

HENRY & HORNE, LLP
CERTIFIED PUBLIC ACCOUNTANTS



WATER INFRASTRUCTURE FINANCE AUTHORITY
OF ARIZONA

PHOENIX, ARIZONA

FINANCIAL STATEMENTS

Year Ended June 30, 2012



WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

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HENRY & HORNE, LLP
Certified Public Accountants

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, 2012, 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, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof 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 10, 2012, 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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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Henry + Horne LLP

Casa Grande, Arizona
September 10, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012

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, 2012. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Highlights – Business Type Activities

- In 2012, program loans increased by \$37.8 million. 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,	2012	2011
Cash & Equivalents	\$ 185,087,441	\$ 151,731,543
Investments	115,772,778	115,352,448
Loans	1,130,215,458	1,190,869,136
All Other Assets	21,560,488	33,690,425
Total Assets	1,452,636,165	1,491,643,552
Bonds Payable/Premium	964,464,058	1,026,779,192
Interest Payable	10,734,162	11,392,837
All Other Liabilities	2,859,648	2,623,734
Total Liabilities	978,057,868	1,040,795,763
Net Assets Invested in Capital Assets	86,475	-
Restricted Capitalization for Grants	412,525,721	396,790,962
Unrestricted	61,966,101	54,056,827
	\$ 474,578,297	\$ 450,847,789

The Authority net assets increased to \$474,578,297 during 2012, an increase of \$23,730,508 over 2011. 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.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Years Ended June 30,	<u>2012</u>	<u>2011</u>
Program Revenues		
Program loan interest revenue	\$ 21,821,739	\$ 23,123,041
Debt management fees	<u>16,191,913</u>	<u>14,808,090</u>
Total program revenue	<u>38,013,652</u>	<u>37,931,131</u>
Program Expenses		
Administrative expenses	6,876,587	9,172,440
Technical/financial assistance	5,909,691	13,788,692
Program loan interest expense	<u>34,301,057</u>	<u>39,621,958</u>
Total program expenses	<u>47,087,335</u>	<u>62,583,090</u>
Program loss	(9,073,683)	(24,651,959)
Non-program revenues	<u>11,536,439</u>	<u>11,691,512</u>
Income before contributions	2,462,756	(12,960,447)
Capital contributions	<u>21,267,752</u>	<u>27,768,159</u>
Change in net assets	23,730,508	14,807,712
Beginning net assets	<u>450,847,789</u>	<u>436,040,077</u>
Ending net assets	<u>\$ 474,578,297</u>	<u>\$ 450,847,789</u>

Compared to 2011, total program revenue increased by \$82,521. 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 2012 and drew contributions from multiple open federal capitalization grants.

Budgetary Highlights

The Authority's Board of Directors adopted an operating budget of \$2,765,745 for the period July 1, 2011 through June 30, 2012.

<u>Budget Line Item</u>	<u>Amount</u>
Salaries & Benefits	\$ 1,688,850
Professional & Outside Services	353,500
In State Travel	24,450
Out of State Travel	24,245
Other Operating	435,500
Equipment	189,200
Indirect Cost	50,000
Total	<u>\$ 2,765,745</u>

Capital Assets

The Authority's capital assets consist primarily of computer equipment. In 2012, the Authority purchased \$190,500 of new equipment. Approximately \$135,000 was for capitalized equipment.

Debt Outstanding

Years Ended June 30,	<u>2012</u>	<u>2011</u>
Beginning balance	\$ 958,780,000	\$ 857,910,000
Refunded Bonds	(212,995,000)	(43,125,000)
Refunding Bonds	212,210,000	42,325,000
Additions	-	138,665,000
Payments	(47,625,000)	(36,995,000)
Ending balance	<u>\$ 910,370,000</u>	<u>\$ 958,780,000</u>

Economic and Other Factors

Anticipated Bond Sales

During 2013 fiscal year the Authority may conduct another bond sale.

