

HENRY & HORNE, LLP  
CERTIFIED PUBLIC ACCOUNTANTS



WATER INFRASTRUCTURE FINANCE AUTHORITY  
OF ARIZONA

PHOENIX, ARIZONA

FINANCIAL STATEMENTS

Year Ended June 30, 2016





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

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Water Infrastructure Finance Authority of Arizona, a component unit of the State of Arizona, as of and for the year ended June 30, 2016, and the related notes to the 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.

### Auditors' 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 auditors' 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.

**Tempe**  
2055 E. Warner Road  
Suite 101  
Tempe, AZ 85284-3487  
(480) 839-4900  
Fax (480) 839-1749

**Scottsdale**  
7098 E. Cochise Road  
Suite 100  
Scottsdale, AZ 85253-4517  
(480) 483-1170  
Fax (480) 483-7126

**Casa Grande**  
1115 E. Cottonwood Lane  
Suite 100  
Casa Grande, AZ 85122-2950  
(520) 836-8201  
Fax (520) 426-9432

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Water Infrastructure Finance Authority of Arizona as of June 30, 2016, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of matter**

As discussed in Note 1 to the financial statements, for the year ended June 30, 2016, the Water Infrastructure Finance Authority of Arizona adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application*; and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Pension Schedules 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 our report dated October 17, 2016, 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* in considering Water Infrastructure Finance Authority of Arizona's internal control over financial reporting and compliance.

*Henry + Horne LLP*

Casa Grande, Arizona  
October 17, 2016



## **WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2016. We encourage readers to consider the information presented here in conjunction with WIFA's financial statements.

### **Highlights- Business Type Activities**

- At the end of fiscal year 2016, the Net Position for WIFA had increased by \$26,550,507 to a total of \$608,229,373. Of this amount \$608,218,506 is restricted for the revolving loan program and debt service and \$10,867 is the net investment in capital assets.
- In fiscal year 2016, WIFA had a significant increase in the total dollars approved for new loans, approximately \$117.9 million in FY 16 versus \$38 million in FY 15. The increase is based primarily on two (2) large loans WIFA negotiated in FY 16, however the total number of loans awarded increased by a third. The number of new loans for FY 16 was 15 while the number of new loans in FY 15 was 10. At the start of 2017 we are currently working on two (2) loans with a total value of approximately \$22.6 million. Even if some of these loans do not materialize, we believe the Agency will be on par with prior years for new loans being processed.
- WIFA had a total of fifteen (15) loans retired in 2016. Three (3) of the loans were based on normal retirement while twelve (12) were due to prepayment.

### **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 Wolfe's operating revenues, operating expenses, and non-operating revenues.
- Statement of cash flows - reports WIFA's cash flows from operating activities, investing, and capital And non-capital related financing activities.

**WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Statement of Net Position**

As of June 30,	2016	2015	Dollar Change
Current assets	\$ 302,236,966	\$ 183,247,872	\$ 118,989,094
Other noncurrent assets	1,015,042,973	1,169,200,288	(154,157,315)
	<hr/>	<hr/>	<hr/>
Total assets	1,317,279,939	1,352,448,161	(35,168,221)
Deferred outflows of resources	49,626,435	53,400,300	(3,773,865)
	<hr/>	<hr/>	<hr/>
Total assets and deferred outflows of resources	\$1,366,906,374	\$1,405,848,461	(\$38,942,087)
Current liabilities	\$ 45,088,021	\$ 55,747,995	\$ (10,659,974)
Noncurrent liabilities	713,425,011	768,101,364	(54,676,353)
	<hr/>	<hr/>	<hr/>
Total liabilities	758,513,032	823,849,359	(65,336,327)
Deferred Inflows of Resources	163,969	320,236	(156,267)
	<hr/>	<hr/>	<hr/>
Total net position	608,229,373	581,678,866	26,555,507
	<hr/>	<hr/>	<hr/>
Total liabilities and net position	\$1,366,906,373	\$1,405,848,461	\$ (38,942,088)

WIFA's net position increased to \$608,229,373 during fiscal year 2016, an increase of \$26,555,088 over fiscal year 2015. The increase in net position was primarily the result of the large number of prepayments (12) which increased WIFA's cash. This was offset by a reduction in WIFA's total liabilities. The largest portion of the \$65 million reduction was due to a reduction of the \$54 million in Bonds Payable. After the scheduled October 1, 2015 payment of \$56.2 million, the outstanding bond balance was approximately \$656 million.

**WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**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.

Year Ended June 30,	2016	2015	Change
Operating Revenues:			
Program loan interest and fee income	\$ 29,044,197	\$ 34,177,691	\$ (5,133,494)
Total Operating revenue	29,044,197	34,177,691	(5,133,494)
Operating Expenses:			
Total Operating expenses	10,696,481	38,450,010	(27,753,529)
Operating income	18,347,716	(4,272,319)	22,620,035
Non- Operating revenues	(16,987,541)	9,128,643	(26,116,184)
Income before contributions	1,360,175	4,856,324	(3,496,149)
Capital contributions - federal	25,190,332	22,088,285	3,102,047
Change in net assets	26,550,507	26,944,609	(394,102)
Net position, beginning of year, adjusted for GASB 68	581,678,866	554,734,257	26,944,609
Net position, end of year	\$ 608,229,373	\$ 581,678,866	\$ 26,550,507

In fiscal year 2016, the total operating revenue decreased by \$5,133,494. The reduction of operating revenue is a reflection of the maturities and prepayments taking place in the program. The total operating expense decreased by \$300,000 or about 5% and the loan interest expense decreased by \$2,343,745 or 8.3%. These decreases combined with an increase of \$3,102,047 in capital grant contributions (about 14.04%) led to a net increase net position of \$26,550,507 or 4.56%.

# WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Budgetary Highlights

WIFA's Board of Directors adopted an operating budget of \$2,494,3000 for the period July 1, 2015 through June 30, 2016.

<u>Budget Line Item</u>	<u>Amount</u>
Salaries and benefits	\$ 1,551,600
Professional and outside services	595,200
In state travel	23,500
Out of state travel	21,000
Other operating	245,000
Equipment	58,000
	<hr/>
Total	\$ 2,494,300

Actual expenditures were \$2,180,723 or 14.38% below budget. The Agency continues to keep administrative expenses as low as possible but still perform its mission.

### Capital Assets

WIFA's capital assets consist primarily of computer equipment. In fiscal year 2016, WIFA spent \$15,219 for leases and software license renewals. No new equipment was purchased in FY 2016. However, because of the state's conversion to a new accounting system, small adjustments were made to the capital assets accounts.

### Debt Outstanding

WIFA's long-term bond debt activity for fiscal year 2016 is as follows. See additional information in Notes 7 and 8.

Year Ended June 30,	<u>2016</u>
Beginning balance	\$ 721,305,000
Additions	-
Payments	(56,245,000)
Refunded bonds	-
	<hr/>
Ending balance	\$ 656,060,000

# WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA MANAGEMENT'S DISCUSSION AND ANALYSIS

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## **Economic and Other Factors**

### Anticipated Bond Sales

During fiscal year 2017, WIFA is not considering any new bonding. However, WIFA will continue to explore additional options for reducing long term debt.

### Federal Capitalization Grants

WIFA has submitted applications for federal funding of \$15.0 million for Drinking Water and \$9.0 million for Clean Water in fiscal year 2017.

## **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 Patricia Majlish, Senior Program Administrator, Water Infrastructure Finance Authority of Arizona, 100 North 15<sup>th</sup> Ave, Suite 103, Phoenix, Arizona 85007 or by phone at (602) 364-1323 or toll-free at (877)298-0425.



## FINANCIAL STATEMENTS

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
June 30, 2016

ASSETS	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Current assets			
Cash and cash equivalents			
Cash with treasurer	\$ 214,965,132	\$ 72,109,472	\$ 287,074,604
Cash with trustee	849,949	374,987	1,224,936
Restricted cash with trustee	1,015	785	1,800
Total cash and cash equivalents	215,816,096	72,485,244	288,301,340
Receivables, net of uncollectibles			
Debt management	3,290,045	2,377,105	5,667,150
Interest	5,292,725	2,975,751	8,268,476
Internal balances	(1,626,827)	1,626,827	-
Total current assets	222,772,039	79,464,927	302,236,966
Noncurrent assets			
Investments	81,337,837	18,030,044	99,367,881
Program loans	534,866,635	380,797,590	915,664,225
Capital assets, net	1,462	9,405	10,867
Total noncurrent assets	616,205,934	398,837,039	1,015,042,973
Total assets	838,977,973	478,301,966	1,317,279,939
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on debt refunding	38,136,479	11,276,197	49,412,676
Deferred charges related to pensions	71,005	142,754	213,759
Total deferred outflows of resources	38,207,484	11,418,951	49,626,435
LIABILITIES			
Current liabilities			
Accrued payroll	13,510	20,372	33,882
Compensated absences	35,211	53,162	88,373
Interest payable	5,821,240	1,739,528	7,560,768
Bonds payable-current	28,305,210	9,099,788	37,404,998
Total current liabilities	34,175,171	10,912,850	45,088,021
Noncurrent liabilities			
Loan reserve	69,484	2,273,932	2,343,416
Net pension liability	485,256	1,456,381	1,941,637
Bonds payable	546,594,167	162,545,791	709,139,958
Total noncurrent liabilities	547,148,907	166,276,104	713,425,011
Total liabilities	581,324,078	177,188,954	758,513,032

See accompanying notes.

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	<u>41,210</u>	<u>122,759</u>	<u>163,969</u>
Total deferred inflows of resources	<u>41,210</u>	<u>122,759</u>	<u>163,969</u>

NET POSITION

Net investment in capital assets	1,462	9,405	10,867
Restricted for revolving loan program and debt service	<u>295,818,707</u>	<u>312,399,799</u>	<u>608,218,506</u>
Total net position	<u>\$ 295,820,169</u>	<u>\$ 312,409,204</u>	<u>\$ 608,229,373</u>



WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
Year Ended June 30, 2016

	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Operating revenues			
Program loan interest and fee revenue	\$ 17,946,952	\$ 11,097,245	\$ 29,044,197
Operating expenses			
Administrative expenses	1,162,072	3,235,444	4,397,516
Technical assistance	138,396	313,935	452,331
Forgivable principal expense	709,366	5,103,401	5,812,767
Depreciation	2,818	31,049	33,867
Total operating expenses	2,012,652	8,683,829	10,696,481
Operating income	15,934,300	2,413,416	18,347,716
Nonoperating revenues (expenses)			
Administrative grants	376,680	2,976,061	3,352,741
Investment earnings	4,577,826	992,528	5,570,354
Program loan interest expense	(19,885,902)	(6,024,734)	(25,910,636)
Total nonoperating revenues (expenses)	(14,931,396)	(2,056,145)	(16,987,541)
Income before contributions	1,002,904	357,271	1,360,175
Capital contributions-federal	8,475,773	16,714,559	25,190,332
Change in net position	9,478,677	17,071,830	26,550,507
Net position - beginning of year	286,341,492	295,337,374	581,678,866
Net position-end of year	\$ 295,820,169	\$ 312,409,204	\$ 608,229,373

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Receipt of borrower loan repayments	\$ 263,019,574	\$ 43,232,705	\$ 306,252,279
Loans made to borrowers	(75,057,568)	(72,350,669)	(147,408,237)
Receipt of loan interest	20,646,427	10,648,720	31,295,147
Receipt of debt management fees	542,793	281,198	823,991
Receipt (use) of loan reserves	-	152,456	152,456
Payment of administrative costs	(1,161,491)	(3,235,612)	(4,397,103)
Payment of technical assistance costs	(138,396)	(313,935)	(452,331)
Payment of forgivable principal expense	(709,366)	(5,103,401)	(5,812,767)
Net cash provided (used) by operating activities	<u>207,141,973</u>	<u>(26,688,538)</u>	<u>180,453,435</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Principal paid on bonds	(46,700,450)	(9,544,550)	(56,245,000)
Interest paid on bonds	(24,389,269)	(7,147,965)	(31,537,234)
Receipt of administrative grants	376,680	2,976,061	3,352,741
Interfund receipts (payments)	(14,744,799)	14,744,799	-
Capital contributions	<u>8,475,773</u>	<u>16,714,559</u>	<u>25,190,332</u>
Net cash provided (used) by noncapital financing activities	<u>(76,982,065)</u>	<u>17,742,904</u>	<u>(59,239,161)</u>

CASH FLOWS FROM INVESTING ACTIVITIES	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Sale of investments	(3,525,593)	(1,195,001)	(4,720,594)
Interest received on investments	4,604,135	1,009,317	5,613,452
Net cash provided (used) by investing activities	1,078,542	(185,684)	892,858
Net increase (decrease) in cash and cash equivalents	131,238,450	(9,131,318)	122,107,132
Cash and cash equivalents at beginning of year	84,577,646	81,616,562	166,194,208
Cash and cash equivalents at end of year	<u>\$ 215,816,096</u>	<u>\$ 72,485,244</u>	<u>\$ 288,301,340</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2016

	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Reconciliation of operating income to net cash provided (used) by operating activities			
Operating income	\$ 15,934,300	\$ 2,413,416	\$ 18,347,716
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	2,818	31,049	33,867
Pension expense	25,552	123,693	149,245
Employer pension contributions	(38,849)	(92,890)	(131,739)
(Increase) decrease in			
Program loans	187,962,006	(29,117,964)	158,844,042
Debt management receivable	1,400,005	(178,434)	1,221,571
Interest receivable	1,842,263	11,107	1,853,370
Increase (decrease) in			
Accrued payroll	6,085	(1,893)	4,192
Compensated absences	7,793	(29,078)	(21,285)
Loan reserve	-	152,456	152,456
Total adjustments	191,207,673	(29,101,954)	162,105,719
Net cash provided (used) by operating activities	\$ 207,141,973	\$ (26,688,538)	\$ 180,453,435
NONCASH INVESTING ACTIVITIES			
Amortization of bond premiums	\$ 6,894,724	\$ 1,934,432	\$ 8,829,156
Amortization of deferred amount on retirement of bonds	2,813,338	897,101	3,710,439

# **WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA**

## **NOTES TO FINANCIAL STATEMENTS**

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### **Note 1 – Organization and Reporting Entity**

For the year ended June 30, 2016, WIFA implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*; and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 72 establish standards for measuring fair value and applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 76 establishes the hierarchy of sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles.

**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 US Environmental Protection Agency (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 deposits, if payments are not made when due.

The funds may consist of money appropriated by the legislature; money received from the United States Government for the purposes of the program, including capitalization grants; money received from the issuance and sale of bonds; money from Drinking Water and Waste Water Facilities as repayment for loans; interest and other income received from investing money in the fund; and 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.

## WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### **Note 1 – Organization and Reporting Entity (continued)**

**Fund type** – WIFA is required to maintain the federal capitalization grants and state match, less administrative and other allowances, as the Funds' restricted net position, in perpetuity. 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 administrative expenses. See Note 2 Net Position.

#### **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 operating revenues and expenses from non-operating items. Operating 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 operating revenues of WIFA are program loan interest and management fees. WIFA's operating expenses are administrative, technical assistance, depreciation, and forgivable principal expenses. All revenues and expenses, including program loan costs, not meeting this definition are reported as non-operating revenues and expenses.

**Investments** – Investments reported in accounts required by the Master Trust Indenture for debt service are reported as restricted 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. WIFA invests its funds in accordance with the requirements for investment of funds per the Master Trust Indenture, dated September 1, 1999.

