



WATER INFRASTRUCTURE FINANCE AUTHORITY
OF ARIZONA

PHOENIX, ARIZONA

FINANCIAL STATEMENTS

Year Ended June 30, 2017

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

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INDEPENDENT AUDITORS' REPORT

Arizona Finance Board of Directors
Advisory Board Members of the 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, 2017, 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.

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, 2017, 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.

Other Matter

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 20, 2017, 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 20, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ending June 30, 2017

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, 2017. 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 2017, the Net Position for WIFA had increased by \$14,676,086 to a total of \$622,905,459. The total amount of \$622,905,459 is restricted for the revolving loan program and debt.
- In fiscal year 2017, WIFA closed eight (8) loans totaling \$67,978,233 and is expecting another three (3) loans totaling approximately \$11 million to be approved by the end of December 2017. At the start of 2018, we are working on seven (7) new loans with a total value of approximately \$24.3 million. Even if some of these loans do not materialize, we believe the Agency will be on par with prior loans for new loans being processed.
- WIFA had a total of seventeen (17) loans retired in 2017. All but one (1) of these loans were due to prepayments.

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 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.

Statement of Net Position

As of June 30	2017	2016	Dollar Change
Current assets	\$ 430,564,115	\$ 302,236,966	\$ 128,327,149
Other noncurrent assets	850,320,994	1,015,042,973	(164,721,979)
Total assets	1,280,885,109	1,317,279,939	(36,394,830)
Deferred outflows of resources	47,181,088	49,626,435	(2,445,347)
Total assets and deferred outflows of resources	\$ 1,328,066,197	\$ 1,366,906,374	\$ (38,840,177)
Current liabilities	48,247,173	45,088,021	3,159,152
Noncurrent liabilities	656,587,720	713,425,011	(56,837,291)
Total liabilities	704,834,893	758,513,032	(53,678,139)
Deferred Inflows of Resources	325,845	163,969	161,876
Total net position	622,905,459	608,229,373	14,676,086
Total liabilities and net position	\$ 1,328,066,197	\$ 1,366,906,373	\$ (38,840,176)

WIFA's net position increased to \$622,905,459 during fiscal year 2017, an increase of \$14,676,086 over fiscal year 2016. The increase in net position was primarily the result of the large number of prepayments which increased WIFA's cash. This was offset by a reduction in WIFA's total liabilities. The largest portion of the \$53.6 million reduction was due to a reduction of the \$53.1 million in Bonds Payable.

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,	2017	2016	Dollar Change
Operating Revenues:			
Program loan interest and income fee	\$ 27,328,009	\$ 29,044,197	\$ (1,716,188)
Operating Expenses:			
Total Operating expenses	<u>6,913,828</u>	<u>10,696,481</u>	<u>(3,782,653)</u>
Operating Income	<u>20,414,181</u>	<u>18,347,716</u>	<u>2,066,465</u>
Non- Operating expenses	<u>(18,781,510)</u>	<u>(16,987,541)</u>	<u>(1,793,969)</u>
Income before contributions	1,632,671	1,360,175	272,496
Capital contributions	<u>13,043,415</u>	<u>25,190,332</u>	<u>(12,146,917)</u>
Change in net position	14,676,086	26,550,507	(11,874,421)
Net position, beginning of year	<u>608,229,373</u>	<u>581,678,866</u>	<u>26,550,507</u>
Net position, end of year	<u><u>\$ 622,905,459</u></u>	<u><u>\$ 608,229,373</u></u>	<u><u>\$ 14,676,086</u></u>

In fiscal year 2017, the total operating revenue decreased by \$1,716,188. The decrease in operating revenue is a reflection of the maturities and prepayments taking place in the program. The total operating expense decreased by \$3,782,653 or about 35% which was largely due to a decrease in the forgivable loan expense. These decreases combined with a decrease of \$12,146,917 in capital grant contributions (about 48%) led to a net increase net position of \$26,550,507 or 4.56%.

Budgetary Highlights

WIFA's Board of Directors adopted an operating budget of \$2,180,800 for the period July 1, 2016 through June 30, 2017.

<u>Budget Line Item</u>	<u>Amount</u>
Salaries and Benefits	\$ 1,563,400
Professional and Outside Services	269,900
In State Travel	23,500
Out of State Travel	21,000
Other Operating	245,000
Equipment	<u>58,000</u>
Total	<u>\$ 2,180,800</u>

Actual expenditures were \$1,760,487 or 22.87% 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. No new equipment was purchased in FY 2017. All capital assets were fully depreciated as of June 30, 2017.

