



WATER INFRASTRUCTURE FINANCE AUTHORITY
OF ARIZONA

PHOENIX, ARIZONA

FINANCIAL STATEMENTS

Year Ended June 30, 2010

WATER INFRASTRUCTURE FINANCE AUTHORITY
OF ARIZONA

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WATER INFRASTRUCTURE FINANCE AUTHORITY
OF ARIZONA



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, 2010, 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2010, on our consideration of the 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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**Management's Discussion and Analysis
For the Year Ended June 30, 2010**

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, 2010. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

HIGHLIGHTS – BUSINESS TYPE ACTIVITIES

- In 2010, program loans increased by \$165.5 million as compared to 2009. This demonstrates continued strong demand for the Authority's services.

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,	2010	2009
Cash & Equivalents	\$ 71,026,374	\$ 85,989,140
Investments	105,256,690	97,118,345
Loans	1,158,137,905	992,641,348
All Other Assets	23,952,015	22,488,843
Total Assets	1,358,372,984	1,198,237,676
Bonds Payable	857,910,000	742,840,000
Interest Payable	10,223,578	9,052,313
All Other Liabilities	54,199,329	44,639,700
Total Liabilities	922,332,907	796,532,013
Restricted Capitalization for Grants	379,482,328	341,021,030
Unrestricted	56,557,749	60,684,633
Total Net Assets	\$ 436,040,077	\$ 401,705,663

The Authority net assets increased to \$436,040,077 during 2010, an increase of \$34,334,414 over 2009. 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,	2010	2009
Program Revenues		
Program loan interest revenue	\$ 22,347,120	\$ 20,067,050
Debt management fees	13,248,075	12,689,699
Total program revenue	35,595,195	32,756,749
Program Expenses		
Administrative expenses	12,860,683	9,428,393
Technical/financial assistance	31,477,252	1,528,500
Program loan interest expense	37,769,218	34,097,678
Total program expenses	82,107,153	45,054,571
Program loss	(46,511,958)	(12,297,822)
Non-program revenues	10,907,822	10,667,770
Income before contributions	(35,604,136)	(1,630,052)
Capital contributions	69,938,550	19,465,363
Change in net assets	34,334,414	17,835,311
Beginning net assets	401,705,663	383,870,352
Ending net assets	\$ 436,040,077	\$ 401,705,663

Compared to 2009, total program revenue increased by \$2.8 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 2010 and drew contributions from multiple open federal capitalization grants.

BUDGETARY HIGHLIGHTS

The Authority's Board of Directors adopted an operating budget of \$1,970,144 for the period July 1, 2009 through June 30, 2010.

<u>Budget Line Item</u>	<u>Amount</u>
Salaries & Benefits	\$1,360,384
Professional & Outside Services	257,530
In State Travel	22,550
Out of State Travel	22,340
Other Operating	225,200
Equipment	32,140
Indirect Cost	50,000
Total	\$1,970,144

CAPITAL ASSETS

The Authority's capital assets consist primarily of computer equipment. In 2010, the Authority purchased \$20,354 of new equipment, none of which was capitalized.

DEBT OUTSTANDING

Years Ended June 30,	2010	2009
Beginning balance	\$ 742,840,000	\$ 770,260,000
Refunded Bonds	(41,275,000)	-
Refunding Bonds	39,655,000	-
Additions	148,785,000	-
Payments	(32,095,000)	(27,420,000)
Ending balance	\$ 857,910,000	\$ 742,840,000

ECONOMIC AND OTHER FACTORS

Anticipated Bond Sales

Early in the 2011 fiscal year the Authority is planning to conduct another bond sale. The Authority is looking for approximately \$140 million in new funding and \$42 million to be used for refunding of prior issues.

Authority Automation Efforts

Fiscal year 2010 was only the second period that the Authority functioned entirely within its new comprehensive database. While some minor issues did surface, the Authority has already realized time savings and greater availability of information. Efforts are ongoing to develop and implement additional fiscal and programmatic related applications to further automate business activity.

American Recovery and Reinvestment Act

The Authority received \$55 million for Drinking Water and \$26 million for Clean Water as part of the federal stimulus act. The Authority anticipates that it will continue to receive yearly federal capitalization grants independent of the ARRA grants.

