013 to 157.02 mgd in 2014. This followed a decrease in demand of 3.96% from 164.3 mgd in 2012. 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 0.03 mgd in 2013 to 0.0 mgd in 2014. Water sales to Tampa had decreased from 4.67 mgd in 2012 to 0.03 mgd in 2013 as a result of the impact of a drier rainy season.

Amounts billed differ from total water sales revenue by the amount that is collected but deferred to subsequent periods or recognized from deferred inflows – rate stabilization of previous periods. In 2014, deferred inflows – rate stabilization decreased by $11.9 million from 2013 with a corresponding increase in revenue as a result of budgeted use of rate stabilization funds to meet future operating expenses. Deferred inflows – rate stabilization increased by $6.1 million and decreased by $7.9 million as the result of budgeted use of rate stabilization funds for operations in 2013 and 2012, respectively.

Financial Analysis of the Agency (continued)



Financial Analysis of the Agency (continued)



The Agency's operating expenses increased by $2.4 million or 3.85% from 2013 to 2014, as a result of the Agency's continued focus to fund projects with pay as you go funding.

In its 2013 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 2013 declined by $0.2 million from 2012.

Depreciation expense decreased $1.0 million in 2014 from 2013, due in part to a write off of assets and the corresponding depreciation. 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.

Financial Analysis of the Agency (continued)

Concerns over the stability of financial markets continue to delay investing in higher yielding investments. Investment revenue after capitalization increased by $1.1 million from 2013 to 2014. Investment revenue after capitalization decreased by $1.0 million from 2012 to 2013, primarily due to the impact of terminating certain derivative instruments. The decrease is due primarily to lower cash and investment balances related 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 increased $1.8 million net of interest capitalized in 2014. This net increase is due primarily to a $2.7 million decrease in the portion capitalized resulting from decreased construction project activity. Interest expense decreased $1.2 million net of interest capitalized in 2013 and is due primarily to a $2.1 million increase in the portion capitalized resulting from increased construction project activity offset by a $0.9 million decrease 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.

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 2014, the net loss on disposal of capital assets of $4.7 million resulted primarily from the disposal of certain equipment related to the Reservoir. In 2013, the net loss resulted primarily from the write-off of costs associated with various small assets.

In 2012, the net loss resulted primarily from the write-off of costs associated with a future surface water expansion study which was determined not to be feasible for further development.

Capital Assets

The Agency had invested $1,304.9 million, $1,260.1 million, and $1,216.7 million at September 30, 2014, 2013, and 2012, respectively, in a broad range of infrastructure including wellfields, water treatment and pumping facilities, transmission mains, buildings, a reservoir, and other maintenance and administration equipment as shown in Table A-3. The Agency has an additional $318.1 million invested in water rights at the various wellfields.

Financial Analysis of the Agency (continued)

Table A-3

Capital Assets
(In Millions of Dollars)

	FY 2014	FY 2013	FY 2012
Land and improvements	**$ 82.3**	$ 82.3	$ 82.3
Wells and wellfield improvements	**132.5**	132.3	131.0
Water treatment and pumping facilities	**671.6**	667.0	630.5
Transmission mains	**339.7**	339.7	335.9
Buildings	**19.5**	19.5	17.6
Reservoir	**155.7**	160.8	160.7
Other equipment and software	**18.9**	18.2	17.5
	1,420.2	1,419.8	1,375.5
Less accumulated depreciation	**277.7**	254.2	229.1
	1,142.5	1,165.6	1,146.4
Construction-in-progress:			
Water treatment plants and booster stations	**4.0**	2.1	21.6
Transmission mains	**1.1**	0.2	0.2
Surface water sources and pumping facilities	**138.8**	74.3	26.4
Wellfields and improvements	**8.4**	7.9	11.4
Desalination facilities	**10.1**	9.9	9.7
Other supply and infrastructure	**–**	–	0.9
Software in development	**–**	0.1	0.1
	162.4	94.5	70.3
Capital assets, net	**$ 1,304.9**	$ 1,260.1	$ 1,216.7

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 2014, construction-in-progress increased $67.9 million over 2013 largely due to increased construction activity on the Reservoir.

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

Bond Ratings

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.

Limitations on Debt

Bond Covenants allow for the issuance of additional debt, on parity, as to lien on the net revenues of the Agency, provided certain net earnings ratios are met. The major criteria are: (1) that the net revenues (as defined in the Covenants) for any 12 consecutive months selected by the issuer, of the 24 months immediately preceding the issuance of the additional bonds, together with the fund balance (as defined in the Covenants) on the last day of such 12-month period, were equal to at least 125% of the debt service on the outstanding bonds during such 12-month period and (2) the net revenues for such 12-month period were equal to at least 100% of: (a) the debt service due on the outstanding bonds for the 12-month period, (b) any required deposit to the Renewal and Replacement Fund, and (c) any required deposit to the Reserve Fund. The Agency is in compliance with all required financial and nonfinancial debt covenants.

Financial Analysis of the Agency (continued)

Table A-4

Cost of Capital

	Debt Balance	Average Coupon Rate
	(In Millions)	
2001A Bonds	$ 50.0	5.93%
2004 Bonds	69.1	5.25
2005 Bonds	155.1	5.50
2006 Bonds	64.8	4.57
2008 Bonds	101.4	5.00
2010 Bonds	67.0	4.97
2011 Bonds	87.6	5.00
2011A Bonds	139.7	4.83
2011B Bonds	148.2	4.88
2013 Bonds	75.3	4.80
	$ 958.2	

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 1.51, 1.44, and 1.40 at September 30, 2014, 2013, and 2012, respectively. These coverage ratios are another indicator of the Agency's financial strength and future borrowing capability.