Authority Automation Efforts

The Authority brought its comprehensive database on line in 2009. Efforts are ongoing to develop and implement additional fiscal related applications to automate financial activity.

Federal Capitalization Grants

The Authority has submitted for federal funding of \$18.3 million for Drinking Water and \$9.5 million for Clean Water. The Authority anticipates that future federal capitalization grants will be smaller.

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 Michael Clark, 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.

FINANCIAL STATEMENTS

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

ASSETS	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Current assets			
Cash and cash equivalents			
Cash with treasurer	\$ 87,542,179	\$ 89,259,694	\$ 176,801,873
Cash with trustee	7,598,053	687,515	8,285,568
Total cash and cash equivalents	95,140,232	89,947,209	185,087,441
Receivables, net of uncollectibles			
Debt management	4,501,862	1,934,019	6,435,881
Interest	7,911,798	2,573,200	10,484,998
Internal balances	(15,899,664)	15,899,664	-
Total current assets	91,654,228	110,354,092	202,008,320
Noncurrent assets			
Investments	93,092,953	22,679,825	115,772,778
Program loans	797,443,128	332,772,330	1,130,215,458
Capital assets	-	86,475	86,475
Deferred bond costs	3,463,874	1,089,260	4,553,134
Total noncurrent assets	893,999,955	356,627,890	1,250,627,845
Total assets	985,654,183	466,981,982	1,452,636,165
LIABILITIES			
Current liabilities			
Accrued payroll	15,364	15,364	30,728
Compensated absences	43,925	43,925	87,850
Interest payable	8,238,172	2,495,990	10,734,162
Bonds payable-current	32,521,014	13,948,983	46,469,997
Total current liabilities	40,818,475	16,504,262	57,322,737
Noncurrent liabilities			
Loan reserve	303,180	2,437,890	2,741,070
Bonds payable/premiums	726,883,562	224,648,873	951,532,435
Deferred loss on bonds	(24,032,626)	(9,505,748)	(33,538,374)
Total noncurrent liabilities	703,154,116	217,581,015	920,735,131
Total liabilities	743,972,591	234,085,277	978,057,868
NET ASSETS			
Restricted for capitalization grants	210,224,427	202,301,294	412,525,721
Unrestricted	31,457,165	30,595,411	62,052,576
Total net assets	\$ 241,681,592	\$ 232,896,705	\$ 474,578,297

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, 2012

	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Program revenues			
Program loan interest revenue	\$ 15,288,825	\$ 6,532,914	\$ 21,821,739
Debt management fees	10,714,272	5,477,641	16,191,913
Total program revenues	<u>26,003,097</u>	<u>12,010,555</u>	<u>38,013,652</u>
Program expenses			
Administrative expenses	2,300,173	4,559,119	6,859,292
Technical assistance	98,741	277,957	376,698
Program loan interest expense	26,294,911	8,006,146	34,301,057
Forgivable principal expense	774,236	4,758,757	5,532,993
Depreciation	-	17,295	17,295
Total program expenses	<u>29,468,061</u>	<u>17,619,274</u>	<u>47,087,335</u>
Program loss	<u>(3,464,964)</u>	<u>(5,608,719)</u>	<u>(9,073,683)</u>
Nonprogram revenues			
Administrative grants	385,688	3,971,252	4,356,940
Investment earnings	5,515,706	1,663,793	7,179,499
Total nonprogram revenues	<u>5,901,394</u>	<u>5,635,045</u>	<u>11,536,439</u>
Income before contributions and transfers	2,436,430	26,326	2,462,756
Capital contributions-federal	<u>2,250,623</u>	<u>19,017,129</u>	<u>21,267,752</u>
Change in net assets	4,687,053	19,043,455	23,730,508
Total net assets-beginning of year	<u>236,994,539</u>	<u>213,853,250</u>	<u>450,847,789</u>
Total net assets-end of year	<u>\$ 241,681,592</u>	<u>\$ 232,896,705</u>	<u>\$ 474,578,297</u>