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, 2010

ASSETS	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Current assets			
Cash and cash equivalents			
Cash with treasurer	\$ 37,595,089	\$ 28,728,747	\$ 66,323,836
Cash with trustee	3,998,342	704,196	4,702,538
Total cash and cash equivalents	41,593,431	29,432,943	71,026,374
Receivables, net of uncollectibles			
Debt management	4,121,321	2,073,231	6,194,552
Interest	9,098,065	3,663,696	12,761,761
Internal balances	(28,661,031)	28,661,031	-
Total current assets	26,151,786	63,830,901	89,982,687
Noncurrent assets			
Investments	84,295,355	20,961,335	105,256,690
Program loans	800,093,683	358,044,222	1,158,137,905
Deferred bond costs	3,736,447	1,259,255	4,995,702
Total noncurrent assets	888,125,485	380,264,812	1,268,390,297
Total assets	914,277,271	444,095,713	1,358,372,984
LIABILITIES			
Current liabilities			
Accrued payroll	5,471	5,471	10,942
Compensated absences	42,473	42,473	84,946
Interest payable	7,560,519	2,663,059	10,223,578
Bonds payable-current	24,163,490	12,831,510	36,995,000
Total current liabilities	31,771,953	15,542,513	47,314,466
Noncurrent liabilities			
Loan reserve	302,457	2,109,477	2,411,934
Commitments and contingencies	-	-	-
Unamortized bond premiums	42,170,691	15,837,002	58,007,693
Deferred amount on retirement of bonds	(4,239,823)	(2,076,363)	(6,316,186)
Bonds payable	608,125,197	212,789,803	820,915,000
Total noncurrent liabilities	646,358,522	228,659,919	875,018,441
Total liabilities	678,130,475	244,202,432	922,332,907
NET ASSETS			
Restricted for capitalization grants	201,552,747	177,929,581	379,482,328
Unrestricted	34,594,049	21,963,700	56,557,749
Total net assets	\$ 236,146,796	\$ 199,893,281	\$ 436,040,077

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2010

	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Program revenues			
Program loan interest revenue	\$ 15,493,723	\$ 6,853,397	\$ 22,347,120
Debt management fees	8,622,594	4,625,481	13,248,075
Total program revenues	<u>24,116,317</u>	<u>11,478,878</u>	<u>35,595,195</u>
Program expenses			
Administrative expenses	5,788,551	6,029,306	11,817,857
Technical assistance	366,646	676,180	1,042,826
Program loan interest expense	28,256,289	9,512,929	37,769,218
ARRA expense	11,607,509	19,869,743	31,477,252
Total program expenses	<u>46,018,995</u>	<u>36,088,158</u>	<u>82,107,153</u>
Program loss	<u>(21,902,678)</u>	<u>(24,609,280)</u>	<u>(46,511,958)</u>
Nonprogram revenues			
Administrative grants	940,027	3,900,661	4,840,688
Investment earnings	4,761,544	1,305,590	6,067,134
Total nonprogram revenues	<u>5,701,571</u>	<u>5,206,251</u>	<u>10,907,822</u>
Income before contributions and transfers	(16,201,107)	(19,403,029)	(35,604,136)
Capital contributions-federal	21,159,663	48,778,887	69,938,550
Change in net assets	<u>4,958,556</u>	<u>29,375,858</u>	<u>34,334,414</u>
Total net assets-beginning of year	<u>231,188,240</u>	<u>170,517,423</u>	<u>401,705,663</u>
Total net assets-end of year	<u>\$ 236,146,796</u>	<u>\$ 199,893,281</u>	<u>\$ 436,040,077</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Receipt of program loans	\$ 64,460,918	\$ 36,245,786	\$ 100,706,704
Loans made to borrowers	(168,127,519)	(76,123,474)	(244,250,993)
Receipt of debt management fees	8,333,091	4,511,395	12,844,486
Receipt (use) of loan reserves	122	75,565	75,687
Payment of administrative costs	(5,776,672)	(6,017,427)	(11,794,099)
Payment of technical assistance costs	(366,646)	(676,180)	(1,042,826)
Payment of ARRA expense	(11,607,509)	(19,869,743)	(31,477,252)
Payment of program loan costs	(29,228,021)	(10,571,752)	(39,799,773)
Net cash used by operating activities	(142,312,236)	(72,425,830)	(214,738,066)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Principal paid on bonds	(61,602,464)	(11,767,536)	(73,370,000)
Receipts from new bond issue	175,056,737	25,303,174	200,359,911
Interfund receipts (payments)	8,068,700	(8,068,700)	-
Receipt of administrative grants	940,027	3,900,661	4,840,688
Capital contributions	21,159,663	48,778,887	69,938,550
Net cash provided by noncapital financing activities	143,622,663	58,146,486	201,769,149
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(6,841,895)	(1,296,450)	(8,138,345)
Interest received on investments	4,761,678	1,382,818	6,144,496
Net cash provided (used) by investing activities	(2,080,217)	86,368	(1,993,849)
Net (decrease) in cash and cash equivalents	(769,790)	(14,192,976)	(14,962,766)
Cash and cash equivalents at beginning of year	42,363,221	43,625,919	85,989,140
Cash and cash equivalents at end of year	\$ 41,593,431	\$ 29,432,943	\$ 71,026,374