Financial Analysis of the Agency (continued)

Table A-5

Debt Coverage Ratio
(In Millions of Dollars)

	FY 2014	FY 2013	FY 2012
Revenue from sales	**$ 161.2**	$ 150.4	$ 166.0
Less: Purchase price amortization credit	**(10.2)**	(10.2)	(10.2)
Litigation and insurance recoveries	**–**	–	0.9
Arbitrage recoveries	**–**	3.9	–
Investment revenue – unrestricted *(Note 1)*	**0.6**	0.9	1.2
Total revenue	**151.6**	145.0	157.9
Operation and maintenance expenditures *(Note 2)*	**(66.8)**	(64.2)	(81.9)
Net revenue for coverage calculation	**$ 84.8**	$ 80.8	$ 76.0
Total debt service on bonds	**$ 75.3**	$ 75.4	$ 73.1
Required deposit to Capital Improvement Fund	**6.0**	1.7	0.9
Required deposit to Renewal and Replacement Fund	**2.6**	3.5	0.8
Total debt service and reserve requirements	**$ 83.9**	$ 80.6	$ 74.8
Debt service and reserve coverage (times)	**1.01**	1.00	1.02
Fund balance *(Note 3)*	**29.0**	27.8	26.1
Net revenue plus fund balance	**$ 113.8**	$ 108.6	$ 102.1
Debt service coverage (times)	**1.51**	1.44	1.40

Note 1: Investment revenue does not include interest on construction funds of $0.4 million, $1.0 million and $1.02 million in 2014, 2013, and 2012, respectively, or realized investment losses of $(0.3) million and $(1.2) million in 2014 and 2013, respectively, or unrealized investment gains of $0.09 million in 2014 and unrealized losses of $(0.08) million in 2013.

Note 2: Operation and maintenance expenditures include capital expenditures for maintenance of the existing system of $1.6 million, $2.0 million and $0.3 million in 2014, 2013, and 2012, respectively. Expenditures also include litigation settlement of $0.8 million in 2013.

Note 3: Fund balance is defined by the Bond Resolution and is calculated as of the prior year end in accordance with the Bond Resolution.

Financial Analysis of the Agency (continued)

Economic Factors and Next Year's Budget and Rates

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

The Agency's Board of Directors and management considered many factors when setting the fiscal year 2015 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 2015 is $2.5590 per thousand gallons which is consistent with the 2014 and 2013 rates. Though the budgeted expenditures for 2015 increased by $0.7 million or 0.42% from the 2014 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 2015.

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 2014	2013
Assets		*(Restated)*
Current assets:		
Non-restricted assets:		
Cash and cash equivalents	**$ 256,399**	$ 11,240,495
Accounts receivable from sale of water	**10,193,216**	7,837,787
Interest receivable	**120,198**	211,048
Investments	**4,075,518**	15,914,116
Other accounts receivable	**95,558**	4,065,776
Inventories	**875,968**	887,765
Other current assets	**237,612**	247,999
Total non-restricted assets	**15,854,469**	40,404,986
Restricted assets:		
Cash and cash equivalents	**210,652,401**	278,465,750
Interest receivable	**7**	137,109
Investments	**–**	15,218,475
Total restricted assets	**210,652,408**	293,821,334
Total current assets	**226,506,877**	334,226,320
Noncurrent assets:		
Investments, non-restricted	**64,491,004**	51,899,417
Capital assets, net	**1,304,896,148**	1,260,099,437
Water capacity rights	**318,058,360**	318,058,360
Capitalizable bond issue costs, net of accumulated amortization of $890,261 and $815,375 as of September 30, 2014 and 2013, respectively	**622,906**	697,792
Total noncurrent assets	**1,688,068,418**	1,630,755,006
Total assets	**1,914,575,295**	1,964,981,326
Deferred outflows		
Loss on refunding of debt	**53,061,188**	61,129,966

Statements of Net Position (continued)

	September 30	
	2014	**2013**
Liabilities		*(Restated)*
Current liabilities:		
Accounts payable and accrued expenses	**$ 11,445,360**	$ 13,017,964
Credits due to customers	**1,964,404**	3,787,779
Litigation settlement	**–**	20,966,264
Total current liabilities	**13,409,764**	37,772,007
Current liabilities payable from restricted assets:		
Construction funds accounts payable	**8,675,432**	14,577,127
Accrued interest payable	**24,136,158**	24,797,408
Current portion of long-term debt	**32,238,062**	32,056,599
Total current liabilities payable from restricted assets	**65,049,652**	71,431,134
Noncurrent liabilities:		
Long-term debt, net of current portion	**1,092,701,833**	1,135,697,935
Other noncurrent liabilities	**275,460**	242,631
Total noncurrent liabilities	**1,092,977,293**	1,135,940,566
Total liabilities	**1,171,436,709**	1,245,143,707
Deferred inflows		
Rate stabilization	**30,940,585**	36,790,381
Net position		
Net investment in capital assets	**686,131,584**	671,904,961
Restricted	**43,407,942**	54,772,859
Unrestricted	**35,719,663**	17,499,384
Total net position	**$ 765,259,189**	$ 744,177,204

See accompanying notes.

Tampa Bay Water
(A Regional Water Supply Authority)

Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended September 30	
	2014	**2013**
		(Restated)
Revenue from sale of water	**$ 155,291,597**	$ 156,492,882
Rate stabilization transfer	**5,849,796**	(6,091,430)
Other revenue	**42,000**	–
Total operating revenue	**161,183,393**	150,401,452
Operating expenses	**(63,694,839)**	(61,331,673)
Operating income before depreciation	**97,488,554**	89,069,779
Depreciation expense	**(24,836,437)**	(25,827,068)
Operating income	**72,652,117**	63,242,711
Nonoperating revenues (expenses):		
Investment revenue, net of realized and unrealized loss of $220,257 and $1,288,680 in 2014 and 2013, respectively	**773,058**	614,831
Less capitalized amount	**(40,130)**	(976,883)
Interest expense	**(50,952,899)**	(51,872,356)
Less capitalized amount	**3,339,102**	6,074,337
Loss on disposal of capital assets	**(4,689,285)**	(1,165)
Arbitrage recovery	**–**	3,894,212
Litigation losses, net of recoveries of $22 and $12,733 in 2014 and 2013, respectively	**22**	(823,286)
Total nonoperating expenses, net	**(51,570,132)**	(43,090,310)
Income before contributions	**21,081,985**	20,152,401
Capital contributions	**–**	204,569
Change in net position	**21,081,985**	20,356,970
Total net position – beginning	**744,177,204**	729,785,006
Cumulative effect of adoption of GASB Statement No. 65	**–**	(5,964,772)
Total net position – beginning, as restated	**744,177,204**	723,820,234
Total net position – ending	**$ 765,259,189**	$ 744,177,204

See accompanying notes.

