

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

PHOENIX, ARIZONA

FINANCIAL STATEMENTS

Year Ended June 30, 2008

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

FINANCIAL STATEMENTS
Year Ended June 30, 2008

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Independent Auditors' Report

Board of Directors
Water Infrastructure Finance Authority of Arizona
Phoenix, Arizona

We have audited the accompanying financial statements of the Water Infrastructure Finance Authority of Arizona, a discrete component unit of the State of Arizona, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Water Infrastructure Finance Authority of Arizona's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Infrastructure Finance Authority of Arizona, as of June 30, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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Board of Directors
Water Infrastructure Finance Authority of Arizona
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In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2008, on our consideration of Water Infrastructure Finance Authority of Arizona's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "H. H. W.", is positioned above the date and location text.

October 29, 2008
Casa Grande, Arizona

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

As management of the Water Infrastructure Finance Authority of Arizona (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Highlights – Business Type Activities

- In 2008, total assets increased by \$284 million as compared to 2007. This was primarily due to new loans closed during the year.

Using this Annual Report

The financial statements included in this annual report are those of a corporate and politic body of the State of Arizona. The following statements are included:

- Statement of net assets – reports the Authority's current financial resources, noncurrent financial resources, current obligations, long-term obligations, and the resulting net assets.
- Statement of revenues, expenses and changes in fund net assets – reports the Authority's program revenues, program expenses, nonprogram revenues, and capital contributions.
- Statement of cash flows – reports the Authority's cash flows from operating activities, investing, and non-capital activities.

Statement of Net Assets

Years Ended June 30,	2008	2007
Cash & Equivalents	\$195,621,994	\$147,499,162
Investments	97,100,544	80,895,835
Loans	897,762,835	682,309,468
All Other Assets	19,851,568	15,727,073
Total Assets	1,210,336,941	926,431,538
Bonds Payable	770,260,000	557,450,000
Interest Payable	8,943,764	6,865,653
All Other Liabilities	47,262,825	30,426,335
Total Liabilities	826,466,589	594,741,988
Restricted Capitalization for Grants	321,576,107	273,096,494
Unrestricted	62,294,245	58,593,056
Total Net Assets	\$383,870,352	\$331,689,550

The Authority net assets increased to \$383,870,352 during 2008, an increase of \$52,180,802 over 2007. The increase in net assets was primarily the result of capital contributions and loan activities.

Review of Revenues, Expenses and Changes in Net Assets

The following table shows the condensed statement of revenues, expenses and changes in net assets for the past two years.

Years Ended June 30,	<u>2008</u>	<u>2007</u>
Program Revenues:		
Program loan interest revenue	\$14,694,820	\$12,858,853
Debt management fees	<u>9,892,657</u>	<u>7,719,481</u>
Total program revenue	<u>24,587,477</u>	<u>20,578,334</u>
Program Expenses:		
Administrative expenses	5,742,353	3,211,093
Technical/financial assistance	591,774	889,956
Program loan interest expense	<u>26,578,875</u>	<u>27,562,421</u>
Total program expenses	<u>32,913,002</u>	<u>31,663,470</u>
Program loss	(8,325,525)	(11,085,136)
Non-program revenues	<u>12,026,714</u>	<u>17,250,789</u>
Income before contributions	<u>3,701,189</u>	<u>6,165,653</u>
Capital contributions	<u>48,479,613</u>	<u>12,727,085</u>
Change in net assets	<u>52,180,802</u>	<u>18,892,738</u>
Beginning net assets	<u>331,689,550</u>	<u>312,796,812</u>
Ending net assets	<u>\$383,870,352</u>	<u>\$331,689,550</u>

Compared to 2007, total program revenue increased by \$4 million. The increase was primarily due to an increase in loan repayments.

WIFA relied on significant federal capital contributions and bond proceeds to fund loans in 2008 and drew contributions from multiple open federal capitalization grants.

Budgetary Highlights

The Authority's Board of Directors adopted an operating budget of \$1,835,735 for the period July 1, 2007 through June 30, 2008.

<u>Budget Line Item</u>	<u>Amount</u>
Salaries & Benefits	\$1,207,770
Professional & Outside Services	201,130
In State Travel	21,725
Out of State Travel	21,520
Other Operating	303,590
Equipment	30,000
Indirect Cost	50,000
Total	<u><u>\$1,835,735</u></u>

Capital Assets

The Authority's capital assets consist primarily of computer equipment. In 2008, the Authority purchased \$35,237 of new equipment.

Debt Outstanding

Years Ended June 30,	<u>2008</u>	<u>2007</u>
Beginning balance	\$ 557,450,000	\$ 582,560,000
Refunded Bonds	-	-
Refunding Bonds	-	-
Additions	238,710,000	-
Payments	(25,900,000)	(25,110,000)
Ending balance	<u><u>\$ 770,260,000</u></u>	<u><u>\$ 557,450,000</u></u>

Economic and Other Factors

Drinking Water Standard for Arsenic

In October 2001, the United States Environmental Protection Agency adopted a new standard for the amount of arsenic permissible within drinking water. The new standard decreased the maximum amount of arsenic from 50 parts per billion to 10 parts per billion. According to estimates from the Arizona Department of Environmental Quality, the new arsenic standard will affect approximately 3,000,000 customers of drinking water systems throughout Arizona. Under the current requirements, drinking water systems have until

January 23, 2006 to achieve compliance with the new standard or will fall out of compliance and face penalties.

