



Financial Statements
June 30, 2013

Water Infrastructure Finance Authority of Arizona

Water Infrastructure Finance Authority of Arizona

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of Water Infrastructure Finance Authority of Arizona, a component unit of the State of Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Water Infrastructure Finance Authority of Arizona's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of Water Infrastructure Finance Authority of Arizona as of June 30, 2013, and the results of its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 17, 2013 on our consideration of Water Infrastructure Finance Authority of Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Water Infrastructure Finance Authority of Arizona's internal control over financial reporting and compliance.



Phoenix, Arizona
September 17, 2013

As management of the Water Infrastructure Finance Authority of Arizona (WIFA), we offer readers of WIFA's financial statements this narrative overview and analysis of the financial activities of WIFA for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with WIFA's financial statements.

Highlights – Business Type Activities

- In fiscal year 2013, WIFA saw a 37.5% increase in the number of new loans from the previous year.
- WIFA is beginning to see loans maturing in the program. In fiscal year 2013, a total of 22 loans were paid in full from normal loan activity (6) or prepayment (16). In fiscal year 2012, the number was 17.

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

Statement of Net Position

Years Ended June 30,	2013	2012
Cash & Equivalents	\$191,667,309	\$185,087,441
Receivables	17,337,536	16,920,879
Investments	123,514,587	115,772,778
Loans	1,115,311,588	1,130,215,458
Capital Assets	48,688	86,475
Other Assets	4,190,833	4,553,134
Total Assets	1,452,070,541	1,452,636,165
Bonds Payable	\$863,900,000	\$910,370,000
Bond Premiums and Deferred Losses	51,650,671	54,094,058
Interest Payable	9,953,477	10,734,162
Loan Reserve	2,470,232	2,741,070
Other Liabilities	113,630	118,578
Total Liabilities	928,088,010	978,057,868
Net Investment in Capital Assets	\$48,688	\$86,475
Restricted Capitalization for Grants	452,840,617	412,525,721
Unrestricted	71,093,226	61,966,101
Total Net Position	\$523,982,531	\$474,578,297

WIFA's net position increased to \$523,982,531 during fiscal year 2013, an increase of \$49,404,234 over fiscal year 2012. The increase in net position was primarily the result of the reduction in bond debt. The amount of federal expenditures rose from \$32,871,941 in fiscal year 2012 to \$56,841,614 in fiscal year 2013. The increased federal spending was an effort on the part of WIFA to maximize loan capability without incurring any new bond debt.

Review of Revenues, Expenses, and Changes in Net Position

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

Years Ended June 30,	2013	2012
Program Revenues:		
Program loan interest and fee income	\$35,597,685	\$38,013,652
Total program revenue	35,597,665	38,013,652
Program Expenses:		
Administrative expenses	5,914,304	6,859,292
Technical/financial assistance	5,141,340	5,909,691
Program loan interest expense	38,513,511	34,301,057
Depreciation	44,118	17,295
Total program expenses	49,613,273	47,087,335
Program loss	(14,015,608)	(9,073,683)
Non-program revenues	10,843,495	11,536,439
Income (loss) before contributions	(3,172,113)	2,462,756
Capital contributions	52,576,347	21,267,752
Change in net position	49,404,234	23,730,508
Beginning net position	474,578,297	450,847,789
Ending net position	\$523,982,531	\$474,578,297

In fiscal year 2013, total program revenue decreased by \$2,415,987 or 6.36% and the total program expenses increased by \$2,525,938 or 5.36%. Net position increased by \$49,404,234 or 10.41%.

The reduction of program revenue was a result of the pre-payment of loans in the amount of \$75.8 million. While WIFA originated \$72.8 million in new loans in fiscal year 2013, most of these loans will not begin generating interest and fee revenue until fiscal year 2014.

The increase in expenses was primarily because of a 12.28% increase in program loan interest expense (bond interest). This was somewhat offset by WIFA's successful effort to reduce administrative expenses. The overall reduction in administrative expenses was 13.99%.

Budgetary Highlights

WIFA's Board of Directors adopted an operating budget of \$2,765,745 for the period July 1, 2012 through June 30, 2013.

<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><u>\$2,765,745</u></u>

Actual spending was approximately \$832,000 less than the budget. The savings were due to several cost savings efforts conducted by WIFA. These included reevaluation of existing contracts to determine need/cost, reduction in the purchase of office supplies and re-evaluating the need for upgrades to the phone system and other modernization efforts.