Debt Outstanding

WIFA's long-term bond debt activity for fiscal year 2017 is as follows. See additional information in Notes 6 and 7.

<u>Year Ended June 30</u>	<u>2017</u>
Beginning Balance	
Additions	\$ 656,060,000
Payments	(37,405,000)
Refunded Bonds	<u>(12,385,000)</u>
Ending Balance	<u>\$ 606,270,000</u>

Economic and Other Factors

Anticipated Bond Sales

During fiscal year 2018, 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 \$14.9 million for Drinking Water and \$8.9 million for Clean Water in fiscal year 2018.

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 Jane Thompson, Controller, Water Infrastructure Finance Authority of Arizona, 100 North 15th Ave, Suite 103, Phoenix, Arizona 85007 or by phone at (602) 364-1323 or toll-free at (877)298-0425.



BASIC FINANCIAL STATEMENTS

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2017

ASSETS	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Current assets			
Cash and cash equivalents			
Cash with treasurer	\$ 241,768,786	\$ 115,791,444	\$ 357,560,230
Cash with trustee	668,028	285,104	953,132
Total cash and cash equivalents	242,436,814	116,076,548	358,513,362
Receivables, net of uncollectibles			
Debt management	3,091,757	2,670,090	5,761,847
Interest	4,875,648	2,957,154	7,832,802
Program loans	33,951,335	24,504,769	58,456,104
Total current assets	284,355,554	146,208,561	430,564,115
Noncurrent assets			
Investments	80,710,543	17,660,217	98,370,760
Program loans	434,037,578	317,912,656	751,950,234
Total noncurrent assets	514,748,121	335,572,873	850,320,994
Total assets	799,103,675	481,781,434	1,280,885,109
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on debt refunding	36,204,577	10,637,265	46,841,842
Deferred charges related to pensions	115,670	223,576	339,246
Total deferred outflows of resources	36,320,247	10,860,841	47,181,088
LIABILITIES			
Current liabilities			
Accrued payroll	27,260	40,994	68,254
Compensated absences	37,813	56,870	94,683
Interest payable	5,418,150	1,641,088	7,059,238
Bonds payable-current	28,868,607	12,156,391	41,024,998
Total current liabilities	34,351,830	13,895,343	48,247,173
Noncurrent liabilities			
Loan reserve	69,484	2,192,436	2,261,920
Net pension liability	457,544	1,414,813	1,872,357
Bonds payable	503,767,590	148,685,853	652,453,443
Total noncurrent liabilities	504,294,618	152,293,102	656,587,720
Total liabilities	538,646,448	166,188,445	704,834,893

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions

105,960

219,885

325,845

NET POSITION

Restricted for revolving loan program and
debt service

296,671,514

326,233,945

622,905,459

Total net position

\$ 296,671,514

\$ 326,233,945

\$ 622,905,459

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2017

	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Operating revenues			
Program loan interest and fee revenue	\$ 15,907,162	\$ 11,420,847	\$ 27,328,009
Operating expenses			
Administrative expenses	679,787	3,713,605	4,393,392
Technical assistance	74,983	198,517	273,500
Forgivable principal expense	636,069	1,600,000	2,236,069
Depreciation	1,462	9,405	10,867
Total operating expenses	1,392,301	5,521,527	6,913,828
Operating income	14,514,861	5,899,320	20,414,181
Nonoperating revenues (expenses)			
Administrative grants	357,512	3,293,097	3,650,609
Investment earnings	5,099,454	1,285,416	6,384,870
Program loan interest expense	(22,112,624)	(6,704,365)	(28,816,989)
Total nonoperating revenues (expenses)	(16,655,658)	(2,125,852)	(18,781,510)
Income before contributions	(2,140,797)	3,773,468	1,632,671
Capital contributions	2,992,142	10,051,273	13,043,415
Change in net position	851,345	13,824,741	14,676,086
Net position - beginning of year	295,820,169	312,409,204	608,229,373
Net position-end of year	\$ 296,671,514	\$ 326,233,945	\$ 622,905,459