See accompanying notes.

	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Reconciliation of program loss to net cash used by operating activities			
Program loss	\$ (21,902,678)	\$ (24,609,280)	\$ (46,511,958)
Adjustments to reconcile program loss to net cash used by operating activities:			
Amortization of bond related costs	(2,023,505)	(1,178,315)	(3,201,820)
(Increase) decrease in			
Program loans	(118,667,855)	(46,828,702)	(165,496,557)
Debt management receivable	(289,503)	(114,086)	(403,589)
Interest receivable	(492,469)	97,617	(394,852)
Increase (decrease) in			
Accrued payroll	1,951	1,951	3,902
Compensated absences	9,928	9,928	19,856
Interest payable	1,051,773	119,492	1,171,265
Loan reserve	122	75,565	75,687
Total adjustments	(120,409,558)	(47,816,550)	(168,226,108)
Net cash used by operating activities	\$ (142,312,236)	\$ (72,425,830)	\$ (214,738,066)
NONCASH INVESTING ACTIVITIES			
Amortization of deferred bond costs	\$ 640,165	\$ 119,686	\$ 759,851
Amortization of bond premiums	381,203	173,031	554,234
Amortization of deferred amount on retirement of bonds	3,044,873	1,471,032	4,515,905

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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.

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

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 drinking 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).

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and cash equivalents

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.

At June 30, 2010, the carrying amount of WIFA's cash with treasurer totaled \$66,323,836 of which \$64,810,480 was invested in the State Agency's pool number 3. The remaining balance of \$1,513,356 was on deposit and collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Authority's name.

At June 30, 2010, the carrying amount of WIFA's cash with trustee totaled \$4,702,538 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, 2010, consisted of collateralized guaranteed investment contracts. The guaranteed investment contracts are not insured by the Federal Deposit Insurance Corporation.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE 2 CASH AND INVESTMENTS (Continued)

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:

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	\$ 64,810,480	\$ 64,810,480	\$ -	\$ -	\$ -
Money Market Funds	4,702,538	4,702,538	-	-	-
Guaranteed Investment Contracts	105,256,690	-	-	-	105,256,690
	<u>\$ 174,769,708</u>	<u>\$ 69,513,018</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,256,690</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	\$ 64,810,480	\$ -	\$ -	\$ -	\$ 64,810,480
Money Market Funds	4,702,538	-	-	-	4,702,538
Guaranteed Investment Contracts	105,256,690	105,256,690	-	-	-
	<u>\$ 174,769,708</u>	<u>\$ 105,256,690</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,513,018</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.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE 2 CASH AND INVESTMENTS (Continued)

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	\$ 64,810,480
First American US Treasury Money Market	Money Market	4,702,538
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	31,373,836
GE Funding Capital Mkt Svcs Inc	Guaranteed Investment Contract	8,144,837
		\$ 174,769,708

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, 2009	Increases	Decreases	June 30, 2010
Clean Water Fund	\$ 681,425,828	\$ 168,127,519	\$ (49,459,664)	\$ 800,093,683
Drinking Water Fund	311,215,520	76,123,474	(29,294,772)	358,044,222
	\$ 992,641,348	\$ 244,250,993	\$ (78,754,436)	\$ 1,158,137,905