## **WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 2 – 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. WIFA is required to deposit funds into restricted accounts in accordance with their Master Trust Indenture as described in Note 3. Depository accounts required by the Master Trust Indenture for debt service are reported as restricted cash with trustee.

**Capital assets** – Capital assets acquired by the Funds are stated at cost. The capitalization threshold has been set at \$5,000. The purchase of equipment is typically split among the different programs. 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 for uncovered employees and 240 hours for covered employees at the end of a calendar year. Any employee who separates from State service is paid for all unused and un-forfeited 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 are accrued and amortized over the life of the bonds using the straight-line method.

**Net position** – Net position is classified in one of two categories. **Restricted for Revolving Loan Program and Debt Service** has constraints placed on use by external parties such as creditors, grants, laws or regulations. Included in this balance are amounts restricted by the Environmental Protection Agency (“EPA”) of \$534,575,851 of which \$254,829,390 is restricted for Clean Water and \$279,746,461 for Drinking Water. This represents amounts received from the EPA in the form of Capitalization Grants and state funds used as required match for the grants less administrative and other allowances. The purpose of the funds is to provide financial assistance to publicly owned wastewater treatment facility and public and privately owned drinking water facilities. The restricted portion is based upon the Federal Capitalization Grants received, plus state match contributions, less certain allowances and the amount paid as principal on state match bonds. For Clean Water, the allowances are the administrative costs authorized by the grant and any forgivable principal monies spent. For Drinking Water, the allowances are the same and additional amounts set aside for certain drinking water operating expenses. All figures are cumulative from the first award. **Net investment in capital assets** consists of capital assets, net of accumulated depreciation.

## WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### **Note 2 – Summary of Significant Accounting Policies (continued)**

**Grants** – Capitalization grants are restricted for revolving loan programs and are recorded as non-operating revenue. Administrative grants are used for administrative purposes are also recorded as non-operating 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 % of the capitalization grant) and fees charged to loan recipients (see Note 9).

**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.

**Reclassifications** – Certain amounts from the financial statements have been reclassified to conform with the current year presentation. Such reclassifications have no effect on net position or changes in net position.

**Deferred charge on debt refunding** - For advance refunding resulting in defeasance of debt reported by WIFA, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources and recognized as a component of interest expense on a straight line basis over the remaining life of the new debt.

**Pensions** - For purposes of measuring the net pension (asset and) liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 3 – Cash and Investments**

Cash and investments consisted of the following as of June 30, 2016:

Investment Type	Amount
State investment pool	\$ 287,074,604
Money market	1,226,736
	<hr/>
Cash and cash equivalents	288,301,340
	<hr/>
Guaranteed investment contract	59,583,697
U.S. Treasury notes	29,612,157
Federal Home Loan	10,172,028
	<hr/>
Total investments	99,367,882
	<hr/>
Total cash and investments	\$ 387,669,222
	<hr/>

**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, 2016, the carrying amount of WIFA's cash with treasurer totaled \$287,074,604 of which \$286,844,871 was invested in the State Agency's pool number 3 and number 4. The funds invested with the treasurer are invested according to the Investment Policy of the Arizona State Treasurer's Office. The remaining balance consists of \$229,733 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, 2016, the carrying amount of WIFA's cash with trustee totaled \$1,226,736, of which \$1,224,864 is restricted per the Master Trust Indenture Section 5.5 Bond Account that is used for debt service 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 Trust 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.

**WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 3 – Cash and Investments (continued)**

**Investments and Restricted 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, 2016, consisted of collateralized guaranteed investment contracts, Federal Home Loans and U.S. Treasury notes. The guaranteed investment contracts are not insured by the Federal Deposit Insurance Corporation. At June 30, 2016, WIFA's restricted investments totaled \$61,347,654 which is restricted per the Master Bond Indenture Section 5.6 Reserve Account. The reserve account is a pledged account held by the trustee.

**Interest rate risk** – Interest rate risk is 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, 2016:

<u>Investment Type</u>		<u>Total Clean Water and Drinking Water</u>			
		<u>Remaining Maturity (In Months)</u>			
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More than 60 Months</u>
State investment pool	\$ 287,074,604	\$ 287,074,604	\$ -	\$ -	\$ -
Money market funds	1,226,736	1,226,736	-		
Federal Home Loan	10,172,028		-		10,172,028
U.S. Treasury notes	29,612,157	7,701,539	21,910,618		
Guaranteed investment Contracts	59,583,697		38,476,500		21,107,197
Totals	<u>\$ 387,669,222</u>	<u>\$ 296,002,879</u>	<u>\$ 60,387,118</u>	<u>\$ -</u>	<u>\$ 31,279,225</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. WIFA does not have a formal policy regarding credit risk. Presented below is the Standard & Poor's rating as of year-end for each investment type as of June 30, 2016.

## WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA NOTES TO FINANCIAL STATEMENTS

### Note 3 – Cash and Investments (continued)

<u>Investment Type</u>	Total Clean Water and Drinking Water			
	Ratings as of Year-End			
	AAA	AA	A	Exempt from Disclosure(*)
State investment pool	\$ 287,074,604	\$ -	\$ -	\$ 287,074,604
Money market funds	1,226,736	-	-	1,226,736
Federal bonds	10,172,028	-	-	-
U.S. Treasury notes	29,612,157	-	-	29,612,157
Guaranteed investment Contracts	59,583,697	48,957,197	10,626,500	-
	<u>\$ 387,669,222</u>	<u>\$ 10,172,028</u>	<u>\$ 10,626,500</u>	<u>\$ 317,913,497</u>

(\*)Funds held by the State Treasurer or US Government Securities .

WIFA primarily 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. The Guaranteed Investment contracts are with the following institutions: Bayerische Landesbank Girozentrale (64.58%), the Royal Bank of Canada (21.75%) and Mass Mutual Financial Group (13.67%).

**Concentration of credit risk** – The investment policy of WIFA contains no limitations on the amount that can be invested in any one issuer.

**Fair value measurement** – WIFA’s investments at June 30, 2016, categorized within the fair value hierarchy established by generally accepted accounting principles, were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
		Inputs	Inputs	Inputs
Federal bonds	10,172,028	10,172,028		
U.S. Treasury notes	29,612,157	29,612,157		

Investments categorized as Level 1 are valued using prices quoted in active markets for those investments. The amount of \$287,074,604 invested in the State Treasurer’s investment pool is valued at the pool’s share price multiplied by the number of shares that WIFA held. The fair value of a participant’s position in the pools approximates the value of that participant’s shares. The State Board of Investment provides oversight for the State Treasurer’s investment pools.

In addition, WIFA had \$1,226,736 invested in money market funds as well as \$59,583,697 in guaranteed investment contracts that were recorded at cost.

**WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 3 – Cash and Investments (continued)**

Investments in any one issuer are as follows as of June 30, 2016:

Total Clean Water and Drinking Water		
Issuer	Investment Type	Reported Amount
State Investment Pool	State Investment Pool	\$ 287,074,604
First American US Treasury Money Market	Money Market	1,226,736
Cash and cash equivalents		<u>166,171,142</u>
Bayerische Landesbank	Guaranteed Investment Contract	38,476,500
Royal Bank of Canada	Guaranteed Investment Contract	12,962,360
Mass Mutual Financial Group	Guaranteed Investment Contract	8,144,837
Deutsche Bank	Federal Home Loan	10,172,028
US Bank	US Treasury Notes	29,612,157
Investments		<u>99,367,882</u>
Total cash and investments		<u>\$ 387,669,222</u>

**Custodial credit risk** – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, WIFA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2016 all of WIFA’s securities are held in by the financial institution or the State of Arizona in WIFA’s name. WIFA manages custodial credit risk in accordance with Arizona Revised Statutes and its investment policy.

**Note 4 – Program Loans**

The Funds have made loans to local governments and other communities 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, 2015	Increases	Decreases	June 30, 2016
Clean Water Fund	\$ 722,828,641	\$ 75,057,568	\$ (263,019,574)	\$ 534,866,635
Drinking Water Fund	351,679,626	72,350,669	(43,232,705)	380,797,590
	<u>\$ 1,074,508,267</u>	<u>\$147,408,237</u>	<u>\$ (306,252,279)</u>	<u>\$ 915,664,225</u>

## **WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA NOTES TO FINANCIAL STATEMENTS**

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### **Note 4 - Program Loans (continued)**

Repayment of these loans will be made from pledged property taxes, net revenues of the systems, transaction privilege and income taxes or from special assessments. Most loans have a .3 to 3.0 percent annual administrative fee. When loans have been repaid the principal and interest for the pledged loans are placed in restricted accounts used to make bond payments. For loans that are not pledged, the money is placed in a fund from which additional loans are made.

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, 2016, the debt service reserve was \$69,484 and \$2,273,932 for the Clean Water and Drinking Water funds, respectively, and no allowance for loan loss was recorded.

### **Note 5 - Pensions and Other Postemployment Benefits**

The Authority contributes to the Arizona State Retirement Plan described below. The plan is a component unit of the State of Arizona. The Authority reported \$149,245 of pension expenditures related to the pension plan to which it contributes.

#### **Arizona State Retirement Plan**

Plan Description - The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at [www.azasrs.gov](http://www.azasrs.gov).

**WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 5 – Pensions and Other Postemployment Benefits (continued)**

Benefits Provided - The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefits terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement	
	Initial membership date:	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50+ and years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

\*with actuarially reduced benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

## WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

### NOTES TO FINANCIAL STATEMENTS

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#### Note 5 – Pensions and Other Postemployment Benefits (continued)

Contributions - In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the Authority was required by statute to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. In addition, the Authority was required by statute to contribute at the actuarially determined rate of 9.57 percent (9.51 percent for retirement and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the Authority in positions that would typically be filled by an employee who contributes to the ASRS. The Authority's contributions to the pension plan for the year ended June 30, 2016, were \$123,241. The Authority's contributions for the current and 2 preceding years for OPEB, all of which were equal to the required contributions, were as follows:

Year ended June 30	Health Benefit Supplement Fund	Long-Term Disability Fund
2016	\$ 5,372	\$ 1,289
2015	\$ 6,817	\$ 1,363
2014	\$ 6,547	\$ 2,619

During fiscal year 2016, the Authority paid for ASRS pension and OPEB contributions as follows: 40 percent from the Clean Water Fund, and 60 percent from the Drinking Water Fund and during fiscal years 2014 and 2015 that allocation was 25 percent from the Clean Water and 75 percent from the Drinking Water Fund.