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Receipt of borrower loan repayments	\$ 72,096,507	\$ 51,057,248	\$ 123,153,755
Loans made to borrowers	(5,218,785)	(12,677,083)	(17,895,868)
Receipt of loan interest	8,957,339	5,701,092	14,658,431
Receipt of debt management fees	7,426,434	5,385,171	12,811,605
Receipt (use) of loan reserves	-	(81,496)	(81,496)
Payment of administrative costs	(671,062)	(3,714,539)	(4,385,601)
Payment of technical assistance costs	(74,983)	(198,517)	(273,500)
Payment of forgivable principal expense	(636,069)	(1,600,000)	(2,236,069)
Net cash provided (used) by operating activities	<u>81,879,381</u>	<u>43,871,876</u>	<u>125,751,257</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Principal paid on bonds	(39,649,894)	(10,140,106)	(49,790,000)
Interest paid on bonds	(23,197,098)	(6,827,102)	(30,024,200)
Receipt of administrative grants	357,512	3,293,097	3,650,609
Interfund receipts (payments)	(1,626,827)	1,626,827	-
Capital contributions	<u>2,992,142</u>	<u>10,051,273</u>	<u>13,043,415</u>
Net cash provided (used) by noncapital financing activities	<u>(61,124,165)</u>	<u>(1,996,011)</u>	<u>(63,120,176)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	<u>5,865,502</u>	<u>1,715,439</u>	<u>7,580,941</u>
Net increase (decrease) in cash and cash equivalents	26,620,718	43,591,304	70,212,022
Cash and cash equivalents at beginning of year	<u>215,816,096</u>	<u>72,485,244</u>	<u>288,301,340</u>
Cash and cash equivalents at end of year	<u>\$ 242,436,814</u>	<u>\$ 116,076,548</u>	<u>\$ 358,513,362</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2017

	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	\$ 14,514,861	\$ 5,899,320	\$ 20,414,181
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	1,462	9,405	10,867
Pension expense	31,490	47,237	78,727
Employer pension contributions	(39,117)	(72,501)	(111,618)
(Increase) decrease in			
Program loans	66,877,722	38,380,165	105,257,887
Debt management receivable	198,288	(292,985)	(94,697)
Interest receivable	278,323	(41,599)	236,724
Increase (decrease) in			
Accrued payroll	13,750	20,622	34,372
Compensated absences	2,602	3,708	6,310
Loan reserve	-	(81,496)	(81,496)
Total adjustments	67,364,520	37,972,556	105,337,076
Net cash provided (used) by operating activities	\$ 81,879,381	\$ 43,871,876	\$ 125,751,257
NONCASH INVESTING ACTIVITIES			
Amortization of bond premiums	\$ 2,613,286	\$ 663,229	\$ 3,276,515
Amortization of deferred amount on retirement of bonds	1,931,902	638,932	2,570,834
Increase in fair value of investments	627,294	369,827	997,121

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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. On August 6, 2016, Arizona House Bill 2666 became effective, transitioning WIFA to the newly established Arizona Finance Authority (AFA). WIFA, through the AFA, 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 the five member AFA 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 FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 ORGANIZATION AND REPORTING ENTITY (Continued)

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.

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.

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.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted for Revolving Loan Program and Debt Service

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 \$549,495,912 of which \$258,534,490 is restricted for Clean Water and \$290,961,422 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.

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.

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.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTE 3 CASH AND INVESTMENTS

Cash and investments consisted of the following as of June 30, 2017

INVESTMENT TYPE	
State investment pool	\$ 357,560,230
Money market	953,132
Cash and cash equivalents	<u>358,513,362</u>
Guaranteed investment contract	54,457,700
U.S. Treasury notes	34,938,170
U.S. Treasury bonds	8,974,890
Total investments	<u>98,370,760</u>
Total Cash and Investments	<u>\$ 456,884,122</u>

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.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 3 CASH AND INVESTMENTS (Continued)

Cash and cash equivalents (Continued)

At June 30, 2017, the carrying amount of WIFA's cash with treasurer totaled \$357,560,230 of which \$355,098,584 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 \$2,461,646 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, 2017, the carrying amount of WIFA's cash with trustee totaled \$953,132, of which \$953,132 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.

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, 2017, 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, 2017, WIFA's restricted investments totaled \$70,520,760 which is restricted per the Master Bond Indenture Section 5.6 Reserve Account. The reserve account is a pledged account held by the trustee.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 3 CASH AND INVESTMENTS (Continued)

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. 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, 2017:

Investment Type	Amount	Remaining Maturity (In Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
U.S. Treasury Notes	\$ 34,938,170	\$ 33,874,007	\$ -	\$ -	\$ 1,064,163
U.S. Treasury Bond	8,974,890	-	-	-	8,974,890
Guaranteed Investment Contracts	54,457,700	38,476,500	-	-	15,981,200
Money Market Funds	953,132	953,132	-	-	-
State Investment Pool (LGIP)	357,560,230	357,560,230	-	-	-
	<u>\$ 456,884,122</u>	<u>\$ 430,863,869</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,020,253</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 Moody's rating as of year-end for each investment type as of June 30, 2017.