Capital Assets

WIFA's capital assets consist primarily of computer equipment. In fiscal year 2013, WIFA purchased \$19,548 of new equipment. Of this amount, \$6,332 was for capitalized equipment. WIFA's long-term bond debt activity for fiscal year 2013 is as follows. See further information in Notes 7 and 8.

Debt Outstanding

Years Ended June 30,	<u>2013</u>	<u>2012</u>
Beginning balance	\$ 910,370,000	\$ 958,780,000
Additions	-	212,210,000
Payments	(46,470,000)	(47,625,000)
Refunded Bonds	-	(212,995,000)
Ending balance	<u><u>\$ 863,900,000</u></u>	<u><u>\$ 910,370,000</u></u>

Economic and Other Factors

Anticipated Bond Sales

During fiscal year 2014, WIFA may conduct a bond sale.

Federal Capitalization Grants

WIFA has submitted for federal funding of \$16.9 million for Drinking Water and \$9.0 million for Clean Water in fiscal year 2014.

Financial Contact

WIFA's financial statements present users with a general overview of WIFA's finances and demonstrate WIFA'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.

Water Infrastructure Finance Authority of Arizona
Statement of Net Position
Proprietary Funds
June 30, 2013

	Business-type Activities-Proprietary Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Assets			
Current Assets			
Cash and cash equivalents			
Cash with treasurer	\$ 99,230,061	\$ 90,825,013	\$ 190,055,074
Cash with trustee	1,141,912	470,323	1,612,235
Total cash and cash equivalents	<u>100,371,973</u>	<u>91,295,336</u>	<u>191,667,309</u>
Receivables, Net of Uncollectibles			
Debt management	4,717,674	2,185,746	6,903,420
Interest	7,411,445	3,022,671	10,434,116
Internal balances	(16,831,886)	16,831,886	-
Total current assets	<u>95,669,206</u>	<u>113,335,639</u>	<u>209,004,845</u>
Noncurrent Assets			
Investments	100,936,556	22,578,031	123,514,587
Program loans	769,096,272	346,215,316	1,115,311,588
Capital assets	-	48,688	48,688
Deferred bond costs	3,179,634	1,011,199	4,190,833
Total noncurrent assets	<u>873,212,462</u>	<u>369,853,234</u>	<u>1,243,065,696</u>
Total assets	<u>\$ 968,881,668</u>	<u>\$ 483,188,873</u>	<u>\$ 1,452,070,541</u>
Liabilities			
Current Liabilities			
Accrued payroll	\$ 5,912	\$ 15,038	\$ 20,950
Compensated absences	23,170	69,510	92,680
Interest payable	7,672,316	2,281,161	9,953,477
Bonds payable-current	31,318,257	13,831,743	45,150,000
Total current liabilities	<u>39,019,655</u>	<u>16,197,452</u>	<u>55,217,107</u>
Noncurrent Liabilities			
Loan reserve	302,902	2,167,330	2,470,232
Bonds payable	628,431,598	190,318,402	818,750,000
Bond premiums	61,877,976	19,192,844	81,070,820
Deferred loss on bonds	(22,117,292)	(7,302,857)	(29,420,149)
Total noncurrent liabilities	<u>668,495,184</u>	<u>204,375,719</u>	<u>872,870,903</u>
Total liabilities	<u>707,514,839</u>	<u>220,573,171</u>	<u>928,088,010</u>
Net Position			
Net investment in capital assets	-	48,688	48,688
Restricted for capitalization grants	219,156,687	233,683,930	452,840,617
Unrestricted	42,210,142	28,883,084	71,093,226
Total net position	<u>261,366,829</u>	<u>262,615,702</u>	<u>523,982,531</u>
Total liabilities and net position	<u>\$ 968,881,668</u>	<u>\$ 483,188,873</u>	<u>\$ 1,452,070,541</u>

Water Infrastructure Finance Authority of Arizona
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2013