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, 2010 was as follows:

Compensated Absences for:	July 1, 2009	Additions	Reductions	June 30, 2010	Estimated Current Portion
Clean Water	\$32,545	\$38,047	\$ (28,119)	\$42,473	\$ 42,473
Drinking Water	32,545	38,047	(28,119)	42,473	42,473
Total	\$65,090	\$76,094	\$ (56,238)	\$84,946	\$ 84,946

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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 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, 2010, 2009 and 2008, active ASRS members and the District were each required by statute to contribute at the actuarially determined rate of 9.40, 9.45 and 9.60 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, 2010, 2009 and 2008 were \$91,823, \$84,647 and \$74,768, respectively.

NOTE 6 INTERNAL BALANCES

At June 30, 2010, the Clean Water Fund owed the Drinking Water Fund \$28,661,031 which was the result of short-term borrowing for loan draws. Funds will be repaid from the July 2010 debt issue.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE 7 BONDS PAYABLE

Bonds payable at June 30, 2010 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 Authority'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.

\$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.	\$ 10,385,000
\$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.	142,200,000
\$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.	89,375,000
\$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.	194,050,000
\$238,710,000 Water Quality Revenue Bonds, Series 2008A, due in annual principal installments ranging from \$615,405 to \$14,464,740, plus semi annual interest ranging from 3.00% to 5.0% through October 1, 2028.	236,460,000
\$148,785,000 Water Quality Revenue Bonds, Series 2009A, due in annual principal installments ranging from \$2,625,000 to \$12,250,000, plus semi annual interest ranging from 2.0% to 5.0% through October 1, 2029.	146,265,000
\$39,655,000 Water Quality Refunding Bonds, Series 2009A, due in annual principal installments ranging from \$3,555,000 to \$9,620,000, plus semi annual interest ranging from 4.0% to 5.0% through October 1, 2017.	<u>39,175,000</u>
	<u>\$ 857,910,000</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE 7 BONDS PAYABLE (Continued)

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

	July 1, 2009	Issued	Retired	June 30, 2010
Financial Assistance Revenue				
Bonds Series 1995	\$ 410,000	\$ -	\$ 410,000	\$ -
Financial Assistance Revenue				
Bonds Series 1996A	4,140,000	-	4,140,000	-
Bonds Series 1999	41,120,000	-	41,120,000	-
Water Quality Revenue				
Bonds Series 2001A	15,285,000	-	4,900,000	10,385,000
Water Quality Revenue				
Bonds Series 2004A	150,800,000	-	8,600,000	142,200,000
Water Quality Refunding				
Bonds Series 2004A	93,600,000	-	4,225,000	89,375,000
Water Quality Revenue				
Bonds Series 2006A	198,775,000	-	4,725,000	194,050,000
Water Quality Revenue				
Bond Series 2008A	238,710,000	-	2,250,000	236,460,000
Water Quality Revenue				
Bonds Series 2009A	-	148,785,000	2,520,000	146,265,000
Water Quality Refunding				
Bonds Series 2009A	-	39,655,000	480,000	39,175,000
	<u>\$742,840,000</u>	<u>\$188,440,000</u>	<u>\$73,370,000</u>	<u>\$857,910,000</u>

Bonds by Fund are as follows:

Arizona Clean Water Revolving Fund	\$ 632,288,687
Arizona Drinking Water Revolving Fund	225,621,313
	<u>\$ 857,910,000</u>

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

Year Ending June 30,	Clean Water		
	Principal	Interest	Total
2011	\$ 24,163,490	\$ 29,708,367	\$ 45,100,968
2012	31,046,857	28,529,463	45,723,642
2013	28,711,014	27,223,911	51,364,536
2014	28,808,257	25,892,728	48,956,496
2015	32,222,503	24,479,253	56,701,756
2016-2020	182,592,412	97,560,955	280,153,367
2021-2025	197,644,439	50,719,394	248,363,833
2026-2030	107,099,715	10,768,009	117,867,724
Total Long-Term Debt	632,288,687	294,882,080	894,232,322
Less Current Portion	(24,163,490)	(29,708,367)	(45,100,968)
Noncurrent Portion	<u>\$ 608,125,197</u>	<u>\$ 265,173,713</u>	<u>\$ 849,131,354</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 7 BONDS PAYABLE (Continued)