Investment Type	Amount	Ratings as of Year-End From Moody's			
		Aaa	Aa	A	Unrated
U.S. Treasury Notes	\$ 34,938,170	\$ 34,938,170	\$ -	\$ -	\$ -
U.S. Treasury Bond	8,974,890	8,974,890	-	-	-
Guaranteed Investment Contracts	54,457,700	-	-	-	54,457,700
Money Market Funds	953,132	-	-	-	953,132
State Investment Pool (LGIP)	357,560,230	-	-	-	357,560,230
	<u>\$ 456,884,122</u>	<u>\$ 43,913,060</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 412,971,062</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 3 CASH AND INVESTMENTS (Continued)

Credit risk

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 (70.65%), the Royal Bank of Canada (14.39%) and Mass Mutual Financial Group (14.96%).

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, 2017 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.

Concentration of Credit Risk

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

Total Clean Water and Drinking Water

Issuer	Investment Type	Reported Amount
State Investment Pool	State Investment Pool	\$ 357,560,230
First American US Treasury Money Market	Money Market	953,132
Bayerische Landesbank	Guranteed Investment Contract	38,476,500
Royal Bank of Canada	Guranteed Investment Contract	7,836,362
Mass Mutual Financial Group	Guranteed Investment Contract	8,144,837
Wells Fargo	US Treasury Bonds	10,039,054
US Bank	US Treasury Notes	33,874,007
Total Investments		\$ 456,884,122

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 3 CASH AND INVESTMENTS (Continued)

Fair Value Measurement

WIFA's investments at June 30, 2017, categorized within the fair value hierarchy established by generally accepted accounting principles, were as follows:

Investments By Fair Value Level	Amount	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
U.S. Treasury Notes	\$ 34,938,170	\$ -	\$ 34,938,170	\$ -
U.S. Treasury Bond	8,974,890	-	8,974,890	-
Total Investments by Fair Value Level	\$ 43,913,060	\$ -	\$ 43,913,060	\$ -

Investments categorized as Level 1 are valued using prices quoted in active markets for those investments. The amount of \$357,560,230 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 \$953,132 invested in money market funds as well as \$54,457,700 in guaranteed investment contracts that were recorded at cost.

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, 2016	Increases	Decreases	June 30, 2017
Clean Water Fund	\$ 534,866,635	\$ 5,218,785	\$ (72,096,507)	\$ 467,988,913
Drinking Water Fund	380,797,590	12,677,083	(51,057,248)	342,417,425
	\$ 915,664,225	\$ 17,895,868	\$ (123,153,755)	\$ 810,406,338

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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, 2017, the debt service reserve was \$69,484 and \$2,192,436 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 \$78,727 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.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 5 PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Arizona State Retirement Plan (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:	
	<u>Before July 1, 2011</u>	<u>On or after July 1, 2011</u>
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

Arizona State Retirement Plan

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
 June 30, 2017

NOTE 5 PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Arizona State Retirement Plan (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, 2017, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 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 11.48 percent (10.90 percent for retirement, 0.44 percent for health insurance premium benefit, and 0.14 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 9.47 percent (9.41 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, 2017, were \$111,619. 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
2017	\$ 4,506	\$ 1,638
2016	\$ 5,372	\$ 1,289
2015	\$ 6,817	\$ 1,363

During fiscal year 2017, 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, 2017, the Authority reported a liability of \$1,872,357 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016. 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, 2015, to the measurement date of June 30, 2016.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 5 PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Arizona State Retirement Plan (Continued)

The Authority's reported liability at June 30, 2017, decreased by \$69,280 from the Authority's prior year liability of \$1,941,637 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, 2016, was 0.01160 percent, which was an increase of .00087 from its proportion measured as of June 30, 2015.