	<u>Business-type Activities-Proprietary Funds</u>		
	<u>Clean Water Revolving Fund</u>	<u>Drinking Water Revolving Fund</u>	<u>Total</u>
Program Revenues			
Program loan interest and fee revenue	\$ 24,779,350	\$ 10,818,315	\$ 35,597,665
Program Expenses			
Administrative expenses	1,303,402	4,610,902	5,914,304
Technical assistance	79,082	244,464	323,546
Program loan interest expense	29,686,188	8,827,323	38,513,511
Forgivable principal expense	18,604	4,799,190	4,817,794
Depreciation	1,583	42,535	44,118
Total program expenses	<u>31,088,859</u>	<u>18,524,414</u>	<u>49,613,273</u>
Program Loss	<u>(6,309,509)</u>	<u>(7,706,099)</u>	<u>(14,015,608)</u>
Nonprogram Revenues			
Administrative grants	517,414	3,847,331	4,364,745
Investment earnings	5,052,520	1,426,230	6,478,750
Total nonprogram revenues	<u>5,569,934</u>	<u>5,273,561</u>	<u>10,843,495</u>
Loss before Contributions	(739,575)	(2,432,538)	(3,172,113)
Capital Contributions - Federal	<u>20,424,812</u>	<u>32,151,535</u>	<u>52,576,347</u>
Change in Net Position	19,685,237	29,718,997	49,404,234
Net Position, Beginning of Year	<u>241,681,592</u>	<u>232,896,705</u>	<u>474,578,297</u>
Net Position, End of Year	<u>\$ 261,366,829</u>	<u>\$ 262,615,702</u>	<u>\$ 523,982,531</u>

Water Infrastructure Finance Authority of Arizona
Statement of Cash Flows
Year Ended June 30, 2013

	<u>Business-type Activities-Proprietary Funds</u>		
	<u>Clean Water Revolving Fund</u>	<u>Drinking Water Revolving Fund</u>	<u>Total</u>
Cash Flows from Operating Activities			
Receipt of borrower loan repayments	\$ 51,688,791	\$ 24,121,408	\$ 75,810,199
Loans made to borrowers	(23,341,935)	(37,564,393)	(60,906,328)
Receipt of loan interest	14,632,968	5,444,470	20,077,438
Receipt of debt management fees	10,445,583	4,753,850	15,199,433
Use of loan reserves	(278)	(270,560)	(270,838)
Payment of administrative costs	(1,333,609)	(4,585,640)	(5,919,249)
Payment of technical assistance costs	(79,082)	(244,464)	(323,546)
Payment of forgivable principal expense	(18,604)	(4,799,190)	(4,817,794)
Payment of program loan costs	<u>(31,820,976)</u>	<u>(9,554,307)</u>	<u>(41,375,283)</u>
Net Cash Provided by (Used in) Operating Activities	<u>20,172,858</u>	<u>(22,698,826)</u>	<u>(2,525,968)</u>
Cash Flows from Noncapital Financing Activities			
Principal paid on bonds	(32,521,015)	(13,948,984)	(46,469,999)
Receipts of administrative grants	517,414	3,847,328	4,364,742
Interfund receipts (payments)	(555,002)	555,002	-
Capital contributions	<u>20,424,812</u>	<u>32,151,535</u>	<u>52,576,347</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(12,133,791)</u>	<u>22,604,881</u>	<u>10,471,090</u>
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	<u>(1,583)</u>	<u>(4,748)</u>	<u>(6,331)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(1,583)</u>	<u>(4,748)</u>	<u>(6,331)</u>
Cash Flows from Investing Activities			
Purchase and sale of investments	(7,843,603)	101,794	(7,741,809)
Interest received on investments	<u>5,037,860</u>	<u>1,345,026</u>	<u>6,382,886</u>
Net Cash Provided by (Used in) Investing Activities	<u>(2,805,743)</u>	<u>1,446,820</u>	<u>(1,358,923)</u>
Net Change in Cash and Cash Equivalents	5,231,741	1,348,127	6,579,868
Cash and Cash Equivalents, Beginning of Year	<u>95,140,232</u>	<u>89,947,209</u>	<u>185,087,441</u>
Cash and Cash Equivalents, End of Year	<u>\$ 100,371,973</u>	<u>\$ 91,295,336</u>	<u>\$ 191,667,309</u>

Water Infrastructure Finance Authority of Arizona
Statement of Cash Flows
Year Ended June 30, 2013