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
2011	\$ 12,831,510	\$ 10,385,277	\$ 23,216,787
2012	14,078,143	9,823,730	23,901,873
2013	12,758,986	9,234,214	21,993,200
2014	13,441,743	8,654,253	22,095,996
2015	11,272,497	8,098,434	19,370,931
2016-2020	64,357,588	31,679,408	96,036,996
2021-2025	71,890,561	14,519,050	86,409,611
2026-2030	24,990,285	2,369,959	27,360,244
Total Long-Term Debt	225,621,313	94,764,325	320,385,638
Less Current Portion	(12,831,510)	(10,385,277)	(23,216,787)
Noncurrent Portion	\$ 212,789,803	\$ 84,379,048	\$ 297,168,851

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
2011	\$ 36,995,000	\$ 40,093,644	\$ 68,317,755
2012	45,125,000	38,353,193	69,625,515
2013	41,470,000	36,458,125	73,357,736
2014	42,250,000	34,546,981	71,052,492
2015	43,495,000	32,577,687	76,072,687
2016-2020	246,950,000	129,240,363	376,190,363
2021-2025	269,535,000	65,238,444	334,773,444
2026-2030	132,090,000	13,137,968	145,227,968
Total Long-Term Debt	857,910,000	389,646,405	1,214,617,960
Less Current Portion	(36,995,000)	(40,093,644)	(68,317,755)
Noncurrent Portion	\$ 820,915,000	\$ 349,552,761	\$ 1,146,300,204

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 defeased bonds as of June 30, 2010 is \$62,995,000.

In July 2009, WIFA issued \$39,655,000 of Water Quality Revenue Refunding Bonds Series 2009A to do an advance refunding on the remainder of the 1996A and 1999A 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

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 7 BONDS PAYABLE (Continued)

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 redemption date was September and October 2009, so the amount outstanding on those defeased bonds as of June 30, 2010 is zero.

The advance refunding was done in order to reduce debt payments. The refunding issue decreased WIFA's total debt service payments by approximately \$3.6 million. The transaction resulted in an economic loss of approximately \$499,000.

The \$6,316,186 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 8 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.

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 June 30, 2010 are as follows:

EXPENSES:	Clean Water Fund	Drinking Water Fund	Total
Personnel	\$ 544,834	\$ 432,006	\$ 976,840
Benefits	207,261	164,207	371,468
Contracts	85,703	111,682	197,385
In State Travel	6,843	6,843	13,686
Out of State Travel	7,031	7,031	14,062
Other operating expenses	79,558	79,558	159,116
Equipment	10,177	10,177	20,354
Indirect cost	24,000	24,000	48,000
Other program activities	1,222,226	341,151	1,563,377
ARRA admin transfers to ADOA	130,807	273,479	404,286
Small Water Systems Contributed Capital	-	85,988	85,988
Fee transfers to ADEQ	3,393,044	1,993,317	5,386,361
Subtotal	5,711,484	3,529,439	9,240,923
Set aside to ADEQ	77,067	2,499,867	2,576,934
	<u>\$ 5,788,551</u>	<u>\$ 6,029,306</u>	<u>\$ 11,817,857</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 9 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 \$229,182 and \$83,421 for Clean Water Revolving and Drinking Water Revolving Funds, respectively. The details follow:

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Amortization</u>	<u>June 30, 2010</u>
Clean Water Fund:				
1996A Bonds	\$ 50,035	\$ -	\$ (50,035)	\$ -
1999 Bonds	331,322	-	(331,322)	-
2001 Bonds	37,160	-	(19,318)	17,842
2004 Bonds	807,469	-	(50,467)	757,002
2006 Bonds	936,707	-	(55,922)	880,785
2008 Bonds	906,947	-	(48,370)	858,577
2009 Bonds		1,306,971	(84,730)	1,222,241
Drinking Water Fund:				
2001 Bonds	35,982	-	(17,640)	18,342
2004 Bonds	454,200	-	(28,388)	425,812
2006 Bonds	171,822	-	(10,258)	161,564
2008 Bonds	521,965	-	(27,838)	494,127
2009 Bonds	-	194,973	(35,563)	159,410
	<u>\$ 4,253,609</u>	<u>\$ 1,501,944</u>	<u>\$ (759,851)</u>	<u>\$ 4,995,702</u>