As a result of the need to comply with the new federal standard, the Authority anticipates continued high demand for its drinking water financial assistance from small water systems. Many of these small water systems will require significant rate increases to accommodate the capital and operating costs associated with arsenic treatment. Accordingly, the Authority anticipates providing increased financial assistance in 2009.

Authority Automation Efforts

The Authority continues to develop and implement fiscal related applications to automate its financial activity.

Inequity in the Clean Water State Revolving Fund (CWSRF) Capitalization Grant Funding Allocation

Congress appropriates funding to EPA which, in turn, grants allocations to states to capitalize CWSRFs in accordance with state-by-state federally enacted allocation percentages. As originally intended by Congress, CWSRF allocations to states should be based on population and documented needs.

The present allocation percentages are based on a 1977 formula using data from the 1970 census and the 1974 wastewater needs survey. Present allocations favor the Northeast and Midwest regions at the expense of the remainder of the country, particularly the Southeast and Southwest regions. While the population of the U.S. continues to migrate south and west, the vast majority of the funding for infrastructure remains in the Northeast and Midwest.

Based on Census Bureau data, Arizona's 2000 population approximates 5.1 million, ranking 20th for population by state. However, Arizona is 53rd out of 53 for CWSRF allocations per capita.

Based on EPA's 2004 Needs Survey, Arizona certified nearly \$6.3 billion in wastewater infrastructure needs, ranking 9th for needs by state. However, Arizona is 52 out of 52 for CWSRF Allocations compared to certified need.

Arizona currently receives only 0.684% of the CWSRF appropriation. Based on allocations to states with similar needs, Arizona should receive 4.29% of the CWSRF appropriation, more than six times what it currently receives.

A conservative estimate indicates that Arizona has lost over \$500 million in allocations since 1989. In effect, Arizona's taxpayers subsidize infrastructure in other states and pay more for the same infrastructure within Arizona as the result of the funding disparity.

Financial Contact

The Authority's financial statements present users with a general overview of the Authority's finances and demonstrate the Authority's accountability. If you have any questions about the report or require additional financial information, please contact Don States, Controller, Water Infrastructure Finance Authority of Arizona, 1110 West Washington, Suite 290, Phoenix, Arizona 85007 or by phone at (602) 364-1324 or toll-free at (877) 298-0425.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008

ASSETS	Business-type Activities-Enterprise Funds			Total
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Hardship Grant Fund	
Current assets				
Cash and cash equivalents				
Cash with treasurer	\$ 118,462,083	\$ 71,911,549	\$ 8,808	\$ 190,382,440
Cash with trustee	4,586,914	652,640	-	5,239,554
Total cash and cash equivalents	123,048,997	72,564,189	8,808	195,621,994
Receivables, net of uncollectibles				
Debt management	3,269,896	1,731,555	-	5,001,451
Interest	6,931,447	3,352,458	-	10,283,905
Due (to) from other funds	1,187,477	(1,187,477)	-	-
Total current assets	134,437,817	76,460,725	8,808	210,907,350
Noncurrent assets				
Investments	77,442,863	19,657,681	-	97,100,544
Program loans	600,724,924	297,037,911	-	897,762,835
Deferred bond costs	3,298,822	1,267,390	-	4,566,212
Total noncurrent assets	681,466,609	317,962,982	-	999,429,591
Total assets	815,904,426	394,423,707	8,808	1,210,336,941
LIABILITIES				
Current liabilities				
Accrued payroll	1,636	1,636	-	3,272
Compensated absences	32,518	32,518	-	65,036
Interest payable	6,488,129	2,455,635	-	8,943,764
Bonds payable-current	20,409,305	7,010,695	-	27,420,000
Total current liabilities	26,931,588	9,500,484	-	36,432,072
Noncurrent liabilities				
Loan reserve	308,048	2,012,952	-	2,321,000
Commitments and contingencies	-	-	-	-
Unamortized bond premiums	35,118,881	16,680,607	-	51,799,488
Deferred amount on retirement of bonds	(4,503,547)	(2,422,424)	-	(6,925,971)
Bonds payable	529,256,751	213,583,249	-	742,840,000
Total noncurrent liabilities	560,180,133	229,854,384	-	790,034,517
Total liabilities	587,111,721	239,354,868	-	826,466,589
NET ASSETS				
Restricted for capitalization grants	186,618,922	134,957,185	-	321,576,107
Unrestricted	42,173,783	20,111,654	8,808	62,294,245
Total net assets	\$ 228,792,705	\$ 155,068,839	\$ 8,808	\$ 383,870,352