	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Reconciliation of Program Loss to Net Cash Provided by (Used in) Operating Activities			
Program loss	\$ (6,309,509)	\$ (7,706,099)	\$ (14,015,608)
Adjustments to reconcile program loss to net cash provided by (used in) operating activities			
Depreciation	1,583	42,535	44,118
Amortization of bond related costs and premiums	(1,568,932)	(512,151)	(2,081,083)
Changes in operating assets and liabilities			
Program loans	28,346,856	(13,442,985)	14,903,871
Debt management receivable	(215,812)	(251,727)	(467,539)
Interest receivable	515,013	(368,268)	146,745
Accrued payroll	(9,452)	(326)	(9,778)
Compensated absences	(20,755)	25,585	4,830
Interest payable	(565,856)	(214,830)	(780,686)
Loan reserve	(278)	(270,560)	(270,838)
Total adjustments	<u>26,482,367</u>	<u>(14,992,727)</u>	<u>11,489,640</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 20,172,858</u>	<u>\$ (22,698,826)</u>	<u>\$ (2,525,968)</u>
Supplemental Disclosures of Noncash Investment Activities			
Amortization of deferred bond costs	<u>\$ 284,240</u>	<u>\$ 78,061</u>	<u>\$ 362,301</u>
Amortization of bond premiums	<u>\$ 5,255,730</u>	<u>\$ 1,305,882</u>	<u>\$ 6,561,612</u>
Amortization of deferred amount on retirement of bonds	<u>\$ 3,402,558</u>	<u>\$ 715,670</u>	<u>\$ 4,118,228</u>

Note 1 - Organization and Reporting Entity

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) and has an operating agreement with the EPA. WIFA is governed by a twelve-member board of directors (the board). 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.

The Drinking Water Revolving 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 may consist of (i) money appropriated by the legislature; (ii) money received from the United States Government for the purposes of the program, including capitalization grants; (iii) money received from the issuance and sale of bonds; (iv) money from Drinking Water and Waste Water Facilities as repayment for loans; (v) interest and other income received from investing money in the fund; and (vi) gifts grants and donation 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.

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

Fund Type

WIFA is required to maintain the federal capitalization grants and state match as the Funds' restricted net position. Therefore, the periodic determination of revenues earned, expenses incurred, and changes in net position are appropriate for capital maintenance, public policy, management control, accountability and other purposes. As a result, the accounting records are maintained as enterprise funds. Only the allowable 4% set aside from the capitalization grants and debt management fees can be expended for expenses.

Note 2 - Summary of Significant Accounting Policies

Proprietary Fund Financial Statements and Measurement Focus and Basis of Accounting

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows for each major proprietary fund and also the aggregated total for all funds.

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.

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 forgivable principal expenses. All revenues and expenses not meeting this definition are reported as non-program revenues and expenses.

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 nonparticipating contracts. The investment of excess revenue in the 2001 Master Trust Indenture is stated at fair value, which approximates cost.

Cash Equivalents

WIFA considers all highly liquid debt instruments purchased with maturities of three months or less at acquisition date to be cash equivalents.

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 lives, which is estimated to be five to seven years for equipment assets.

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 State 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 3.7 hours per pay period 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 position. 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 Position

WIFA restricts amounts received from the federal and state government for the purpose of providing financial assistance for publicly owned wastewater treatment facility and public and privately owned 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 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 capitalization grant (up to a maximum of 4 percent of the capitalization 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.

Implementation of New Accounting Standards

As of June 30, 2013, WIFA implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The implementation of the statement had no impact on the financial statements or net position of WIFA as the entity had previously elected to apply all Financial Accounting Standards Boards Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that were not in conflict with or in contradiction of GASB pronouncements.

As of June 30, 2013, WIFA implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The implementation of the statement had no financial impact on the financial statements or net position of WIFA.

Note 3 - 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, 2013, the carrying amount of WIFA's cash with treasurer totaled \$190,055,074 of which \$183,206,846 was invested in the State Agency's pool number 3 and number 4. The remaining balance of \$6,848,228 was on deposit and collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in WIFA's name.

At June 30, 2013, the carrying amount of WIFA's cash with trustee totaled \$1,612,235 and was invested in money market funds. WIFA maintains its 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 invested in accordance with the Master Bond Indenture and in compliance with the Officer of the State Treasurer's investment policy. The money market funds are not insured by the Federal Deposit Insurance Corporation or collateralized by the trustee.

Investments

The State Treasurer directs WIFA's investments in accordance with the Master Bond Indenture and in compliance with the Officer of the State Treasurer's investment policy. 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, 2013, consisted of collateralized guaranteed investment contracts, Federal bonds and U.S. Treasury notes. The guaranteed investment contracts are not insured by the Federal Deposit Insurance Corporation.