Bond premiums are being amortized over the life of the bonds. Annual amortization for the following bonds is \$2,131,307 and \$1,065,119 for Clean Water Revolving and Drinking Water Revolving Funds, respectively. The details follow:

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Amortization</u>	<u>June 30, 2010</u>
Clean Water Fund:				
1999 Bonds	\$ 91,162	\$ -	\$ (91,162)	\$ -
2001 Bonds	234,842	-	(117,421)	117,421
2004 Bonds	13,511,494	-	(905,920)	12,605,574
2006 Bonds	7,850,881	-	(468,709)	7,382,172
2008 Bonds	11,299,195	-	(628,096)	10,671,099
2009 Bonds	-	12,227,990	(833,565)	11,394,425
Drinking Water Fund:				
2001 Bonds	311,425	-	(107,222)	204,203
2004 Bonds	7,491,390	-	(503,200)	6,988,190
2006 Bonds	1,440,103	-	(85,976)	1,354,127
2008 Bonds	6,372,570	-	(465,907)	5,906,663
2009 Bonds	-	1,692,546	(308,727)	1,383,819
	<u>\$48,603,062</u>	<u>\$13,920,536</u>	<u>\$(4,515,905)</u>	<u>\$58,007,693</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 10 SUBSEQUENT EVENTS

In July 2010, Water Infrastructure Finance Authority of Arizona issued \$138,665,000 Water Quality Revenue Bonds, Series 2010A due in annual principal installments ranging from \$2,500,000 to \$75,175,000, plus semi annual interest ranging from 2.00% to 5.0% through October 1, 2030. WIFA also issued \$42,325,000 Water Quality Revenue Refunding Bonds, Series 2010A due in annual principal installments beginning in October, 2017 and ranging from \$7,765,000 to \$12,485,000, plus semi annual interest of 5.0% through October 1, 2020.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

PHOENIX, ARIZONA

COMPLIANCE REPORT

Year Ended June 30, 2010

WATER INFRASTRUCTURE FINANCE AUTHORITY
OF ARIZONA



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, 2010, and have issued our report thereon dated September 20, 2010. 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 Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2010-1 to be a material weakness.

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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.

Water Infrastructure Finance Authority of Arizona's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Water Infrastructure Finance Authority of Arizona's response and, accordingly, we express no opinion on it.

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.



Casa Grande, Arizona
September 20, 2010

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2010

Findings - Financial Statement Audit

2010-1 Closing Procedures For The End Of Year

Criteria: The design and operation of the components of internal control over financial reporting should reduce to a relatively low level the risk that misstatements caused by error in the amounts that would be material to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Condition: Significant audit adjustments were required relating to loans receivable and interest payable.

Effect: Assets were understated, liabilities were overstated and expenses were overstated, resulting in two adjustments significant to the financial statements.

Cause: Controls relating to proper closing procedures and timely oversight over the process were not effective.

Recommendation: We recommend that management strengthen its policies and procedures over the year-end closing process to ensure all accounts were accurately adjusted.

Management's response: Fiscal year 2010 was only the Authority's second year operating in its new, all inclusive software program (LGTS). The software is a database, not an accounting program. The developers have tried to automate as many functions as possible. However, some functions that would be routine in a typical computer accounting system, require user entries in LGTS. This includes both accrual entries and closing entries. A bug in the program caused LGTS to ignore the fact that a new bond issue had taken place during the year when it calculated the interest payable. This has been addressed with the developers. All receivable entries must be calculated and keyed by the users. Management has instituted a checklist document to be used at the roll over from one fiscal year to the next. This will ensure that all bond issues, new and old are included in the interest payable calculation in future years. The document will also serve as a double check to ensure that all receivable entries are made and to verify the accuracy of those entries. The Authority is also continuing to work with the software developers to further automate year end and roll over transactions.

WATER INFRASTRUCTURE FINANCE AUTHORITY
OF ARIZONA