Tampa Bay Water
(A Regional Water Supply Authority)

Statements of Cash Flows

	Year Ended September 30	
	2014	**2013**
Operating activities		
Receipts from customers	**$ 151,154,794**	$ 158,567,804
Payments for goods and services	**(56,194,761)**	(49,076,164)
Litigation (payments) recoveries, net	**(17,072,029)**	124,106
Payments to employees	**(8,941,664)**	(8,578,865)
Net cash provided by operating activities	**68,946,340**	101,036,881
Capital and related financing activities		
Net proceeds from issuance of bonds	**–**	86,695,075
Capital contributions	**–**	304,010
Acquisition and construction of capital assets	**(71,085,527)**	(64,218,344)
Proceeds from disposition of capital assets	**62,067**	32,333
Change in accounts payable from restricted assets	**(5,901,696)**	7,488,500
Principal paid on capital and other long-term debt	**(32,056,599)**	(30,574,094)
Payment of bond issue costs	**–**	(778,711)
Interest paid on capital and other long-term debt	**(54,228,525)**	(52,660,413)
Net cash used in capital and related financing activities	**(163,210,280)**	(53,711,644)
Investing activities		
Proceeds from sales and maturities of investments	**81,755,597**	76,036,210
Purchase of investments	**(67,199,252)**	(50,786,599)
Interest received on investments	**910,150**	2,010,224
Net cash provided by investing activities	**15,466,495**	27,259,835
Net change in cash and cash equivalents	**(78,797,445)**	74,585,072
Cash and cash equivalents, beginning of year	**289,706,245**	215,121,173
Cash and cash equivalents, end of year	**$ 210,908,800**	$ 289,706,245

Continued on next page.

Tampa Bay Water
(A Regional Water Supply Authority)

Statements of Cash Flows (continued)

	Year Ended September 30	
	2014	**2013**
Reconciliation of operating income to net cash provided by operating activities		
Operating income	**$ 72,652,117**	$ 63,242,711
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	**24,836,437**	25,827,068
Rate stabilization transfers	**(5,849,796)**	6,091,430
Litigation (payments) recoveries, net	**(17,072,029)**	124,106
Changes in operating assets and liabilities:		
Accounts receivable	**(2,279,422)**	213,531
Inventories	**11,797**	(85,205)
Other current assets	**10,387**	(81,851)
Accounts payable and accrued expenses	**(1,572,605)**	3,902,129
Credits due to customers	**(1,823,375)**	1,759,425
Other noncurrent liabilities	**32,829**	43,537
Total adjustments	**(3,705,777)**	37,794,170
Net cash provided by operating activities	**$ 68,946,340**	$ 101,036,881

Supplemental schedule of noncash investing and financing activities

The Agency recognized a decrease in the fair value of its investments of $90,859 and $76,864 in 2014 and 2013, respectively.

See accompanying notes.

1. Organization

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

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

- The Agency will charge a uniform per-gallon wholesale rate to Member Governments for the wholesale supply of drinking water; with one exception for the City of Tampa. The Agency will charge a separate rate to the City of Tampa for water delivered from the Tampa Bypass Canal.

- All Member Governments relinquished to the Agency their individual rights to develop drinking water supplies subject to certain exceptions as defined in the Amended and Restated Interlocal Agreement.

- The Agency has the absolute and unequivocal obligation to meet the Quality Water needs of the Member Governments as defined in the Master Water Supply Contract.

- The Member Governments are required to maintain and collect such rates or other charges for the use of the products, services, and facilities of the respective members' water utility systems to the extent necessary to fund the timely payment of their respective obligations and liabilities under the Master Water Supply Contract.

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."

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

2. Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting

The Agency is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting in the preparation of its annual financial statements. The accounting and reporting policies of the Agency conform to the accounting rules prescribed by the Governmental Accounting Standards Board (GASB). The Agency 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.

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 (rate stabilization) results in costs being included in the determination of rates in different periods than when these costs are recognized for financial statement purposes. Funds collected in excess of current costs as a result of rate stabilization to be used for future costs are recorded as deferred inflows of resources.

The Agency capitalizes certain costs or defers certain revenue when three criteria are met. The Agency meets the required criteria since its rates are established by its Board in accordance with the Amended and Restated Interlocal Agreement and Master Water Supply Contract, rates are designed to recover the Agency's costs, and the Agency can reasonably expect to collect such rates.

Cash Equivalents

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

2. Summary of Significant Accounting Policies (continued)

Investments

Investments are reported at fair value in the 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:

	Life in Years
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.

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 No. 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, 2014 or 2013.

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 No. 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 2014 or 2013.

Capitalization of Interest

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

2. Summary of Significant Accounting Policies (continued)

Bond Issue Costs, Bond Discounts, and Bond Premiums

For fiscal year 2014, the Agency made prior period adjustments relating to bond issuance costs due to the adoption of GASB Statement No. 65, as described in "New Accounting Pronouncements" below, which required the restatement of the September 30, 2013 beginning net position. This resulted in a decrease in beginning and ending net position of $5,964,772. Bond issue costs (related to insurance) 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. All other bond issue costs are expensed as incurred. 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 reported as deferred outflows of resources and amortized over the shorter of the life of the new debt or the remaining life of the old debt. 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.

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 inflows of resources from rate stabilization until the year in which the Board of Directors approves their use to meet current costs of the Agency.

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 No. 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.

Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 presentation in connection with the implementation of GASB Statement No. 65.

2. Summary of Significant Accounting Policies (continued)

Implementation of New Accounting Pronouncement

During 2014, the Agency implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. As such the Agency removed all debt issuance costs (except for those related to insurance) and related amortization, which were previously recorded in its statement of net position. In addition, the loss on refunding of debt has been reclassified to deferred outflows of resources and funds collected in excess of current costs as a result of rate stabilization to be used for future costs has been reclassified to deferred inflows of resources.