See accompanying notes.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2008

	Business-type Activities-Enterprise Funds			Total
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Hardship Grant Fund	
Program revenues				
Program loan interest revenue	\$ 9,619,537	\$ 5,075,283	\$ -	\$ 14,694,820
Debt management fees	6,147,603	3,745,054	-	9,892,657
Total program revenues	<u>15,767,140</u>	<u>8,820,337</u>	<u>-</u>	<u>24,587,477</u>
Program expenses				
Administrative expenses	2,667,822	3,074,531	-	5,742,353
Technical assistance	112,193	404,227	-	516,420
Program loan interest expense	19,906,570	6,672,305	-	26,578,875
Hardship grant expense	-	-	75,354	75,354
Total program expenses	<u>22,686,585</u>	<u>10,151,063</u>	<u>75,354</u>	<u>32,913,002</u>
Program loss	<u>(6,919,445)</u>	<u>(1,330,726)</u>	<u>(75,354)</u>	<u>(8,325,525)</u>
Nonprogram revenues				
Administrative grants	288,080	1,703,738	-	1,991,818
Investment earnings	7,150,703	2,884,193	-	10,034,896
Total nonprogram revenues	<u>7,438,783</u>	<u>4,587,931</u>	<u>-</u>	<u>12,026,714</u>
Income before contributions and transfers	519,338	3,257,205	(75,354)	3,701,189
Capital contributions-federal	6,999,569	39,384,944	-	46,384,513
Capital contributions-state	669,900	1,425,200	-	2,095,100
Change in net assets	<u>8,188,807</u>	<u>44,067,349</u>	<u>(75,354)</u>	<u>52,180,802</u>
Total net assets-beginning of year	<u>220,603,898</u>	<u>111,001,490</u>	<u>84,162</u>	<u>331,689,550</u>
Total net assets-end of year	<u>\$228,792,705</u>	<u>\$155,068,839</u>	<u>\$ 8,808</u>	<u>\$ 383,870,352</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	Business-type Activities-Enterprise Funds			Total
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Hardship Grant Fund	
Receipt of program loans	\$ 42,109,216	\$ 20,453,114	\$ -	\$ 62,562,330
Loans made to borrowers	(171,852,397)	(93,002,360)	-	(264,854,757)
Receipt of debt management fees	5,357,701	3,257,234	-	8,614,935
Receipt (use) of loan reserves	27,298	(335,268)	-	(307,970)
Payment of administrative costs	(2,679,244)	(3,093,581)	-	(5,772,825)
Payment of technical assistance costs	(112,193)	(404,227)	(75,354)	(591,774)
Payment of program loan costs	(19,718,693)	(6,453,096)	-	(26,171,789)
Net cash used by operating activities	<u>(146,868,312)</u>	<u>(79,578,184)</u>	<u>(75,354)</u>	<u>(226,521,850)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Principal paid on bonds	(19,107,780)	(6,792,220)	-	(25,900,000)
Receipts from new bond issue	162,628,902	93,595,988	-	
Interfund receipts (payments)	(1,215,739)	1,215,739	-	-
Receipt of administrative grants	288,080	1,703,738	-	1,991,818
Capital contributions	7,669,469	40,810,144	-	48,479,613
Net cash provided by noncapital financing activities	<u>150,262,932</u>	<u>130,533,389</u>	<u>-</u>	<u>280,796,321</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(10,285,316)	(5,919,393)	-	
Interest received on investments	7,269,072	2,783,998	-	10,053,070
Net cash used by investing activities	<u>(3,016,244)</u>	<u>(3,135,395)</u>	<u>-</u>	<u>10,053,070</u>
Net increase (decrease) in cash and cash equivalents	378,376	47,819,810	(75,354)	48,122,832
Cash and cash equivalents at beginning of year	<u>122,670,621</u>	<u>24,744,379</u>	<u>84,162</u>	<u>147,499,162</u>
Cash and cash equivalents at end of year	<u>\$ 123,048,997</u>	<u>\$ 72,564,189</u>	<u>\$ 8,808</u>	<u>\$195,621,994</u>

See accompanying notes.

	Business-type Activities-Enterprise Funds			Total
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Hardship Grant Fund	
Reconciliation of program loss to net cash used by operating activities				
Program loss	\$ (6,919,445)	\$ (1,330,726)	\$ (75,354)	\$ (8,325,525)
Adjustments to reconcile program loss to net cash used by operating activities:				
Amortization of bond related costs	(1,093,156)	(577,869)	-	(1,671,025)
(Increase) decrease in				
Program loans	(138,492,927)	(76,895,052)	-	(215,387,979)
Debt management receivable	(789,902)	(487,820)	-	(1,277,722)
Interest receivable	(869,791)	(729,477)	-	(1,599,268)
Increase (decrease) in				
Accrued payroll	(20,940)	(28,568)	-	(49,508)
Compensated absences	9,518	9,518	-	19,036
Interest payable	1,281,033	797,078	-	2,078,111
Loan reserve	27,298	(335,268)	-	(307,970)
Total adjustments	<u>(139,948,867)</u>	<u>(78,247,458)</u>	<u>-</u>	<u>(218,196,325)</u>
Net cash used by operating activities	<u>\$ (146,868,312)</u>	<u>\$ (79,578,184)</u>	<u>\$ (75,354)</u>	<u>\$ (226,521,850)</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Water Infrastructure Finance Authority of Arizona (WIFA) is a political body and a component unit of the State of Arizona (State). WIFA's financial information is discretely presented in the Comprehensive Annual Financial Report of the State of Arizona. It is authorized to administer the Clean Water Revolving Fund and The Drinking Water Revolving Fund (Funds). WIFA is governed by a twelve-member board of directors. The day-to-day administrative functions of WIFA are overseen by WIFA's Executive Director and other staff employed by WIFA.