Pension Liability - At June 30, 2015, the Authority reported a liability of \$1,941,637 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015.

The Authority's reported liability at June 30, 2016, increased by \$110,347 from the Authority's prior year liability of \$1,831,290 because of changes in the ASRS' net pension liability and the Authority's proportionate share of that liability. The ASRS' publicly available financial report provides details on the change in the net pension liability.

The Authority's proportion of the net pension liability was based on fiscal year employer contributions. The Authority's proportion measured as of June 30, 2015, was 0.01247 percent, which was an increase of .000094 from its proportion measured as of June 30, 2014.

**WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 5 – Pensions and Other Postemployment Benefits (continued)**

Pension Expense and Deferred Outflows/Inflows of Resources - For the year ended June 30, 2015, the Authority recognized pension expense for ASRS of \$149,245. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 52,983	\$ 101,744
Changes of assumptions or other inputs		
Net difference between projected and actual earnings on pension plan investments		62,225
Changes in proportion and differences between Authority contributions and proportionate share of contributions	44,197	
Authority contributions subsequent to the measurement date	<u>\$ 116,579</u>	<u>                    </u>
 Total	 <u><u>\$ 213,759</u></u>	 <u><u>\$ 163,969</u></u>

The \$116,579 reported as deferred outflows of resources related to ASRS pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30		
2016	\$	(10,357)
2017		(57,296)
2018		(44,054)
2019		44,918

**WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 5 – Pensions and Other Postemployment Benefits (continued)**

Actuarial Assumptions - The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date		
Actuarial roll forward date	June 30, 2014	
Actuarial cost method	June 20, 2015	
Amortization method:	Entry age normal	
Plan amendments		
Investment gain/loss	Immediate	
Assumption gain/loss	5 years	
Experience gain/loss	Average future service lives	
Asset valuation	Average future service lives	
Discount rate	Fair Value	
Projected salary increases		8%
Inflation	3 - 6.75%	
Permanent benefit increase		3%
Mortality rates	Included	
	1994 GAM Scale BB	

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2013.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	58%	3.94%
Fixed income	25%	0.93%
Commodities	2%	0.08%
Real estate	10%	0.42%
Multi-asset class	5%	0.17%
Total	<u>100%</u>	

**WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 5 – Pensions and Other Postemployment Benefits (continued)**

Discount Rate - The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate - The following table presents the Authority’s proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% increase (9%)
Authority's proportionate share of the net pension liability	\$ 2,544,209	1,941,637	\$ 1,528,679

Pension Plan Fiduciary Net Position - Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report.

**Note 6 – Internal Balances**

At June 30, 2016, the Clean Water Fund owed the Drinking Water Fund \$1,626,827, 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, 2016 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.

**WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 7 – Bonds Payable (continued)**

\$205,400,000 Water Quality Revenue Bonds, Series 2006A, due in annual principal installments ranging from \$1,910,000 to \$16,750,000, plus semiannual interest ranging from 3.75% to 5.0% through October 1, 2026, callable on October 1, 2016. After the 2014 refunding the last payment is Oct. 1, 2016.	11,575,000
\$238,710,000 Water Quality Revenue Bonds, Series 2008A, due in annual principal installments ranging from \$350,000 to \$22,340,000, plus semiannual interest ranging from 3.0% to 5.0% through October 1, 2028, callable on October 1, 2018. After the 2014 refunding the last payment is Oct. 1, 2020.	67,895,000
\$148,785,000 Water Quality Revenue Bonds, Series 2009A, due in annual principal installments ranging from \$2,625,000 to \$12,250,000, plus semiannual interest ranging from 2.0% to 5.0% through October 1, 2029, callable on October 1, 2019. After the 2014 refunding the last payment is Oct. 1, 2019.	19,510,000
\$39,655,000 Water Quality Refunding Bonds, Series 2009A, due in annual principal installments ranging from \$3,555,000 to \$9,620,000, plus semiannual interest ranging from 4.0% to 5.0% through October 1, 2017. These bonds are not callable.	4,080,000
\$138,665,000 Water Quality Revenue Bonds, Series 2010A, due in annual principal installments ranging from \$2,500,000 to \$12,000,000 plus semiannual interest ranging from 2.0% to 5.0% through October 1, 2030, callable on October 1, 2020. After the 2014 refunding the last payment is Oct. 1, 2020.	14,000,000
\$42,325,000 Water Quality Refunding Bonds, Series 2010A, due in annual principal installments ranging from \$7,765,000 to \$12,485,000 plus semiannual interest at 5.0% from October 1, 2017 through October 1, 2020. These bonds are not callable.	42,325,000
\$164,610,000 Water Quality Refunding bonds, series 2012A due in annual principal installments ranging from \$3,000,000 to \$24,340,000 plus semiannual interest from 4.0% - 5.0% through October 1, 2025, callable on October 1, 2022.	149,610,000
\$47,600,000 Water Quality Refunding bonds, series 2012B due in annual principal installments ranging from \$2,000,000 to \$14,755,000 plus semiannual interest from 0.20% - 1.837% through October 1, 2025. These bonds are subject to optional redemption prior to maturity, at the election of the Authority, in whole or in part, on any date. After the 2014 refunding the last payment is Oct. 1, 2018.	22,700,000

**WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 7 – Bonds Payable (continued)**

\$342,565,000 Water Quality Refunding bonds, series 2014A due in annual principal installments ranging from \$1,480,000 to \$44,280,000 plus semiannual interest from 2.00% - 5.00% through October 1, 2030. These bonds are callable on or after October 1, 2024.