New Accounting Pronouncements

GASB Statement No. 66, Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62

This Statement is effective for periods beginning after December 15, 2012. This Statement improves the accounting and financial reporting for a government financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Agency adopted the provisions of GASB Statement No. 66 for fiscal 2014. The adoption of GASB Statement No. 66 did not have any impact on the Agency's financial statements.

GASB Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25

This Statement is effective for periods beginning after June 15, 2013. This Statement improves financial reporting by state and local government pension plans. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that were within its scope. GASB Statement No. 67 did not impact the Agency's financial statements.

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

GASB Statement No. 68, Accounting and Financial Reporting for Pensions – and amendment of GASB Statement No. 27

This Statement is effective for periods beginning after June 15, 2014. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses related to pensions. This Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. It also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The impact of GASB Statement No. 68 is currently being evaluated by management and is anticipated to be material to the presentation of the Agency's financial position.

GASB Statement No. 69, Government Combinations and Disposals of Government Operations

This Statement is effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Management is currently evaluating the impact of the adoption of this Statement on the Agency's financial statements, if any.

GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees

This Statement is effective for periods beginning after June 13, 2013. This Statement improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. GASB Statement No. 70 did not impact the Agency's financial statements.

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68

This Statement is effective for periods beginning after June 15, 2014. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Management is currently evaluating the impact of the adoption of this Statement on the Agency's financial statements.

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.

3. Permits and Regulations (continued)

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

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

3. Permits and Regulations (continued)

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.

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

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

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

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

3. Permits and Regulations (continued)

The following table summarizes the actual annual water quantity sold and billed to the Member Governments of the Agency for the years ended September 30, 2014 and 2013:

Member Government	Annual Water Quantity Sold (mgd) 2014	Annual Water Quantity Sold (mgd) 2013	Amounts Billed 2014	Amounts Billed 2013
Hillsborough County	**50.98**	49.30	**$ 50,421,414**	$ 48,786,711
City of New Port Richey	**2.87**	2.68	**2,835,657**	2,653,012
Pasco County	**24.53**	25.31	**24,258,660**	25,046,401
Pinellas County	**50.94**	52.14	**50,380,122**	51,593,740
City of St. Petersburg	**27.70**	28.33	**27,395,744**	28,031,711
City of Tampa	**0.00**	0.03	**–**	381,307
Total current year water sales	**157.02**	157.79	**$ 155,291,597**	$ 156,492,882
Peak day production	**194.48**	191.74		

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 during the previous fiscal year divided by such usage of all Member Governments during such

4. Rate-Making Policies and Procedures (continued)

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:

	2014	2013
Construction funds	**$ 42,326,766**	$ 113,551,626
Sinking funds	**52,030,035**	55,100,803
Renewal and replacement funds	**24,776,568**	15,280,000
Capital improvement funds	**12,500,450**	10,865,017
Energy Savings funds	**174,621**	–
Operations and maintenance funds	**5,127,419**	4,698,683
Debt service reserve funds	**73,716,549**	73,716,549
Litigation escrow funds	**–**	20,608,656
	$ 210,652,408	$ 293,821,334

Construction Funds – Construction funds account for unexpended debt proceeds and investment revenue thereon from the Utility System Revenue Bonds, Series 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.

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.

Energy Savings Funds – Energy savings funds are restricted to payment of energy savings 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, 2014, the total carrying amount of the Agency's deposits (unrestricted and restricted), exclusive of petty cash of $1,450, was $210,907,350. All of the Agency's deposits with financial institutions are made with depository institutions that are members of the state of Florida's collateral pool, are placed in accounts designated as "public deposit" accounts covered by the collateral pool and, therefore, are considered to be insured.

Investments

In April 2014, the Board of Directors approved Resolution 2014-001, 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 enterprises that are non-full faith and credit); (4) Mortgage-backed securities; (5) bank accounts and non-negotiable interest-bearing time certificates of deposit; (6) Repurchase agreements; (7) commercial paper; (8) corporate notes; (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.

6. Deposits and Investments (continued)

Investments (continued)

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.

Investments made by the Agency (restricted and unrestricted) at September 30, 2014 are summarized below. The investments are summarized by type of investment, and show the maturity, interest rate, fair value, and credit rating.

Investments	Maturities	Interest Rate	Fair Value	Credit Rating S&P	Credit Rating Moody's
U.S. Treasury Notes	1/15/16-8/31/17	0.0038 to 3.25	$ 41,383,324	AA+	Aaa
U.S. Government Agency	12/21/15-9/27/17	0.375 to 1.25	9,311,744	AA+	Aaa
American Honda Finance Global Notes	10/7/16	1.12	576,967	A+	A1
Apple Inc. Corp Note	5/13/16	0.51	444,070	AA+	Aa1
Bank of New York Mellon Corp Note	3/4/16	0.70	450,176	A+	Aa3
Bank of Tokyo Mitsubishi Comm Paper	11/7/14	0.0024	1,697,971	A-1	P-1
Berkshrie Hathaway Fin Global Notes	8/15/16	0.95	572,081	AA	Aa2
CA ST Taxable Go Bonds Corp Notes	11/1/16	1.25	923,772	A	A1
Caterpillar Financial Corp Note	2/26/16	0.0074 to 0.70	450,499	A	A2
Cisco Systems Inc Global Notes	3/3/17	1.10	839,437	AA-	A1
Coca-Cola Co. Global Notes	11/1/16	0.75	374,554	AA-	Aa3
GE Cap Corp Note	10/9/15-7/12/16	0.72 to 1.0	1,881,870	AA+	Aa3 – A1
IBM Corp Global Notes	2/15/16	0.0030	1,700,680	AA-	Aa3
JP Morgan Securities LLC Comm Paper	10/28/14	0.23	679,218	A-1	P-1
JP Morgan Chase & Co Corp Note	2/15/17	1.35	1,696,294	A-	A3
Pepsico Corp Notes	2/22/17	0.0095	1,244,900	A	A1
Pepsico Inc Corp Notes	2/26/16	0.0071 to 0.70	601,290	A-	Aa3 – A1
Rabobank USA Fin Corp Comm Paper	10/31/14	0.20	1,698,328	A-1+	P-1
Toyota Motor Credit Corp Corp Note	5/17/16	0.81	681,584	AA-	Aa3
Wells Fargo & Co Corp Note	7/20/16	0.80	1,357,763	A+	A2
Total investments			$ 68,566,522		

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 3.0% of its total investments at September 30, 2014.