The Clean Water Revolving Fund was created pursuant to the Federal Water Pollution Control Act of 1972, as amended by the Water Quality Act of 1987 (Clean Water Act), which required the State of Arizona to establish the Fund to accept federal capitalization grants for publicly owned wastewater treatment projects. The purpose of the fund is to provide financial assistance, including loans to political subdivisions and Indian tribes to finance construction, acquisition, restoration or rebuilding of wastewater treatment facilities.

WIFA has an agreement with the Environmental Protection Agency to administer the Drinking Water Revolving Fund pursuant to the Safe Drinking Water Act. The fund was established to provide water facility loans including forgivable principal to political subdivisions of this state, Indian Tribes and other eligible entities as determined by the board pursuant to the Safe Drinking Water Act, make drinking water facility loans, purchase or refinance debt obligations of drinking water facilities, assist in purchasing insurance for local drinking water facility bond obligations, pay the costs to administer the fund, fund other programs pursuant to the Safe Drinking Water Act and provide linked deposit guarantees through third party lenders with recourse against deposit if payments are not made when due.

The Funds are authorized to be capitalized through (i) moneys, if any, appropriated by the State Legislature, (ii) federal capitalization grants and other federal moneys received by WIFA to fund the Fund, (iii) proceeds of WIFA's bonds, including bonds issued to provide matching State moneys as required by the Clean Water Act, (iv) moneys received from political subdivisions or Indian tribes as repayment of loans from the Fund, including interest and penalties thereon, (v) interest and other income received from investing moneys of the Fund, and (vi) gifts, grants and donations received from any public or private source. In order to receive federal capitalization grants, the State must provide matching funds in a ratio of \$1 of State matching funds for every \$5 of federal capitalization grants. The State began appropriating money for deposit into the Funds in 1998. Previously the State matching funds were provided from proceeds of the WIFA's capitalization bonds.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

The accompanying financial statements present the Clean Water Revolving Fund, Drinking Water Revolving Fund and the Hardship Grant Fund, which includes all of the revenues and the administrative expenses of WIFA.

Fund Type

WIFA plans to maintain the federal capitalization grants as the fund's restricted net assets. Therefore, the periodic determination of revenues earned, expenses incurred, and changes in net assets are appropriate for capital maintenance, public policy, management control, accountability and other purposes. As a result, the accounting records are maintained as an enterprise fund. Only earnings from the administrative grants, debt management fees and interest earned on accumulated excess administrative income can be expended for expenses or utilized to match federal grants.

WIFA distinguishes program revenues and expenses from non-program items. Program revenues and expenses generally result from providing services in connection with financing and administering moneys for the Clean and Drinking Water Revolving Funds. The principal program revenues of WIFA are program loan interest and management fees. WIFA's program expenses are administrative, program loan costs and grant related expenses. All revenues and expenses not meeting this definition are reported as non-program revenues and expenses.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. WIFA's financial statements are reported using the economic resources measurement focus. WIFA's accounting records are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when they are incurred. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the WIFA follows GASB guidance as applicable to proprietary funds, and Financial Accounting Standards Boards Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB Pronouncements.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

WIFA has adopted provisions of Statement No. 31 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This standard requires certain investments to be reported at fair value rather than at cost.

Investments in Guaranteed Investment Contracts are stated at cost, since they are non-participating contracts. The investment of excess revenue in the 2001 Master Trust Indenture is stated at fair value, which approximates cost.

Cash Equivalents

WIFA considers all highly liquid debt instruments purchased with maturities of three months or less at acquisition date to be cash equivalents. Cash equivalents are stated at cost, which approximates market.

Capital Assets

Capital assets acquired by the Funds are stated at cost. The capitalization threshold has been set at \$5,000. Depreciation has been allocated using the straight-line method over the following estimated useful lives:

Computer and Peripheral Equipment	3 - 5 years
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Compensated Absences

WIFA employees accrue vested annual leave at a variable rate based on years of service. Employees forfeit accumulated annual leave in excess of 320 hours at the end of a calendar year. Any employee who separates from WIFA service is paid for all unused and unforfeited annual leave at the employee's rate of pay at the time of separation.

Sick leave includes any approved period of paid absence granted an employee due to illness, injury or disability. Employees accrue sick leave at the rate of eight hours per month without an accumulation limit. Because sick leave benefits do not vest with employees, a liability for sick leave is not accrued in the financial statements.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Obligations

Long-term debt is reported as fund liabilities in the applicable fund's statement of net assets. Bond premiums, bond issuance costs and loss on retirement of bonds are deferred and amortized over the life of the bonds using the straight-line method.

Net Assets

WIFA restricts amounts received from the federal and state government for the purpose of providing financial assistance for publicly owned wastewater treatment and water facilities.