Pension Expense and Deferred Outflows/Inflows of Resources - For the year ended June 30, 2017, the Authority recognized pension expense for ASRS of \$78,727. At June 30, 2017, 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
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 11,378	\$ 128,804
Changes of assumptions or other inputs		99,063
Net difference between projected and actual earnings on pension plan investments	202,901	
Changes in proportion and differences between Authority contributions and proportionate share of contributions	13,349	97,978
Authority contributions subsequent to the measurement date	<u>111,618</u>	
Total	<u>\$ 339,246</u>	<u>\$ 325,845</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 5 PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Arizona State Retirement Plan (Continued)

The \$111,618 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, 2018. 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	
2017	\$ (120,201)
2018	(108,676)
2019	73,768
2020	56,892

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2015
Actuarial cost method	June 20, 2016
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, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2013.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 5 PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Arizona State Retirement Plan (Continued)

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%	3.90%
Fixed income	25%	0.93%
Commodities	2%	0.08%
Real estate	10%	0.42%
Multi-asset class	<u>5%</u>	0.17%
Total	<u>100%</u>	

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.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 5 PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Arizona State Retirement Plan (Continued)

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	\$ 2,387,397	\$ 1,872,357	\$ 1,459,407

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 BONDS PAYABLE

Bonds payable at June 30, 2017 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.

\$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. \$ 57,295,000

\$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. 7,125,000

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 6 BONDS PAYABLE (Continued)

\$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. 10,700,000

\$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. 18,770,000

\$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. 316,365,000

\$ 606,270,000

Bonds by Fund are as follows:

Arizona Clean Water Revolving Fund	<u>\$ 464,461,803</u>
Arizona Drinking Water Revolving Fund	<u>\$ 141,808,197</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 6 BONDS PAYABLE (Continued)

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

Year Ending June 30,	Clean Water		
	Principal	Interest	Total
2018	\$ 28,868,607	\$ 21,109,341	\$ 49,977,948
2019	26,850,646	19,981,870	46,832,516
2020	36,426,768	18,552,918	54,979,686
2021	37,028,215	16,798,354	53,826,569
2022	41,644,588	14,886,666	56,531,254
2023-2027	195,877,684	44,125,152	240,002,836
2028-2031	97,765,295	6,787,501	104,552,796
Total Long-Term Debt	464,461,803	142,241,802	606,703,605
Less Current Portion	(28,868,607)	(21,109,341)	(49,977,948)
Noncurrent Portion	<u>\$ 435,593,196</u>	<u>\$ 121,132,461</u>	<u>\$ 556,725,657</u>

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

Year Ending June 30,	Drinking Water		
	Principal	Interest	Total
2018	\$ 12,156,391	\$ 6,337,299	\$ 18,493,690
2019	13,909,354	5,828,562	19,737,916
2020	13,298,232	5,220,613	18,518,845
2021	14,871,785	4,528,671	19,400,456
2022	11,460,412	3,882,234	15,342,646
2023-2027	51,932,316	11,221,223	63,153,539
2028-2031	24,179,707	1,678,712	25,858,419
Total Long-Term Debt	141,808,197	38,697,314	180,505,511
Less Current Portion	(12,156,391)	(6,337,299)	(18,493,690)
Noncurrent Portion	<u>\$ 129,651,806</u>	<u>\$ 32,360,015</u>	<u>\$ 162,011,821</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 6 BONDS PAYABLE (Continued)

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

Year Ending June 30,	Total Clean and Drinking Water		
	Principal	Interest	Total
2018	\$ 41,024,998	\$ 27,446,640	\$ 68,471,638
2019	40,760,000	25,810,432	66,570,432
2020	49,725,000	23,773,531	73,498,531
2021	51,900,000	21,327,025	73,227,025
2022	53,105,000	18,768,900	71,873,900
2023-2027	247,810,000	55,346,375	303,156,375
2028-2032	121,945,002	8,466,213	130,411,215
Total Long-Term Debt	606,270,000	180,939,116	787,209,116
Less Current Portion	(41,024,998)	(27,446,640)	(68,471,638)
Noncurrent Portion	<u>\$ 565,245,002</u>	<u>\$ 153,492,476</u>	<u>\$ 718,737,477</u>

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. The amount of the defeased bonds as of June 30, 2017 was \$325,335,000.

In June 2017, WIFA defeased \$12,385,000 of Water Quality Revenue Bonds, Series 2009A using their own resources. Sufficient assets to pay principal of \$12,385,000 and interest of \$502,564 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 interest paid on the defeasance is included in program loan interest expense. The amount of the defeased bonds as of June 30, 2017 was \$12,385,000.

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.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 7 LONG TERM DEBT

Long-term debt activity for the fiscal year ended June 30, 2017 follows for each fund and in total.