7. Grants Receivable and Capital Contributions

Grants receivable represent amounts due from the District for construction projects under various funding or grant agreements. The Agency has no amounts due from the District at September 30, 2014 or 2013.

Capital contributions include $0 and $204,569 billed to the District under various grant agreements for the years ended September 30, 2014 and 2013, respectively.

8. Capital Assets

The following are summaries of capital asset changes for the years ended September 30, 2014 and 2013:

	Balance October 1, 2013	Additions	Deletions	Transfers	Balance September 30, 2014
Capital assets, nondepreciable:					
Land	$ 79,011,824	$ –	$ –	$ –	$ 79,011,824
Construction-in-progress	94,389,959	73,458,534	5,420,703	–	162,427,790
Software in development	120,332	5,314	125,646	–	–
Total nondepreciable assets	173,522,115	73,463,848	5,546,349	–	241,439,614
Capital assets, depreciable:					
Land improvements	3,294,937	–	–	–	3,294,937
Wells and wellfield improvements	132,274,213	190,501	–	–	132,464,714
Water treatment and pumping facilities	666,965,575	4,602,516	–	–	671,568,091
Transmission mains	339,673,167	–	–	–	339,673,167
Buildings	19,517,378	38,472	–	–	19,555,850
Reservoir	160,793,688	–	5,130,000	–	155,663,688
Other equipment and software	18,272,091	1,635,512	984,433	–	18,923,170
Total depreciable capital assets	1,340,791,049	6,467,001	6,114,433	–	1,341,143,617
Less accumulated depreciation:					
Land improvements	582,502	91,539	–	–	674,041
Wells and wellfield improvements	54,186,583	2,904,912	–	–	57,091,495
Water treatment and pumping facilities	119,972,386	15,228,362	–	–	135,200,748
Transmission mains	52,062,666	4,623,738	–	–	56,686,404
Buildings	3,752,239	584,956	–	–	4,337,195
Reservoir	12,895,095	–	427,500	–	12,467,595
Other equipment and software	10,762,256	1,405,395	938,046	–	11,229,605
Total accumulated depreciation	254,213,727	24,838,902	1,365,546	–	277,687,083
Total depreciated capital assets, net	1,086,577,322	(18,371,901)	4,748,887	–	1,063,456,534
Total capital assets, net	$ 1,260,099,437	$ 55,091,947	$ 10,295,236	$ –	$ 1,304,896,148

8. Capital Assets (continued)

	Balance October 1, 2012	Additions	Deletions	Transfers	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

Deletions from construction-in-progress in 2014 of $5,420,703 consist of project costs expensed of $533,009 and completed projects transferred to capital asset accounts of $4,887,694. 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 $44,005,231. 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 $24,836,437 and $25,827,068 for the years ended September 30, 2014 and 2013, respectively.

8. Capital Assets (continued)

Commitments on construction contracts at September 30, 2014 and 2013 were $31,928,096 and $116,803,806, respectively.

Interest is capitalized net of earnings from related tax-exempt debt proceeds. Interest cost incurred was $50,952,899 and $51,872,356 for the years ended September 30, 2014 and 2013, respectively. Of the interest cost incurred, $3,339,012 and $6,074,337 were capitalized for the years ended September 30, 2014 and 2013, respectively, offset by investment revenue earned on tax-exempt debt funds restricted for construction of $40,130 and $976,883 for the respective years.

9. Accounts Payable

Accounts payable and accrued expenses at September 30, 2014 and 2013 consist of amounts owed for operating and payroll expenses as follows:

	2014	**2013**
Accounts payable	**$ 9,135,655**	$ 11,024,578
Accrued payroll expenses	**2,309,705**	1,993,386
	$ 11,445,360	$ 13,017,964

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.

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

Long-term debt and other noncurrent liabilities as of September 30, 2014 and 2013 consist of:

	2014	2013
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**	$ 29,050,000
5% term bonds, due October 1, 2034, subject to mandatory redemption 2035 through 2038, interest payable semiannually	**46,245,000**	46,245,000
Total Series 2013	**75,295,000**	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	**895,000**	1,060,000
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	**148,270,000**	148,435,000
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	**42,710,000**	43,000,000
4% serial bonds (retail coupon) due annually at varying amounts through 2024, interest payable semiannually	**4,540,000**	4,540,000
Total Series 2011A	**139,760,000**	140,050,000
Utility System Refunding Revenue Bonds, Series 2011		
5% forward delivery bonds due annually at varying amounts through 2021, interest payable semiannually	**87,585,000**	96,320,000
Utility System Refunding Revenue Bonds, Series 2010		
5% serial bonds due annually at varying amounts through 2027, interest payable semiannually	**65,260,000**	65,260,000
4% serial bonds due annually at varying amounts through 2027, interest payable semiannually	**1,720,000**	1,720,000
Total Series 2010	**66,980,000**	66,980,000
Utility System Revenue Bonds, Series 2008		
5% term bonds, due October 1, 2034, subject to mandatory redemption 2032 through 2034, interest payable semiannually	**29,365,000**	29,365,000
5% term bonds, due October 1, 2038, subject to mandatory redemption 2035 through 2038, interest payable semiannually	**72,010,000**	72,010,000
Total Series 2008	**101,375,000**	101,375,000

Continued on next page.