Grants

Grants restricted for program loans are recorded as contributions. Grants that are used for operating purposes are recorded as revenue. Federal grants for project related expenses may not be drawn until qualifying expenditures are incurred.

Fund Administration

Employees of WIFA perform administration of the Funds. Expenses relating to the administration are funded from the capital facility grant (up to a maximum of 4 percent of the capital facility grant) and fees charged to loan recipients (see Note 8).

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Actual results could differ from those estimates.

NOTE 2 CASH AND INVESTMENTS

Cash Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, an entity will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 2 CASH AND INVESTMENTS (Continued)

At June 30, 2008, the carrying amount of WIFA's cash with treasurer totaled \$190,382,440 of which \$189,638,333 was invested in the State Agency's pool number 3. A copy of the audited financial statements may be obtained by contacting the Office of the State Treasurer.

At June 30, 2008, the carrying amount of WIFA's cash with trustee totaled \$5,239,554 and was invested in money market funds. WIFA maintains their cash held by trustee in an irrevocable trust account in the name of WIFA held by the trust department of a financial institution located in Phoenix, Arizona (separate from all other funds and investments of the trustee). These balances are directed by the State Treasurer to be invested in a full faith and credit money market fund that is not insured by the Federal Deposit Insurance Corporation or collateralized by the trustee.

Investments

The State Treasurer directs WIFA's investments. ARS 35-312 and ARS 35-313 require the State Treasurer to invest in obligations of the U.S. or its agencies including sponsored agencies, corporations, sponsored corporations or instrumentalities, collateralized repurchase agreements, bonds or other evidence of indebtedness of the State of Arizona or its political subdivisions, commercial paper, bankers acceptances, certificates of deposit, interest-bearing savings accounts and bonds, debentures, notes and other evidences of indebtedness issued by U.S. corporations meeting certain rating criteria. WIFA's investments at June 30, 2008, consisted of collateralized guaranteed investment contracts issued by domestic banks, a monoline insurer and insurance company, and a foreign bank acting through its New York branch. The guaranteed investment contracts are not insured by the Federal Deposit Insurance Corporation.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of WIFA's investments to market interest rate fluctuations is provided by the following table that shows the distribution of WIFA's investments by maturity:

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2008

NOTE 2 CASH AND INVESTMENTS (Continued)

Investment Type		Remaining Maturity (In Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
State Investment Pool	\$ 189,638,333	\$ 189,638,333	\$ -	\$ -	\$ -
Money Market Funds	5,239,554	5,239,554	-	-	-
Guaranteed Investment Contracts	97,100,544	-	11,467,864	2,109,006	83,523,674
	<u>\$ 291,978,431</u>	<u>\$ 194,877,887</u>	<u>\$ 11,467,864</u>	<u>\$ 2,109,006</u>	<u>\$ 83,523,674</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the Standard & Poor's rating as of year-end for each investment type.

Investment Type		Ratings as of Year-End			
		AAA	AA	A	Unrated
State Investment Pool	\$ 189,638,333	\$ -	\$ -	\$ -	\$ 189,638,333
Money Market Funds	5,239,554	-	-	-	5,239,554
Guaranteed Investment Contracts	97,100,544	97,100,544	-	-	-
	<u>\$ 291,978,431</u>	<u>\$ 97,100,544</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 194,877,887</u>

If any of the bank's credit rating falls below levels defined in the investment contracts, the State Treasurer may direct the bank to enter into a repurchase agreement with the Trustee pursuant to which the bank shall sell and deliver to the Trustee certain U.S. government obligations in a principal amount equal to invested moneys and accrued interest. If the rating falls below "A" the Trustee shall have the right to withdraw all amounts invested and accrued interest.

Concentration of Credit Risk

The investment policy of WIFA contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer are as follows:

Issuer	Investment Type	Reported Amount
State Investment Pool	State Investment Pool	\$ 189,638,333
First American Prime Obligations Fund	Money Market	5,239,554
Bayerische Landesbank	Guaranteed Investment Contract	40,585,506
AIG Matched Funding Corp.	Guaranteed Investment Contract	25,152,511
Royal Bank of Canada	Guaranteed Investment Contract	15,157,818
DEPFA Bank	Guaranteed Investment Contract	16,204,709
		<u>\$ 291,978,431</u>

On October 21, 2008, WIFA closed the DEPFA G.I.C. and used the entire proceeds to purchase US Agency FHLB Discount Notes which mature on March 31, 2009.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2008

NOTE 3 PROGRAM LOANS

The Funds have made loans to local governments and others in Arizona to finance various projects pursuant to the requirements of the Clean Water and Safe Drinking Water Acts. The loans are generally payable in semiannual installments due January 1 and July 1 of each year, including interest. However, several loans are payable monthly or quarterly. Changes in the program loans are as follows:

	July 1, 2007	Increases	Decreases	June 30, 2008
Clean Water Fund	\$ 462,231,997	\$ 171,852,397	\$ (33,359,470)	\$ 600,724,924
Drinking Water Fund	220,142,859	93,002,360	(16,107,308)	297,037,911
	<u>\$ 682,374,856</u>	<u>\$ 264,854,757</u>	<u>\$ (49,466,778)</u>	<u>\$ 897,762,835</u>

Repayment of these loans will be made from pledged property taxes, net revenues from the systems, transaction privilege taxes or from special assessments. Most loans have a .3 to 4.0 percent annual administrative fee.