Interest Rate Risk

Interest rate risk, the risk that changes in market interest rates, will adversely affect the fair value of an investment. While WIFA does not have a formal policy regarding interest rate risk, it adheres to requirements within the Office of the State Treasurer's investment policy. 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 as of June 30, 2013:

Water Infrastructure Finance Authority of Arizona
Notes to Financial Statements
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Investment Type	Total Clean Water and Drinking Water				
	Remaining Maturity (In Months)				
	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months	
State Investment Pool	\$ 190,055,074	\$ 190,055,074	\$ -	\$ -	\$ -
Money Market Funds	1,612,235	1,612,235	-	-	-
Federal Bonds	34,871,109	-	-	24,801,644	10,069,465
U.S. Treasury Notes	8,539,299	8,369,927	-	135,183	34,189
Guaranteed Investment Contracts	80,104,179	38,476,501	-	2,109,006	39,518,672
	<u>\$ 315,181,896</u>	<u>\$ 238,513,737</u>	<u>\$ -</u>	<u>\$ 27,045,833</u>	<u>\$ 49,622,326</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 as of June 30, 2013.

Investment Type	Total Clean Water and Drinking Water				
	Ratings as of Year-End				
	AAA	AA	A	Unrated(*)	
State Investment Pool	\$ 190,055,074	\$ -	\$ -	\$ -	\$ 190,055,074
Money Market Funds	1,612,235	-	-	-	1,612,235
Federal Bonds	34,871,109	-	34,871,109	-	-
U.S. Treasury Notes	8,539,299	-	8,539,299	-	-
Guaranteed Investment Contracts	80,104,179	40,585,506	39,518,673	-	-
	<u>\$ 315,181,896</u>	<u>\$ 40,585,506</u>	<u>\$ 82,929,081</u>	<u>\$ -</u>	<u>\$ 191,667,309</u>

(*) Funds held by the State Treasurer – see Note 3 – Cash and Cash Equivalents

WIFA mitigates credit risk by investing in direct obligations of, or obligations the prompt payment of principal and interest on which are fully guaranteed by, the United States of America or, bonds, debentures, notes or other evidences of indebtedness issued or fully insured or guaranteed by any agency or instrumentality of the United States of America which is backed by the full faith and credit of the United States of America, or bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by non-full faith and credit United States government agencies.

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 as of June 30, 2013:

Total Clean Water and Drinking Water		
Issuer	Investment Type	Reported Amount
State Investment Pool	State Investment Pool	\$ 190,055,074
First American US Treasury Money Market	Money Market	1,612,235
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
Duetsche Bank	U.S. Treasury Notes	8,539,299
Federal Home Loan Banks	Federal Bond	34,871,109
		\$ 315,181,896

Note 4 - 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 01, 2012	Increases	Decreases	June 30, 2013
Clean Water Fund	\$ 797,443,128	\$ 23,341,935	\$ (51,688,791)	\$ 769,096,272
Drinking Water Fund	332,772,331	37,564,393	(24,121,408)	346,215,316
	\$ 1,130,215,459	\$ 60,906,328	\$ (75,810,199)	\$ 1,115,311,588

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 3.0 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. As of June 30, 2013, the debt service reserve was \$302,902 and \$2,167,330 for the Clean Water and Drinking Water funds, respectively, and no allowance for loan loss was recorded.

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, 2013, 2012 and 2011, active ASRS members and the District were each required by statute to contribute at the actuarially determined rate of 11.15, 10.75 and 9.85 percent (rate includes 0.25 for long-term disability), respectively, of the members' annual covered payroll. WIFA's contributions to ASRS for the years ended June 30, 2013, 2012 and 2011 were \$114,112, \$110,564, and \$87,993, respectively.

Note 6 - Internal Balances

At June 30, 2013, the Clean Water Fund owed the Drinking Water Fund \$16,831,888, which was the result of short-term cash transfers. Funds will be repaid from existing cash.