See accompanying notes.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Receipt of program loans	\$ 79,255,704	\$ 67,358,797	\$ 146,614,501
Loans made to borrowers	(40,089,335)	(22,757,784)	(62,847,119)
Receipt of debt management fees	10,911,336	5,822,016	16,733,352
Receipt (use) of loan reserves	362	195,508	195,870
Payment of administrative costs	(2,280,151)	(4,539,097)	(6,819,248)
Payment of technical assistance costs	(98,741)	(277,957)	(376,698)
Payment of forgivable principal expense	(774,236)	(4,758,757)	(5,532,993)
Payment of program loan costs	(58,022,477)	(19,439,874)	(77,462,351)
Net cash provided (used) by operating activities	(11,097,538)	21,602,852	10,505,314
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Principal paid on bonds	(190,965,467)	(69,654,533)	(260,620,000)
Receipts from new bond issue	185,808,042	65,300,224	251,108,266
Receipt of administrative grants	385,688	3,971,252	4,356,940
Capital contributions	2,250,623	19,017,129	21,267,752
Net cash provided (used) by noncapital financing activities	(2,521,114)	18,634,072	16,112,958
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	-	(103,770)	(103,770)
Net cash used by capital and related financing activities	-	(103,770)	(103,770)

See accompanying notes.

CASH FLOWS FROM INVESTING ACTIVITIES	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Purchase of investments	(189,263)	(231,067)	(420,330)
Interest received on investments	5,554,813	1,706,913	7,261,726
Net cash provided by investing activities	5,365,550	1,475,846	6,841,396
Net increase (decrease) in cash and cash equivalents	(8,253,102)	41,609,000	33,355,898
Cash and cash equivalents at beginning of year	103,393,334	48,338,209	151,731,543
Cash and cash equivalents at end of year	\$ 95,140,232	\$ 89,947,209	\$ 185,087,441

	Business-type Activities-Enterprise Funds		
	Clean Water	Drinking Water	Total
	Revolving Fund	Revolving Fund	
Reconciliation of program loss to net cash provided (used) by operating activities			
Program loss	\$ (3,464,964)	\$ (5,608,719)	\$ (9,073,683)
Adjustments to reconcile program loss to net cash provided (used) by operating activities:			
Depreciation	-	17,295	17,295
Amortization of bond related costs	(31,314,952)	(11,187,667)	(42,502,619)
(Increase) decrease in			
Program loans	23,269,974	37,383,704	60,653,678
Debt management receivable	197,064	344,375	541,439
Interest receivable	607,570	684,395	1,291,965
Increase (decrease) in			
Accrued payroll	9,857	9,857	19,714
Compensated absences	10,165	10,165	20,330
Interest payable	(412,614)	(246,061)	(658,675)
Loan reserve	362	195,508	195,870
Total adjustments	<u>(7,632,574)</u>	<u>27,211,571</u>	<u>19,578,997</u>
Net cash provided (used) by operating activities	<u>\$ (11,097,538)</u>	<u>\$ 21,602,852</u>	<u>\$ 10,505,314</u>

NONCASH INVESTING ACTIVITIES

Amortization of deferred bond costs	\$ 905,220	\$ 293,597	\$ 1,198,817
Amortization of bond premiums	14,346,181	5,720,425	20,066,606
Amortization of deferred amount on retirement of bonds	17,873,991	5,760,839	23,634,830

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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, 2012

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, 2012

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 estimated useful life.

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.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, 2012, the carrying amount of WIFA's cash with treasurer totaled \$176,801,873 of which \$176,780,496 was invested in the State Agency's pool number 3. The remaining balance of \$21,214 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, 2012, the carrying amount of WIFA's cash with trustee totaled \$8,285,568 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.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE 2 CASH AND INVESTMENTS (Continued)

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, 2012, consisted of collateralized guaranteed investment contracts and Federal bonds. 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:

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	\$ 176,801,873	\$ 176,801,873	\$ -	\$ -
Money Market Funds	1,632,766	1,632,766	-	-
Federal Bonds	35,668,599	-	-	25,839,539
Guaranteed Investment Contracts	80,104,179	-	-	2,109,006
	<u>\$ 294,207,417</u>	<u>\$ 178,434,639</u>	<u>\$ -</u>	<u>\$ 27,948,545</u>
				<u>\$ 87,824,233</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE 2 CASH AND INVESTMENTS (Continued)

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	\$ 176,801,873	\$ -	\$ -	\$ -	\$ 176,801,873
Money Market Funds	1,632,766	-	-	-	1,632,766
Federal Bonds	35,668,599	-	35,668,599	-	-
Guaranteed Investment Contracts	80,104,179	80,104,179	-	-	-
	<u>\$ 294,207,417</u>	<u>\$ 80,104,179</u>	<u>\$ 35,668,599</u>	<u>\$ -</u>	<u>\$ 178,434,639</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	\$ 176,801,873
First American US Treasury Money Market	Money Market	1,632,766
Abbey National NA LLC C	Money Market	6,652,802
Bayerische Landesbank	Guaranteed Investment Contract	40,585,506
Royal Bank of Canada	Guaranteed Investment Contract	31,373,836
GE Funding Capital Mkt Svcs Inc	Guaranteed Investment Contract	8,144,837
Deutsche Bank	Federal Bond	9,829,060
Federal Home loan Bks	Federal Bond	25,839,539
		<u>\$ 300,860,219</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

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, 2011	Increases	Decreases	June 30, 2012
Clean Water Fund	\$ 820,713,102	\$ 40,089,335	\$ (63,359,309)	\$ 797,443,128
Drinking Water Fund	370,156,034	22,757,784	(60,141,488)	332,772,330
	<u>\$ 1,190,869,136</u>	<u>\$ 62,847,119</u>	<u>\$(123,500,797)</u>	<u>\$ 1,130,215,458</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 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, 2012, 2011 and 2010, active ASRS members and the District were each required by statute to contribute at the actuarially determined rate of 10.75, 9.85 and 9.40 percent (rate includes 0.25, 0.25, and 0.40 for long-term disability), respectively, of the members' annual covered payroll. WIFA's contributions to ASRS for the years ended June 30, 2012, 2011 and 2010 were \$110,564, \$87,993 and \$91,823, respectively.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE 5 INTERNAL BALANCES

At June 30, 2012, the Clean Water Fund owed the Drinking Water Fund \$15,899,664 which was the result of short-term borrowing for loan draws. Funds will be repaid from existing cash.

NOTE 6 BONDS PAYABLE

Bonds payable at June 30, 2012 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.

\$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.	\$ 24,425,000
\$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.	39,525,000
\$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.	68,980,000
\$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.	227,370,000
\$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.	134,715,000
\$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.	24,655,000
\$138,665,000 Water Quality Revenue Bonds, Series 2010A, due in annual principal installments ranging from \$2,500,000 to \$16,535,000, plus semi annual interest ranging from 2.0% to 5.0% through October 1, 2030.	136,165,000
\$42,325,000 Water Quality Refunding Bonds, Series 2010A, due in annual principal installments ranging from \$7,765,000 to \$12,485,000 plus semi annual interest at 5.0% from October 1, 2017 through October 1, 2020.	42,325,000
\$212,210,000 Water Quality Refunding bonds, Series 2012A and B, due in annual principal installments ranging from \$2,000,000 to \$29,340,000 plus semi annual interest from .2% - 5.0% from October 1, 2012 through October 1, 2025.	212,210,000
	<u>\$ 910,370,000</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 BONDS PAYABLE (Continued)