Some program loans require a monthly or quarterly payment into a debt service reserve to assure payments of the loans. The debt service reserve is a liability of WIFA to the borrowers and interest on the reserve accrues to the borrowers.

NOTE 4 COMPENSATED ABSENCES

The compensated absences activity for June 30, 2008 was as follows:

Compensated Absences for:	July 1, 2007	Additions	Reductions	June 30, 2008	Estimated Current Portion
Clean Water	\$ 23,000	\$ 34,406	\$ (24,888)	\$ 32,518	\$ 32,518
Drinking Water	23,000	34,406	(24,888)	32,518	32,518
Total	<u>\$ 46,000</u>	<u>\$ 68,812</u>	<u>\$ (49,776)</u>	<u>\$ 65,036</u>	<u>\$ 65,036</u>

NOTE 5 RETIREMENT AND PENSION PLAN

Arizona State Retirement Plan

Plan Description. The Arizona State Retirement System (ASRS) administers a cost sharing multiple-employer defined benefit pension plan that covers employees of WIFA. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. Benefits are

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 RETIREMENT AND PENSION PLAN (Continued)

established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. ASRS issues a publicly available report that includes financial statements and required supplementary information. The report may be obtained in writing at ASRS, 3300 N. Central Avenue, P.O. Box 33910, Phoenix, Arizona 85067-3910 or by calling 602-240-2200 or 1-800-621-3778.

Funding Policy. The Arizona State Legislature has the authority to establish and amend benefits provisions and contributions for active plan members. For the years ended June 30, 2008, 2007 and 2006, active ASRS members and the District were each required by statute to contribute at the actuarially determined rate of 9.60, 9.10 and 7.40 percent (rate includes .50 for long-term disability), respectively, of the members' annual covered payroll. WIFA's contributions to ASRS for the years ended June 30, 2008, 2007 and 2006 were \$74,768, \$69,640 and \$46,917, respectively.

NOTE 6 BONDS PAYABLE

Bonds payable at June 30, 2008 are summarized below. The bonds are callable and interest is payable semiannually. The bonds are special obligations of WIFA payable solely from and secured by the Fund's assets. The obligations are not obligations, general, specific or otherwise, of the State of Arizona or any other political subdivision thereof other than WIFA.

\$3,270,000 Financial Assistance Revenue Bonds, Series 1995, due in annual principal installments ranging from \$225,000 to \$410,000, plus semiannual interest ranging from 4.40% to 5.50% through July 1, 2009.	\$820,000
\$9,730,000 Financial Assistance Revenue Bonds, Series 1996A, due in annual principal installments ranging from \$360,000 to \$1,870,000, plus semiannual interest ranging from 3.70% to 5.50% through July 1, 2012.	5,215,000
\$20,125,000 Financial Assistance Revenue Bonds, Series 1997A, due in annual principal installments ranging from \$845,000 to \$1,415,000, plus semiannual interest ranging from 4.20% to 6.1% through July 1, 2008.	1,370,000

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2008

NOTE 6 BONDS PAYABLE (Continued)

\$35,370,000 Financial Assistance Revenue Bonds, Series 1998A, due in annual principal installments ranging from \$1,985,000 to \$2,190,000, beginning July 1, 1999, plus semiannual interest ranging from 3.8% to 5% through July 1, 2008.	1,990,000
\$64,000,000 Water Quality Revenue Refunding Bonds, Series 1999, due in annual principal installments ranging from \$2,330,000 to \$8,190,000, plus semiannual interest ranging from 4.0% to 5.625% through October 1, 2017.	44,740,000
\$110,000,000 Water Quality Revenue Bonds, Series 2001A, due in annual principal installments ranging from \$3,780,000 to \$8,075,000, plus semiannual interest ranging from 4.0% to 5.375% through October 1, 2011.	20,015,000
\$195,980,000 Water Quality Revenue Bonds, Series 2004, due in annual principal installments ranging from \$5,500,000 to \$15,080,000, plus semi annual interest ranging from 2.0% to 5.0% through October 1, 2024.	160,450,000
\$97,100,000 Water Quality Revenue Refunding Bonds, Series 2004, due in annual principal installments ranging from \$125,000 to \$4,825,000, plus semi annual interest ranging from 2.0% to 5.0% through October 1, 2021.	94,425,000
\$205,400,000 Water Quality Revenue Bonds, Series 2006, due in annual principal installments ranging from \$2,875,000 to \$16,750,000, plus semi annual interest ranging from 3.75% to 5.0% through October 1, 2026.	202,525,000
\$205,400,000 Water Quality Revenue Bonds, Series 2006, due in due in annual principal installments ranging from \$2,250,000 to \$22,340,000, plus semi annual interest ranging from 3.00% to 5.0% through October 1. 2028.	<u>238,710,000</u>
	<u>\$ 770,260,000</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 6 BONDS PAYABLE (Continued)