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

	2014	2013
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	**$ 7,150,000**	$ 10,295,000
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	**64,795,000**	67,940,000
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	**155,080,000**	159,720,000
Utility System Refunding Revenue Bonds, Series 2004		
3.0% to 5.25% serial bonds, due annually at varying amounts through 2019, interest payable semiannually	**69,070,000**	79,215,000
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	**958,210,000**	985,330,000
Acquisition Credits		
$852,630 due monthly, deducted from water revenue billed to Member Governments, including interest at 4.865%, through 2029, interest calculated semiannually	**101,143,501**	106,080,100
Total debt outstanding	**1,059,353,501**	1,091,410,100
Less current maturities	**(32,238,062)**	(32,056,599)
	1,027,115,439	1,059,353,501
Add unamortized bond premium	**65,586,394**	76,344,434
Total long-term debt	**$ 1,092,701,833**	$ 1,135,697,935

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

The Agency's changes in noncurrent liabilities for the fiscal years ended September 30, 2014 and 2013 were as follows:

	Balance October 1, 2013	Additions	Deletions	Balance September 30, 2014	Due Within One Year
2001A Bonds	$ 50,000,000	$ –	$ –	$ 50,000,000	$ –
2004 Bonds	79,215,000	–	10,145,000	69,070,000	10,655,000
2005 Bonds	159,720,000	–	4,640,000	155,080,000	4,875,000
2006 Bonds	67,940,000	–	3,145,000	64,795,000	1,905,000
2008 Bonds	101,375,000	–	–	101,375,000	–
2010 Bonds	66,980,000	–	–	66,980,000	–
2011 Bonds	96,320,000	–	8,735,000	87,585,000	9,170,000
2011A Bonds	140,050,000	–	290,000	139,760,000	295,000
2011B Bonds	148,435,000	–	165,000	148,270,000	165,000
2013 Bonds	75,295,000	–	–	75,295,000	–
Acquisition credits	106,080,100	–	4,936,599	101,143,501	5,173,062
Unamortized bond issue premium	76,344,434	–	10,758,040	65,586,394	–
	1,167,754,534	–	42,814,639	1,124,939,895	32,238,062
Less current portion	(32,056,599)	(32,238,062)	(32,056,599)	(32,238,062)	–
Total long-term debt	1,135,697,935	(32,238,062)	10,758,040	1,092,701,833	32,238,062
Other noncurrent liabilities	242,631	32,829	–	275,460	–
Total noncurrent liabilities	$ 1,135,940,566	$ (32,205,233)	$ 10,758,040	$ 1,092,977,293	$ 32,238,062

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

	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	–
	1,122,533,624	86,695,075	41,474,165	1,167,754,534	32,056,599
Less current portion	(30,574,094)	(32,056,599)	(30,574,094)	(32,056,599)	–
Total long-term debt	1,091,959,530	54,638,476	10,900,071	1,135,697,935	32,056,599
Legal settlement	20,163,800	802,464	–	20,966,264	20,966,264
Other noncurrent liabilities	199,094	43,537	–	242,631	–
Total noncurrent liabilities	$ 1,112,322,424	$ 55,484,477	$ 10,900,071	$ 1,156,906,830	$ 53,022,863

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

Annual debt service requirements to maturity for all long-term debt as of September 30, 2014 are as follows:

	Principal	Interest	Total
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	97,715,000	34,918,198	132,633,198
2020–2024	242,005,000	126,241,252	368,246,252
2025–2029	116,160,000	80,762,278	196,922,278
2030–2034	106,080,000	54,719,559	160,799,559
2035–2039	172,875,000	22,192,050	195,067,050
	$ 958,210,000	$ 496,225,147	$ 1,454,435,147

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 $958,210,000 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 $75,337,316 in 2014 and $75,447,974 in 2013. 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, 2014 and 2013, the Agency complied with all debt covenants.

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

Defeasance of Debt

In 2011 and prior years, the Agency advance refunded certain bond issues through various refunding bonds. The proceeds of the refunding bonds were used to purchase United States government and Agency securities that were placed in an irrevocable trust to fund all future debt service payments on the refunded debt. As a result, the refunded bonds are considered defeased, and the related liability has been removed from the accompanying financial statements.

October 1, 2013 was the final maturity on the 1989A defeased bonds (refunded in 1998), leaving only the principal amount of 1995 defeased bonds (refunded in 1998) of $7,315,000 at September 30, 2014. At September 30, 2013, the principal amount outstanding of the 1989A defeased bonds (refunded in 1998) and the 1995 defeased bonds (refunded in 1998) is $12,635,000 (including accreted interest through maturity).

11. Employee Retirement Plan

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

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

11. Employee Retirement Plan (continued)

Under the defined benefit plan, employees who 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, 2013, the rates were at 6.95%, 18.31%, and 12.84% for the regular class, senior management class, and drop participants, respectively. In 2014, legislation changed the plan rates for the plan year beginning July 1, 2014, to 7.37%, 21.14%, and 12.28% for the regular class, senior management class, and drop participants, respectively. The Agency's expense for the years ended September 30, 2014 and 2013 were $708,997 and $493,347, 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, 2014.

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 ended September 30, 2014, the Agency provided required contributions of $81,394 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 $48,565. For the year ended 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. Required contributions are based on projected pay-as-you-go financing.

12. Post-Employment Health Care Benefits (continued)

Annual OPEB Cost (AOC) and Net OPEB Obligation (NOO) – The following table shows the Agency's annual OPEB cost for the years ended September 30, 2014 and 2013, the amount actually contributed to the plan, and changes in the Agency's net OPEB obligation:

	Year Ended September 30	
	2014	**2013**
Annual required contribution	**$ 80,354**	$ 77,637
Interest on net OPEB obligation (NOO)	**9,705**	7,964
Amortization of NOO	**(8,665)**	(7,111)
Total expense or annual OPEB cost (AOC)	**81,394**	78,490
Actual receipts (contribution) toward OPEB cost	**(48,565)**	(34,953)
Change in NOO	**32,829**	43,537
NOO beginning of year	**242,631**	199,094
NOO end of year	**$ 275,460**	$ 242,631

The Agency's NOO is included in other noncurrent liabilities 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
9/30/2012	$ 56,450	$ 81,754	144.8%	$ 199,094
9/30/2013	78,490	34,953	44.5	242,631
9/30/2014	81,394	48,565	59.7	275,460

12. Post-Employment Health Care Benefits (continued)

Funded Status and Funding Progress – As of September 30, 2013 (year of the last required full evaluation), 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 ended 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.