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

	July 1, 2011	Issued	Retired	June 30, 2012
Water Quality Revenue Bonds Series 2001A	\$ 5,295,000	\$ -	\$ 5,295,000	\$ -
Water Quality Revenue Bonds Series 2004A	90,550,000	-	66,125,000	24,425,000
Water Quality Refunding Bonds Series 2004A	85,175,000	-	45,650,000	39,525,000
Water Quality Revenue Bonds Series 2006A	189,175,000	-	120,195,000	68,980,000
Water Quality Revenue Bond Series 2008A	232,960,000	-	5,590,000	227,370,000
Water Quality Revenue Bonds Series 2009A	140,360,000	-	5,645,000	134,715,000
Water Quality Refunding Bonds Series 2009A	34,275,000	-	9,620,000	24,655,000
Water Quality Revenue Bond Series 2010A	138,665,000	-	2,500,000	136,165,000
Water Quality Refunding Bond Series 2010A	42,325,000	-	-	42,325,000
Water Quality Refunding Bond Series 2012A	-	164,610,000	-	164,610,000
Water Quality Refunding Bond Series 2012B	-	47,600,000	-	47,600,000
	<u>\$958,780,000</u>	<u>\$212,210,000</u>	<u>\$260,620,000</u>	<u>\$ 910,370,000</u>

Bonds by Fund are as follows:

Arizona Clean Water Revolving Fund	\$ 692,270,870
Arizona Drinking Water Revolving Fund	<u>218,099,130</u>
	<u>\$ 910,370,000</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE 6 BONDS PAYABLE (Continued)

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
2013	\$ 32,521,014	\$ 31,820,978	\$ 64,341,991
2014	31,318,257	29,970,165	61,288,423
2015	34,812,503	26,444,231	61,256,734
2016	37,432,293	26,878,541	64,310,834
2017	37,666,490	25,452,024	63,118,513
2018-2022	205,041,028	101,176,562	306,217,590
2023-2027	213,590,543	50,833,373	264,423,916
2028-2031	99,888,743	8,598,956	108,487,699
Total Long-Term Debt	692,270,870	301,174,830	993,445,700
Less Current Portion	(32,521,014)	(31,820,978)	(64,341,991)
Noncurrent Portion	<u>\$ 659,749,856</u>	<u>\$ 269,353,852</u>	<u>\$ 929,103,708</u>

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
2013	\$ 13,948,983	\$ 9,428,304	\$ 23,377,287
2014	13,831,743	8,844,384	22,676,127
2015	11,682,500	8,387,525	20,070,025
2016	12,557,707	7,817,408	20,375,115
2017	11,443,510	7,428,687	18,872,197
2018-2022	73,508,972	28,547,798	102,056,770
2023-2027	62,029,457	11,453,456	73,482,913
2028-2031	19,096,257	1,469,669	20,565,926
Total Long-Term Debt	218,099,130	83,377,231	301,476,361
Less Current Portion	(13,948,983)	(9,428,304)	(23,377,287)
Noncurrent Portion	<u>\$ 204,150,147</u>	<u>\$ 73,948,927</u>	<u>\$ 278,099,074</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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
2013	\$ 46,469,997	\$ 41,249,282	\$ 87,719,279
2014	45,150,000	38,814,550	83,964,550
2015	46,495,003	34,831,756	81,326,759
2016	49,990,000	34,695,949	84,685,949
2017	49,110,000	32,880,710	81,990,710
2018-2022	278,550,000	129,724,360	408,274,360
2023-2027	275,620,000	62,286,829	337,906,829
2028-2031	118,985,000	10,068,625	129,053,625
Total Long-Term Debt	910,370,000	384,552,061	1,294,922,061
Less Current Portion	(46,469,997)	(41,249,282)	(87,719,279)
Noncurrent Portion	\$ 863,900,003	\$ 343,302,779	\$ 1,207,202,782

In July, 2010, WIFA issued \$42,325,000 of Water Quality Revenue Refunding Bonds Series 2010A to do an advance refunding of a portion of the 2004A Water Quality Refunding 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, 2012 is \$43,125,000.

In March, 2012, WIFA issued \$164,610,000 of Water Quality Revenue Refunding Bonds Series 2012A and \$47,600,000 of Water Quality Revenue Refunding Bonds Series 2012B to do an advance refunding of a portion of the 2004 Water Quality Revenue Bonds, 2004 Water Quality Refunding Bonds and 2006 Water Quality Revenue 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, 2012 is \$215,995,000.