A summary of changes in bonds payable is set forth below:

	July 1, 2007	Issued	Retired	June 30, 2008
Financial Assistance Revenue				
Bonds Series 1995	\$ 1,220,000	\$ -	\$ 400,000	\$ 820,000
Financial Assistance Revenue				
Bonds Series 1996A	6,270,000	-	1,055,000	5,215,000
Financial Assistance Revenue				
Bonds Series 1997A	2,715,000	-	1,345,000	1,370,000
Financial Assistance Revenue				
Bonds Series 1998A	3,970,000	-	1,980,000	1,990,000
Water Quality Refunding				
Bonds Series 1999	47,945,000	-	3,205,000	44,740,000
Water Quality Revenue				
Bonds Series 2001A	24,580,000	-	4,565,000	20,015,000
Water Quality Revenue				
Bonds Series 2004A	170,100,000	-	9,650,000	160,450,000
Water Quality Refunding				
Bonds Series 2004A	95,250,000	-	825,000	94,425,000
Water Quality Revenue				
Bonds Series 2006A	205,400,000	-	2,875,000	202,525,000
Water Quality Revenue				
Bond Series 2008	-	238,710,000	-	238,710,000
	<u>\$557,450,000</u>	<u>\$238,710,000</u>	<u>\$ 25,900,000</u>	<u>\$ 770,260,000</u>

Bonds by Fund are as follows:

Arizona Clean Water Revolving Fund	\$ 549,666,056
Arizona Drinking Water Revolving Fund	220,593,944
	<u>\$ 770,260,000</u>

The Clean Water Fund's bond debt service requirements to maturity, including interest, are as follows:

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 6 BONDS PAYABLE (Continued)

Year Ending June 30,	Clean Water		
	Principal	Interest	Total
2009	\$ 20,409,305	\$ 25,633,691	\$ 46,042,997
2010	19,751,280	25,349,688	45,100,968
2011	21,294,282	24,429,360	45,723,642
2012	28,088,002	23,276,534	51,364,536
2013	27,009,833	21,946,663	48,956,496
2014-2018	153,972,186	88,156,100	242,128,286
2019-2023	161,133,387	49,246,897	210,380,284
2024-2029	118,007,781	12,538,453	130,546,234
Total Long-Term Debt	549,666,056	270,577,386	820,243,443
Less Current Portion	(20,409,305)	(25,633,691)	(46,042,997)
Noncurrent Portion	\$ 529,256,751	\$ 244,943,695	\$ 774,200,446

The Drinking Water Fund's bond debt service requirements to maturity, including interest, are as follows:

Year Ending June 30,	Drinking Water		
	Principal	Interest	Total
2009	\$ 7,010,695	\$ 9,989,450	\$ 17,000,145
2010	9,343,720	9,977,330	19,321,050
2011	10,225,718	9,565,350	19,791,068
2012	11,366,998	9,109,742	20,476,740
2013	10,050,167	8,628,315	18,678,482
2014-2018	56,992,814	35,258,293	92,251,107
2019-2023	70,346,613	19,803,159	90,149,772
2024-2029	45,257,219	4,979,325	50,236,543
Total Long-Term Debt	220,593,944	107,310,965	327,904,908
Less Current Portion	(7,010,695)	(9,989,450)	(17,000,145)
Noncurrent Portion	\$ 213,583,249	\$ 97,321,514	\$ 310,904,763

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 6 BONDS PAYABLE (Continued)

WIFA's total bond debt service requirements to maturity, including interest, are as follows:

Year Ending June 30,	Total Clean and Drinking Water		
	Principal	Interest	Total
2009	\$ 27,420,000	\$ 35,623,141	\$ 63,043,142
2010	29,095,000	35,327,019	64,422,019
2011	31,520,000	33,994,711	65,514,711
2012	39,455,000	32,386,276	71,841,276
2013	37,060,000	30,574,978	67,634,978
2014-2018	210,965,000	123,414,393	334,379,393
2019-2023	231,480,000	69,050,056	300,530,056
2024-2027	163,265,000	17,517,777	180,782,777
Total Long-Term Debt	770,260,000	377,888,350	1,148,148,351
Less Current Portion	(27,420,000)	(35,623,141)	(63,043,142)
Noncurrent Portion	\$ 742,840,000	\$ 342,265,209	\$ 1,085,105,209

On April 7, 2004, WIFA issued \$97,100,000 of Water Quality Refunding Bonds to do an advance refunding on part of the 1992, 1997A, 1998A and 2001 bonds. Under the terms of the refunding issue, sufficient assets to pay all principal and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government Securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The amount outstanding on those bonds as of June 30, 2008 is \$91,215,000. These bonds have been fully defeased.

The net present value cash flow for savings on issuing the refunding bonds at a 3.213% bond yield was \$3,120,247.

The \$7,480,204 deferred amount on retirement of bonds is being amortized over the lives of the defeased bonds on the straight-line basis. Annual amortization is \$381,202 and \$173,030 for Clean Water Revolving and Drinking Water Revolving Funds, respectively. Amortization has been offset against interest expense.