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.

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 $41,421 and $40,890 in 2014 and 2013, respectively. Real estate taxes of $125,050 and $131,305 were also paid in 2014 and 2013, 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 ended September 30, 2014 are as follows:

	Desalination Plant Land Lease
2015	$ 42,042
2016	42,042
2017	42,042
2018	42,042
2019	42,042
2020–2033	599,099
	$ 809,309

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 $21,749 and $2,113 in 2014 and 2013, respectively, with initial set up costs of $42,017 in 2013.

The aggregate future minimum operating lease payments for the year ended September 30, 2014 are as follows:

	South Office Building Lease
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 $1.0 million gradually declining to zero after 15 years and a demobilization fee of $50,000. Total operating fees under this contract were $6,049,502 and $6,000,755 for 2014 and 2013, respectively.

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 $6,610,753 and $6,597,825 for the years ended September 30, 2014 and 2013, 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 $186,963 and $147,837 for the years ended September 30, 2014 and 2013, respectively.

In 2005, the Agency entered into a Service Agreement with Veolia Water North America for operation and maintenance of the 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 and was cancelled due to the renovation on the Reservoir. Expense under this contract was $319,338 for the year ended September 30, 2013. In 2014, the construction on the Reservoir entered into the maintenance and monitoring phase. This is part of the contract with Kiewit Infrastructure Group, and the expense under this contract was $1,136,280 for the year ended September 30, 2014.

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 $586,672 and $224,401 for the years ended September 30, 2014 and 2013, respectively.

14. Commitments and Contingencies (continued)

Regional Reservoir

The 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 Reservoir and increase storage by three billion gallons. Kiewit's proposed cost was $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 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, the Agency 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 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 completed December 2012. Full notice to proceed for construction was issued February 2013. Initial filling began in late July 2014, and construction was essentially completed in late 2014. Also, see Note 15, Litigation Settlements.

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 and its appeal of the case were denied. As the prevailing party in the case, HDR Engineering, Inc. is entitled to recover attorney fees, costs and expenses. 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. The Agency recorded an estimated liability for these fees and costs, plus accrued interest in the amount of $20,966,264 as of September 30, 2013. 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 of Directors of the Agency 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 was paid to the Agency 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 Statement No. 42.

16. Subsequent Events

On December 15, 2014 the Board of Directors unanimously voted to issue Utility System Refunding Revenue Bonds, Series 2015A/B. The 2015A/B bonds will be issued for the purpose of advance refunding all or a portion of the outstanding Medium Term Notes of the Series 2011A/B Bonds and the refund the callable Series 2006 Bonds with a present value savings. The Series 2015A Bonds will advance refund the Series 2011B Medium Term Notes and the callable Series 2006B with tax-exempt bonds. The Series 2015B Bonds will refund the Series 2011A Medium Term Notes with taxable bonds since they cannot be advance refunded on a tax-exempt basis.

Tampa Bay Water
(A Regional Water Supply Authority)

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

September 30, 2014

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	–	8,262,244	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
09/30/2013	–	695,815	695,815	–	8,625,056	8.1

Compliance Section

Ernst & Young LLP
Suite 1200
401 East Jackson Street
Tampa, FL 33602

Tel: +1 813 225 4800
Fax: +1 813 225 4711
ey.com

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, General Manager and Chief Financial Officer
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 statement of net position as of September 30, 2014, and the related statements of revenue, expenses, and changes 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 January 21, 2015.

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.

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

January 21, 2015

Ernst & Young LLP
Suite 1200
401 East Jackson Street
Tampa, FL 33602

Tel: +1 813 225 4800
Fax: +1 813 225 4711
ey.com

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 statement of net position as of September 30, 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report, with an unmodified opinion thereon, dated January 21, 2015.

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

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 Sections 4 and 5 of the Master Bond Resolution dated August 31, 1998, insofar 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

January 21, 2015

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	
	2014	**2013**
Revenue:		
Actual water demand (mgd)	**157.0200**	157.7900
Uniform rate (per 1,000 gallons)	**$ 2.5590**	$ 2.5590
Revenue from sales	**$ 155,333,597**	$ 156,492,882
Transfer (to) from Rate Stabilization Fund	**5,849,796**	(6,091,430)
	161,183,393	150,401,452
Purchase price amortization credit	**(10,231,557)**	(10,231,557)
Litigation and insurance recoveries	**22**	12,733
Arbitrage recoveries	**–**	3,894,211
Investment revenue – unrestricted *(Note 1)*	**640,275**	899,766
Total revenue	**151,592,133**	144,976,605
Operation and maintenance expenditures *(Note 2)*	**(66,749,873)**	(64,206,886)
Net revenue	**$ 84,842,260**	$ 80,769,719
Annual debt service payments Series 2001A bonds	**$ 3,000,000**	$ 3,000,000
Annual debt service payments Series 2004 bonds	**14,254,537**	14,251,787
Annual debt service payments Series 2005 bonds	**13,365,825**	13,374,425
Annual debt service payments Series 2006 bonds	**4,846,054**	6,211,854
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	**13,549,250**	13,551,000
Annual debt service payments Series 2011A bonds	**6,922,750**	6,923,550
Annual debt service payments Series 2011B bonds	**7,378,800**	7,382,100
Annual debt service payments Series 2013 bonds	**3,619,550**	2,352,708
Total debt service *(Note 4)*	**75,337,316**	75,447,974
Required deposit to Capital Improvement Fund	**6,019,372**	1,727,032
Required deposit to Renewal and Replacement Fund	**2,583,103**	3,533,711
Total debt service and reserve requirements	**$ 83,939,791**	$ 80,708,717
Debt service and reserve coverage (times)	**1.01**	1.00
Fund balance *(Note 3)*	**$ 28,979,566**	$ 27,873,673
Net revenue plus fund balance	**$ 113,821,826**	$ 108,643,392
Debt service coverage (times) *(Note 4)*	**1.51**	1.44

Note 1: Investment revenue does not include interest on construction funds of $387,628 and $1,002,959 in 2014 and 2013, respectively, or realized investment losses of $(345,703) and $(1,211,030) in 2014 and 2013, respectively, or unrealized investment gains of $90,859 in 2014 and unrealized investment losses of $(76,864) in 2013.