Note 7 - Bonds Payable

Bonds payable at June 30, 2013 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 WIFA'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 2004A, 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, callable on October 1, 2014.	\$ 16,150,000
\$97,100,000 Water Quality Revenue Refunding Bonds, Series 2004A, 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, callable on October 1, 2014.	30,025,000
\$205,400,000 Water Quality Revenue Bonds, Series 2006A, 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, callable on October 1, 2016.	61,755,000

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<p>\$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 3.0% to 5.0% through October 1, 2028.</p>	220,120,000
<p>\$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.</p>	130,175,000
<p>\$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.</p>	19,975,000
<p>\$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, callable on October 1, 2026.</p>	133,165,000
<p>\$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, callable on October 1, 2017.</p>	42,325,000
<p>\$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% through October 1, 2025, callable on October 1, 2018.</p>	<u>210,210,000</u>
	<u><u>\$ 863,900,000</u></u>

Water Infrastructure Finance Authority of Arizona

Notes to Financial Statements

June 30, 2013

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

	July 01, 2012	Issued	Retired	June 30, 2013
Water Quality Revenue				
Bonds Series 2004A	\$ 24,425,000	\$ -	\$ 8,275,000	\$ 16,150,000
Water Quality Refunding				
Bonds Series 2004A	39,525,000	-	9,500,000	30,025,000
Water Quality Revenue				
Bonds Series 2006A	68,980,000	-	7,225,000	61,755,000
Water Quality Revenue				
Bonds Series 2008A	227,370,000	-	7,250,000	220,120,000
Water Quality Revenue				
Bonds Series 2009A	134,715,000	-	4,540,000	130,175,000
Water Quality Refunding				
Bonds Series 2009A	24,655,000	-	4,680,000	19,975,000
Water Quality Revenue				
Bonds Series 2010A	136,165,000	-	3,000,000	133,165,000
Water Quality Refunding				
Bonds Series 2010A	42,325,000	-	-	42,325,000
Water Quality Refunding				
Bonds Series 2012A	164,610,000	-	-	164,610,000
Water Quality Refunding				
Bonds Series 2012B	47,600,000	-	2,000,000	45,600,000
	\$ 910,370,000	\$ -	\$ 46,470,000	\$ 863,900,000

Bonds by Fund are as follows:

Arizona Clean Water Revolving Fund	\$ 659,749,856
Arizona Drinking Water Revolving Fund	204,150,144
	\$ 863,900,000

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
2014	\$ 31,318,257	\$ 29,970,165	\$ 61,288,422
2015	34,940,696	26,444,231	61,384,927
2016	37,432,293	26,878,541	64,310,834
2017	37,666,490	25,452,024	63,118,514
2018	38,182,554	24,076,711	62,259,265
2019-2023	211,208,951	91,606,598	302,815,549
2024-2028	199,933,390	40,553,075	240,486,465
2029-2031	69,067,224	4,372,506	73,439,730
Total long-term debt	659,749,855	269,353,851	929,103,706
Less current portion	(31,318,257)	(29,970,165)	(61,288,422)
Noncurrent portion	\$ 628,431,598	\$ 239,383,686	\$ 867,815,284

Water Infrastructure Finance Authority of Arizona
Notes to Financial Statements
June 30, 2013

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
2014	\$ 13,831,743	\$ 8,844,384	\$ 22,676,127
2015	11,554,304	8,387,525	19,941,829
2016	12,557,707	7,817,408	20,375,115
2017	11,443,510	7,428,687	18,872,197
2018	14,117,446	6,999,979	21,117,425
2019-2023	74,181,049	25,163,135	99,344,184
2024-2028	54,081,610	8,622,566	62,704,176
2029-2031	12,382,776	685,244	13,068,020
Total long-term debt	<u>204,150,145</u>	<u>73,948,928</u>	<u>278,099,073</u>
Less current portion	<u>(13,831,743)</u>	<u>(8,844,384)</u>	<u>(22,676,127)</u>
Noncurrent portion	<u>\$ 190,318,402</u>	<u>\$ 65,104,544</u>	<u>\$ 255,422,946</u>

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
2014	\$ 45,150,000	\$ 38,814,549	\$ 83,964,549
2015	46,495,000	34,831,756	81,326,756
2016	49,990,000	34,695,949	84,685,949
2017	49,110,000	32,880,711	81,990,711
2018	52,300,000	31,076,690	83,376,690
2019-2023	285,390,000	116,769,733	402,159,733
2024-2028	254,015,000	49,175,641	303,190,641
2029-2031	81,450,000	5,057,750	86,507,750
Total long-term debt	<u>863,900,000</u>	<u>343,302,779</u>	<u>1,207,202,779</u>
Less current portion	<u>(45,150,000)</u>	<u>(38,814,549)</u>	<u>(83,964,549)</u>
Noncurrent portion	<u>\$ 818,750,000</u>	<u>\$ 304,488,230</u>	<u>\$ 1,123,238,230</u>

In July 2010, WIFA issued \$42,325,000 of Water Quality Revenue Refunding Bond series 2010A for the purpose of advance refunding a portion of the 2004A Water Quality Refunding Bonds. Under the terms of the refunding issue, sufficient assets to pay all principal and interest in the refunded bonds issues had 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 of the defeased bonds as of June 30, 2013 was \$46,202,382.