NOTE 7 ADMINISTRATIVE REVENUES AND EXPENSES

WIFA is authorized to utilize a portion of the facility grant as an administrative grant (not to exceed 4% of the net capital facility grant). These funds are deposited to an administrative grant account maintained by WIFA which is accounted for in a separate fund at the treasurer's office.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2008

NOTE 7 ADMINISTRATIVE REVENUES AND EXPENSES (Continued)

WIFA also receives a loan origination fee on most loans and servicing fees assessed on the outstanding loan balance from each of the local borrowers (Debt Management Revenue). These fees are used to defray program administration expenses, and are collected and recorded by WIFA as separate funds at the treasurer's office.

The administrative expenses reported by WIFA for the year ended June 30, 2008 are as follows:

EXPENSES:	Clean Water Fund	Drinking Water Fund	Total
Personnel	\$ 528,241	\$ 250,593	\$ 778,834
Benefits	210,404	112,887	323,291
Contracts	79,159	79,159	158,318
In State Travel	6,576	6,018	12,594
Out of State Travel	3,970	2,061	6,031
Other operating expenses	94,494	94,494	188,988
Capital and non-capital equipment	17,675	17,562	35,237
Indirect cost	24,000	24,000	48,000
Linked deposit	121,161	-	121,161
Other program activities	1,619,219	42,653	1,661,872
Other operating expenses	<u>(37,077)</u>	<u>37,077</u>	<u>-</u>
Subtotal	2,667,822	666,504	3,334,326
Set aside to ADEQ	<u>-</u>	<u>2,408,027</u>	<u>2,408,027</u>
	<u>\$ 2,667,822</u>	<u>\$ 3,074,531</u>	<u>\$ 5,742,353</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2008

NOTE 8 AMORTIZATION OF BOND COSTS AND BOND PREMIUMS

WIFA has incurred costs for issuance of bonds, which were not passed on to the borrowers. Such costs are being amortized over the life of the bonds on the straight-line basis. Amortization has been offset against interest expense. Annual amortization for the following bonds is \$193,987 and \$64,506 for Clean Water Revolving and Drinking Water Revolving Funds, respectively. The details follow:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Amortization</u>	<u>June 30, 2008</u>
Clean Water Fund:				
1996A Bonds	\$ 65,043	\$ -	\$ (7,504)	\$ 57,539
1997 Bonds	11,111	-	(5,556)	5,555
1998 Bonds	2,557	-	(2,557)	-
1999 Bonds	412,464	-	(40,571)	371,893
2001 Bonds	77,270	-	(19,318)	57,952
2004 Bonds	908,403	-	(50,467)	857,936
2006 Bonds	1,048,551	-	(55,922)	992,629
2008 Bonds	-	967,410	(12,092)	955,318
Drinking Water Fund:				
1998 Bonds	1,261	-	(1,261)	-
2001 Bonds	70,559	-	(17,640)	52,919
2004 Bonds	510,976	-	(28,388)	482,588
2006 Bonds	192,338	-	(10,258)	182,080
2008 Bonds	-	556,762	(6,959)	549,803
	<u>\$ 3,300,533</u>	<u>\$ 1,524,172</u>	<u>\$ (258,493)</u>	<u>\$ 4,566,212</u>

Bond premiums are being amortized over the life of the bonds. Annual amortization for the following bonds is \$1,668,346 and \$815,405 for Clean Water Revolving and Drinking Water Revolving Funds, respectively. The details follow:

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 8 AMORTIZATION OF BOND COSTS AND BOND PREMIUMS
(Continued)

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Amortization</u>	<u>June 30, 2008</u>
Clean Water Fund:				
1998 Bonds	\$ 8,110	\$ -	\$ (8,110)	\$ -
1999 Bonds	113,490	-	(11,164)	102,326
2001 Bonds	469,686	-	(117,422)	352,264
2004 Bonds	15,323,330	-	(905,918)	14,417,412
2006 Bonds	8,788,299	-	(468,709)	8,319,590
2008 Bonds	-	12,084,312	(157,023)	11,927,289
Drinking Water Fund:				
1998 Bonds	2,530	-	(2,530)	-
2001 Bonds	428,888	-	(107,222)	321,666
2004 Bonds	8,497,790	-	(503,200)	7,994,590
2006 Bonds	1,612,055	-	(85,976)	1,526,079
2008 Bonds	-	6,954,749	(116,477)	6,838,272
	<u>\$35,244,178</u>	<u>\$19,039,061</u>	<u>\$ (2,483,751)</u>	<u>\$ 51,799,488</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

PHOENIX, ARIZONA

COMPLIANCE REPORT

Year Ended June 30, 2008



**REPORT 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**

Board of Directors
Water Infrastructure Finance Authority of Arizona
Phoenix, Arizona

We have audited the financial statements of the Water Infrastructure Finance Authority of Arizona (the "Authority"), as of and for the year ended June 30, 2008, and have issued our report thereon dated October 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Water Infrastructure Finance Authority of Arizona's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

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

Compliance and Other Matters

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

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

A handwritten signature in black ink, appearing to read "H. H. W.", is positioned above the date and location.

October 29, 2008
Casa Grande, Arizona