Note 2: Operation and maintenance expenditures include capital expenditures for maintenance of the existing system of $1,647,466 and $2,039,194 in 2014 and 2013, respectively. Expenditures also include litigation settlement of $0 and $836,019 in 2014 and 2013, 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.

Ernst & Young LLP
Suite 1200
401 East Jackson Street
Tampa, FL 33602

Tel: +1 813 225 4800
Fax: +1 813 225 4711
ey.com

Management Letter and State Reporting Requirements

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

In planning and performing our audit of the basic financial statements of Tampa Bay Water, A Regional Water Supply Authority (the Agency) as of and for the year ended September 30, 2014, 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 basic 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.

Other Required Disclosures

Report on the Financial Statements

We have audited the basic financial statements of the Agency, as of and for the year ended September 30, 2014 and have issued our report thereon, dated January 21, 2015.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Auditor General.

Other Reports

We have issued our Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, and our Report of Independent Certified Public Accountants on Compliance on an examination conducted in accordance with AICPA Professional Standards, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General (collectively, the Reports). Disclosures in those Reports, which are dated January 21, 2015, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no prior year matters reported.

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The Agency has included such disclosures in the notes to the financial statements.

Financial Condition

Section 10.554(1)(i)5., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the Agency has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. See our separate Report of Independent Certified Public Accountants on Compliance dated January 21, 2015.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures that were agreed to by the management of the Agency. See our separate Report of Independent Certified Public Accountants on Applying Agreed-Upon Procedures dated January 21, 2015 for our procedures and findings.

Annual Financial Report

Section 10.554(1)(i)5.b., Rules of the Auditor General, requires that we report the results of our determination as to whether the annual financial report for the Agency for the fiscal year ended September 30, 2014, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal

Building a better
working world

year ended September 30, 2014. See our separate Report of Independent Certified Public Accountants on Compliance dated January 21, 2015.

Other Matters

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. See our Reports identified under “Other Reports” section above.

Purpose of This Letter

Our management letter is intended solely for the information and use of the Florida Auditor General, the Board of Directors of the Agency, and management and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

January 21, 2015

Ernst & Young LLP
Suite 1200
401 East Jackson Street
Tampa, FL 33602

Tel: +1 813 225 4800
Fax: +1 813 225 4711
ey.com

Building a better working world

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 accompanying basic financial statements of Tampa Bay Water, A Regional Water Supply Authority (the Agency), which comprise the statement of net position of as September 30, 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report, with an unmodified opinion thereon, dated January 21, 2015.

In connection with our audit, nothing came to our attention that caused us to believe that the Agency met any of the conditions described in Section 218.503(1), Florida Statutes, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such conditions. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Agency's meeting the conditions described in the above-referenced section of Florida Statutes, insofar as they relate to accounting matters.

This report is intended solely for the information and use of management and the Board of Directors of the Agency and the Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

January 21, 2015

Building a better
working world

Ernst & Young LLP
Suite 1200
401 East Jackson Street
Tampa, FL 33602

Tel: +1 813 225 4800
Fax: +1 813 225 4711
ey.com

Report of Independent Certified Public Accountants

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

We have examined management's assertion that Tampa Bay Water, A Regional Water Supply Authority (the Agency) complied with Section 218.415, Florida Statutes, requiring the adoption of an investment policy that includes all of the requirements listed in Sections 218.415(1) through (15), Florida Statutes, and that the Agency's investments were authorized by law and in accordance with its investment policy for the year ended September 30, 2014 as required by Section 218.415(17), Florida Statutes. Management is responsible for the Agency's compliance with those requirements. Our responsibility is to express an opinion on management's assertion about the Agency's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Agency's compliance with specified requirements.

In our opinion, management's assertion that the Agency complied with the aforementioned requirements for the year ended September 30, 2014 is fairly stated, in all material respects.

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

Ernst & Young LLP

January 21, 2015

1407-1286492

Building a better
working world

Ernst & Young LLP
Suite 1200
401 East Jackson Street
Tampa, FL 33602

Tel: +1 813 225 4800
Fax: +1 813 225 4711
ey.com

Report of Independent Accountants on Applying Agreed-Upon Procedures

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

We have performed the procedures enumerated below, which were agreed to by the management of Tampa Bay Water, A Regional Water Supply Authority (the Agency), solely to assist you in evaluating management's assertion that the Agency does not meet any of the indicators of deteriorating financial condition as enumerated in Section 218.39.5(b), Florida Statutes, as of September 30, 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures

We obtained the audited financial statements of the Agency as of and for the fiscal year ended September 30, 2014 and determined whether there was a total net position deficit reported as of September 30, 2014. We also compared the total net position reported in the Agency's audited 2014 financial statements to the total net position reported in the Agency's audited financial statements as of and for the year ended September 30, 2013.

Findings

We noted no net position deficit as of September 30, 2014. We also noted that total net position increased during the year ended September 30, 2014.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management and the Board of Directors of the Agency and the Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

January 21, 2015

1407-1286492

Building a better
working world

Ernst & Young LLP
Suite 1200
401 East Jackson Street
Tampa, FL 33602

Tel: +1 813 225 4800
Fax: +1 813 225 4711
ey.com

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 accompanying financial statements of Tampa Bay Water, A Regional Water Supply Authority (the Agency) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report, with unmodified opinion thereon, dated January 21, 2015.

In connection with our audit, nothing came to our attention that caused us to believe that the Agency failed to comply with the provisions of Section 218.32(1)(a), Florida Statutes, insofar as they relate to accounting matters. 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 provisions of Section 218.32(1)(a), Florida Statutes, insofar as they relate to accounting matters.

This report is intended solely for the information and use of management and the Board of Directors of the Agency and the Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

January 21, 2015

EY | Assurance | Tax | Transactions | Advisory

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.

ey.com