The advance refunding was done in order to reduce debt payments. The refunding issue decreased WIFA's total debt service payments by approximately \$14.4 million. The transaction resulted in an economic gain of approximately \$13.7 million.

The \$33,538,374 deferred amount on retirement of bonds is being amortized over the lives of the defeased bonds on the straight-line basis. Annual amortization is \$1,034,351 and \$627,445 for Clean Water Revolving and Drinking Water Revolving Funds, respectively. Amortization has been offset against interest expense.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE 6 BONDS PAYABLE (Continued)

Bond premiums are being amortized over the life of the bonds. Annual amortization for the following bonds is \$4,572,130 and \$1,862,757 for Clean Water Revolving and Drinking Water Revolving Funds, respectively, and is included in interest expense.

NOTE 7 LONG-TERM DEBT ACTIVITY

Long-term debt activity for the fiscal year ended June 30, 2012 follows for each fund and in total.

<u>Clean Water</u>					
Description	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 33,760	\$ 59,519	\$ (49,354)	\$ 43,925	\$ 43,925
Bonds Payable	727,450,637	155,785,700	(190,965,467)	692,270,870	32,521,014
Bond Premiums	50,872,392	30,607,495	(14,346,181)	67,133,706	-
	<u>\$ 778,356,789</u>	<u>\$ 186,452,714</u>	<u>\$ (205,361,002)</u>	<u>\$ 759,448,501</u>	<u>\$ 32,564,939</u>
<u>Drinking Water</u>					
Description	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 33,760	\$ 59,519	\$ (49,354)	\$ 43,925	\$ 43,925
Bonds Payable	231,329,363	56,424,300	(69,654,533)	218,099,130	13,948,983
Bond Premiums	17,126,800	9,092,352	(5,720,426)	20,498,726	-
	<u>\$ 248,489,923</u>	<u>\$ 65,576,171</u>	<u>\$ (75,424,313)</u>	<u>\$ 238,641,781</u>	<u>\$ 13,992,908</u>
<u>Total</u>					
Description	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 67,520	\$ 119,038	\$ (98,708)	\$ 87,850	\$ 87,850
Bonds Payable	958,780,000	212,210,000	(260,620,000)	910,370,000	46,469,997
Bond Premiums	67,999,192	39,699,847	(20,066,607)	87,632,432	-
	<u>\$ 1,026,846,712</u>	<u>\$ 252,028,885</u>	<u>\$ (280,785,315)</u>	<u>\$ 998,090,282</u>	<u>\$ 46,557,847</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

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, 2012 are as follows:

EXPENSES:	Clean Water Fund	Drinking Water Fund	Total
Personnel	\$ 573,784	\$ 494,758	\$ 1,068,542
Benefits	226,666	192,138	418,804
Contracts	72,891	66,226	139,117
In State Travel	7,821	7,810	15,631
Out of State Travel	7,516	7,516	15,032
Other operating expenses	98,184	109,514	207,698
Equipment	5,943	81,046	86,989
Other program activities	196,080	68,434	264,514
Fee transfers to ADEQ	1,089,231	1,027,562	2,116,793
Subtotal	2,278,116	2,055,004	4,333,120
Set aside to ADEQ	22,057	2,504,115	2,526,172
	<u>\$ 2,300,173</u>	<u>\$ 4,559,119</u>	<u>\$ 6,859,292</u>

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WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

PHOENIX, ARIZONA

COMPLIANCE REPORT

Year Ended June 30, 2012



HENRY & HORNE, LLP
Certified Public Accountants

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, 2012, and have issued our report thereon dated September 10, 2012. 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

Management of the Authority is responsible for establishing and maintaining effective 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 opinion 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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Casa Grande, AZ 85122-2950
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Fax (520) 426-9432

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 Board of Directors, 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.

Henry & Horne LLP

Casa Grande, Arizona
September 10, 2012