324,365,000

\$ 656,060,000

Bonds by Fund are as follows:

Arizona Clean Water Revolving Fund	\$ 504,111,698
Arizona Drinking Water Revolving Fund	<u>151,948,302</u>
	<u>\$ 656,060,000</u>

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

Year Ending June 30,	Clean Water		
	Principal	Interest	Total
2017	\$ 28,305,210	\$ 22,736,748	\$ 51,041,959
2018	33,998,218	21,522,687	55,520,904
2019	33,065,719	20,137,247	53,202,966
2020	36,426,768	18,552,918	54,979,686
2021	37,028,215	16,798,354	53,826,570
2022-2026	202,022,274	54,014,901	256,037,175
2027-2031	<u>133,265,293</u>	<u>11,784,418</u>	<u>145,049,711</u>
Total long-term debt	504,111,698	165,547,274	669,658,972
Less current portion	<u>(28,305,210)</u>	<u>(22,736,748)</u>	<u>(51,041,959)</u>
Noncurrent portion	<u>475,806,488</u>	<u>\$ 142,810,526</u>	<u>\$ 618,617,013</u>

**WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 7 – Bonds Payable (continued)**

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

Year Ending June 30,	Drinking Water		
	Principal	Interest	Total
2017	\$ 9,099,210	\$ 6,784,887	\$ 15,884,677
2018	12,626,782	6,375,203	19,001,985
2019	14,479,281	5,842,811	20,322,091
2020	13,298,232	5,220,613	18,518,845
2021	14,871,785	4,528,671	19,400,455
2022-2026	54,612,726	13,867,599	68,480,325
2027-2031	32,959,707	2,914,570	35,874,276
Total long-term debt	151,948,302	45,534,353	197,482,655
Less current portion	(9,099,790)	(6,784,887)	(15,884,677)
Noncurrent portion	\$ 142,848,512	\$ 38,749,466	\$ 181,597,978

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
2017	\$ 37,405,000	\$ 29,521,635	\$ 66,926,635
2018	46,625,000	27,897,890	74,522,890
2019	47,545,000	25,980,058	73,525,058
2020	49,725,000	23,773,531	73,498,531
2021	51,900,000	21,327,025	73,227,025
2022-2026	256,635,000	67,882,500	324,517,500
2027-2031	166,225,000	14,698,988	180,923,988
Total long-term debt	656,060,000	211,081,627	857,141,627
Less current portion	(37,405,000)	(29,521,635)	(66,926,635)
Noncurrent portion	618,655,000	\$ 181,559,991	\$ 800,214,991

**WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 7 – Bonds Payable (continued)**

In December 2014, WIFA issued \$342,565,000 of Water Quality Revenue Refunding Bond series 2014A and for the purpose of advance refunding a portion of the 2006 Water Quality Revenue Bonds, 2008 Water Quality Revenue Bonds, 2009 Water Quality Revenue Bonds, 2010 Water Quality Revenue Bonds and the 2012 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. Two different bank escrow accounts were established, a 2014 account and a 2014/2012 escrow account. The amount outstanding of the defeased bonds as of June 30, 2016 was \$29,500,000 for the 2014/2012 escrow account and \$115,395,000 for the 2014 escrow account.

The security for the bonds includes a pledge of the moneys and investments in the accounts held by the Trustee and the Financial Assistance Accounts held for WIFA, the Authority, by the State Treasurer and all pledged loans.

**Note 8 – Long-Term Debt**

Long-term debt activity for the fiscal year ended June 30, 2015 follows for each fund and in total.

Description	Clean Water				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 27,418	\$ 43,149	\$ (35,356)	\$ 35,211	\$ -
Bonds payable	\$ 550,812,148	-	\$ (46,700,449)	\$ 504,111,698	\$ 28,305,210
Bond premiums	77,682,403	14,989	(6,909,712)	70,787,679	
	<u>\$ 628,494,551</u>	<u>\$ 14,989</u>	<u>\$ (53,610,162)</u>	<u>\$ 574,899,378</u>	<u>\$ 28,305,210</u>
Description	Drinking Water				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 82,240	\$ 23,976	\$ (53,035)	\$ 53,162	\$ -
Bonds payable	\$ 161,492,852	-	\$ (9,544,551)	\$ 151,948,302	\$ 9,099,790
Bond premiums	21,631,711	9,583	(1,944,015)	19,697,279	
	<u>\$ 183,124,563</u>	<u>\$ 9,583</u>	<u>\$ (11,488,566)</u>	<u>\$ 171,645,581</u>	<u>\$ 9,099,790</u>

**WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 8 – Long-Term Debt (continued)**

Description	Total Clean Water and Drinking Water				Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
Compensated absences	\$ 109,658	\$ 67,106	\$ (88,391)	\$ 88,373	\$ -
Bonds payable	\$ 712,305,000	-	\$ (56,245,000)	\$ 656,060,000	\$ 37,405,000
Bond premiums	99,314,114	24,572	(8,853,727)	90,484,958	
	<u>\$ 811,619,114</u>	<u>\$ 24,572</u>	<u>\$ (65,098,727)</u>	<u>\$ 746,544,958</u>	<u>\$ 37,405,000</u>

**Note 9 – Administrative Revenues and Expenses**

WIFA has two major sources of revenue to pay its administrative expenses. The Agency is authorized to utilize a portion of capitalization grants for administrative purposes (not to exceed 4% of the net capitalization grant). Additionally, 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, 2016 are as follows:

Expenses	Clean Water Fund	Drinking Water Fund	Total
Personnel	\$ 447,275	\$ 670,051	\$ 1,117,326
Benefits	166,566	249,844	416,410
Contracts	133,710	256,206	389,916
In state travel	6,259	8,684	14,943
Out of state travel	1,807	2,711	4,518
Other operating expenses	69,414	180,079	249,493
Equipment	6,079	9,139	15,218
Other program activities	330,962	110,896	441,858
Subtotal	<u>1,162,072</u>	<u>1,487,610</u>	<u>2,649,682</u>
Set aside to ADEQ		<u>1,747,834</u>	<u>1,747,834</u>
	<u><u>1,162,072</u></u>	<u><u>3,325,444</u></u>	<u><u>4,397,516</u></u>

## **WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 10 – Risk Financing Activities**

WIFA participates in the State of Arizona Insurance Program managed through the Risk Management Division of the Department of Administration. This program manages the State's property, environmental, general liability, and workers compensation losses. For detailed information on how the program works, please contact: Arizona Department of Administration, Risk Management Office, 100 North 15<sup>th</sup> Ave 3<sup>rd</sup> Floor, Suite 301, Phoenix, AZ 85007. Phone 602-542-2182.

WIFA has not had any significant reductions in the current fiscal year's insurance coverage and has not had a claim in the last 5 years.

#### **Note 11 – Capitalization Grants**

While most of the money for the loans comes from State Funds, a portion comes from an annual grant award from the EPA. EPA awards WIFA a Clean Water and a Drinking Water Capitalization grant each year. Both grants provide money for loans, a portion for forgivable principal (not to exceed 30% of the total) and some administrative money (not to exceed 4% of the total grant) to assist with running the program. The Drinking Water grant provides some additional funding for other program requirements. The grants have a budget period of four or five years but are usually spent, in their entirety, within 3 years.

At the beginning of FY 16, WIFA had \$6,097,2012 available for loans from two Drinking Water grants and \$2,082,279 for loans from two Clean Water grants. During the year an additional loan amount of \$8,868,084 was awarded from a Clean Water Grant and \$12,179,440 from a Drinking Water Grant. In FY 16, \$7,766,407 of the total expenditures for loans was from Clean Water grant funds, with an additional \$709,366 provided from forgivable principal. Drinking Water Grants provided \$11,611,158 for loans and \$5,103,401 in forgivable principal. Of the total Administrative costs, \$376,680 were provided from the Clean Water grants and \$803,444 from the Drinking Water grants.

In FY17 WIFA expects to receive a \$9,015,000 Clean Water Award and a \$15,008,000 Drinking Water Award. At the end of FY 16 WIFA had \$2,646,826 available from two Clean Water grants for loans and \$4,166,600 available from two Drinking Water grants.

REQUIRED SUPPLEMENTARY INFORMATION

**WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA**  
**REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY**

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	Fiscal Year	
	2015	2014
	(2014)	through
		2006
Authority's proportion of the net pension liability	0.012376%	Information
Authority's proportionate share of the net pension liability	1,941,637	not available
Authority's covered-employee payroll	\$ 1,091,083	
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	177.95%	
Plan fiduciary net position as a percentage of the total pension liability	69.49%	

**WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA**  
**REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY**

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	Fiscal Year		2013 through 2006
	2015	2014	
Statutorily required contribution	\$ 131,804	\$ 125,911	Information not available
Authority's contributions in relation to the statutorily required contribution	131,804	125,911	
Authority's contribution deficiency (excess)	\$ -	\$ -	
Authority's covered-employee payroll	\$ 1,136,241	\$ 1,091,083	
Authority's contributions as a percentage of covered- employee payroll	11.60%	11.54%	



## REPORT ON INTERNAL CONTROL AND COMPLIANCE





HENRY & HORNE, LLP  
Certified Public Accountants

INDEPENDENT AUDITORS' 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 in accordance with the 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 the Water Infrastructure Finance Authority of Arizona, a component unit of the State of Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements as listed in the table of contents.

**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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Tempe**  
2055 E. Warner Road  
Suite 101  
Tempe, AZ 85284-3487  
(480) 839-4900  
Fax (480) 839-1749

**Scottsdale**  
7098 E. Cochise Road  
Suite 100  
Scottsdale, AZ 85253-4517  
(480) 483-1170  
Fax (480) 483-7126

**Casa Grande**  
1115 E. Cottonwood Lane  
Suite 100  
Casa Grande, AZ 85122-2950  
(520) 836-8201  
Fax (520) 426-9432

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results 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.

*Henry + Horne LLP*

Casa Grande, Arizona  
October 17, 2016