In March 2012, WIFA issued \$164,610,000 of Water Quality Revenue Refunding Bond series 2012A and \$47,600,000 of Water Quality Revenue Refunding Bond series 2012B for the purpose of advance refunding 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 in the refunded bonds issues had 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 of the defeased bonds as of June 30, 2013 was \$236,727,964.

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As of June 30, 2013, interest expense on outstanding bonds was \$40,594,594.

During fiscal year 2013, bond issuance costs and discounts, bond issuance premiums and deferred losses on refunding of bonds were amortized on a straight-line basis based on the term of the underlying bonds payable. Amortization expense as of June 30, 2013 for bond issuance costs and discounts, bond issuance premiums and deferred losses on refunding of bonds was \$362,301, \$6,561,612, and \$4,118,228, respectively.

Note 8 - Long-Term Debt

Long-term debt activity for the fiscal year ended June 30, 2013 follows for each fund and in total.

Description	Clean Water				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 43,925	\$ 2,929	\$ (23,684)	\$ 23,170	\$ 23,170
Bonds payable	692,270,870	-	(32,521,015)	659,749,855	31,318,257
Bond premiums	67,133,706	-	(5,255,730)	61,877,976	5,551,293
	<u>\$ 759,448,501</u>	<u>\$ 2,929</u>	<u>\$ (37,800,429)</u>	<u>\$ 721,651,001</u>	<u>\$ 36,892,720</u>

Description	Drinking Water				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 43,925	\$ 79,063	\$ (53,478)	\$ 69,510	\$ 69,510
Bonds payable	218,099,130	-	(13,948,985)	204,150,145	13,831,743
Bond premiums	20,498,726	-	(1,305,882)	19,192,844	1,824,892
	<u>\$ 238,641,781</u>	<u>\$ 79,063</u>	<u>\$ (15,308,345)</u>	<u>\$ 223,412,499</u>	<u>\$ 15,726,145</u>

Description	Total Clean Water and Drinking Water				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 87,850	\$ 81,992	\$ (77,162)	\$ 92,680	\$ 92,680
Bonds payable	910,370,000	-	(46,470,000)	863,900,000	45,150,000
Bond premiums	87,632,432	-	(6,561,612)	81,070,820	7,376,185
	<u>\$ 998,090,282</u>	<u>\$ 81,992</u>	<u>\$ (53,108,774)</u>	<u>\$ 945,063,500</u>	<u>\$ 52,618,865</u>

Note 9 - Administrative Revenues and Expenses

WIFA is authorized to utilize a portion of capitalization grants for administrative purposes (not to exceed 4% of the net capitalization grant).

WIFA receives 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, 2013 are as follows:

<u>Expenses</u>	<u>Clean Water Fund</u>	<u>Drinking Water Fund</u>	<u>Total</u>
Personnel	\$ 258,568	\$ 806,691	\$ 1,065,259
Benefits	105,061	287,411	392,472
Contracts	18,747	74,241	92,988
In state travel	4,955	12,116	17,071
Out of state travel	2,173	6,520	8,693
Other operating expenses	51,859	129,366	181,225
Equipment	3,304	9,913	13,217
Other program activities	94,281	36,581	130,862
Fee transfers to ADEQ	764,454	486,166	1,250,620
Subtotal	<u>1,303,402</u>	<u>1,849,005</u>	<u>3,152,407</u>
Set aside to ADEQ	-	2,761,897	2,761,897
	<u>\$ 1,303,402</u>	<u>\$ 4,610,902</u>	<u>\$ 5,914,304</u>



Compliance Report
June 30, 2013

Water Infrastructure Finance Authority of Arizona



Independent Auditor's 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*

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

We have audited, 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, the financial statements of the business-type activities and each major fund of Water Infrastructure Finance Authority of Arizona, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 17, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Water Infrastructure Finance Authority of Arizona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Water Infrastructure Finance Authority of Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of Water Infrastructure Finance Authority of Arizona's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Phoenix, Arizona
September 17, 2013