Clean Water					
Description	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 35,211	\$ 31,069	\$ (28,467)	\$ 37,813	\$ -
Bonds Payable	504,111,698	-	(39,649,895)	464,461,803	28,868,607
Bonds premiums	70,787,679	-	(2,613,285)	68,174,394	-
	<u>\$ 574,934,588</u>	<u>\$ 31,069</u>	<u>\$ (42,291,647)</u>	<u>\$ 532,674,010</u>	<u>\$ 28,868,607</u>

Drinking Water					
Description	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 53,162	\$ 46,522	\$ (42,814)	\$ 56,870	\$ -
Bonds Payable	151,948,302	-	(10,140,105)	141,808,197	12,156,391
Bonds Premiums	19,697,279	-	(663,232)	19,034,047	-
	<u>\$ 171,698,743</u>	<u>\$ 46,522</u>	<u>\$ (10,846,151)</u>	<u>\$ 160,899,114</u>	<u>\$ 12,156,391</u>

Total Clean Water and Drinking Water					
Description	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 88,373	\$ 77,591	\$ (71,281)	\$ 94,683	\$ -
Bonds Payable	656,060,000	-	(49,790,000)	606,270,000	41,024,998
Bonds premiums	90,484,958	-	(3,276,517)	87,208,441	-
	<u>\$ 746,633,331</u>	<u>\$ 77,591</u>	<u>\$ (53,137,798)</u>	<u>\$ 693,573,124</u>	<u>\$ 41,024,998</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 8 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, 2017 are as follows:

Expenses	Clean Water Fund	Drinking Water Fund	Total
Personnel	\$ 401,054	\$ 601,585	\$ 1,002,639
Benefits	130,983	182,451	313,434
Contracts	61,646	92,160	153,806
In State Travel	5,316	7,982	13,298
Out of State Travel	2,285	3,427	5,712
Other Operating Expenses	57,245	137,053	194,298
Equipment	21,258	27,388	48,646
Other Program Activities	-	167,299	167,299
	679,787	1,219,345	1,899,132
Set Aside to ADEQ		2,494,260	2,494,260
	\$ 679,787	\$ 3,713,605	\$ 4,393,392

NOTE 9 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 15th Ave 3rd 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.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 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 17, WIFA had \$4,166,600 available for loans from two Drinking Water grants and \$2,646,826 for loans from two Clean Water grants. During the year an additional loan amount of \$8,654,400 was awarded from a Clean Water Grant and \$10,986,720 from a Drinking Water Grant. In FY 17, \$2,356,073 of the total expenditures for loans was from Clean Water grant funds, with an additional \$636,069 provided from forgivable principal. Drinking Water Grants provided \$7,951,273 for loans and \$1,600,000 in forgivable principal. Of the total Administrative costs, \$357,512 were provided from the Clean Water grants and \$600,320 from the Drinking Water grants.

In FY18 WIFA expects to receive a \$8,945,000 Clean Water Award and a \$14,879,000 Drinking Water Award. At the end of FY 17 WIFA had \$8,309,084 available from two Clean Water grants for loans and \$6,398,239 available from two Drinking Water grants.

REQUIRED SUPPLEMENTARY INFORMATION



WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 June 30, 2017

	Fiscal Year			2014 through 2006
	2017 (2016)	2016 (2015)	2015 (2014)	
Authority's proportion of the net pension liability	0.011600%	0.012470%	0.012376%	Information not available
Authority's proportionate share of the net pension liability	1,872,357	1,941,637	1,831,290	
Authority's covered-employee payroll	\$ 1,027,132	\$ 1,083,182	\$ 1,091,083	
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	182.29%	179.25%	167.84%	
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	69.49%	

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 June 30, 2017

	Fiscal Year				2013 through 2006
	2017	2016	2015	2014	
Statutorily required contribution	\$ 117,812	\$ 124,241	\$ 131,804	\$ 125,911	Information not available
Authority's contributions in relation to the statutorily required contribution	117,812	124,241	131,804	125,911	
Authority's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	
Authority's covered-employee payroll	\$1,027,132	\$1,083,182	\$1,136,241	\$1,091,083	
Authority's contributions as a percentage of covered- employee payroll	11.47%	11.47%	11.60%	11.54%	

REPORT ON INTERNAL CONTROL AND COMPLIANCE



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

Arizona Finance Board of Directors
Advisory Board Members of the 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, 2017, 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.

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 20, 2017