

HENRY & HORNE, LLP
CERTIFIED PUBLIC ACCOUNTANTS



WATER INFRASTRUCTURE FINANCE AUTHORITY
OF ARIZONA

PHOENIX, ARIZONA

FINANCIAL STATEMENTS

Year Ended June 30, 2015



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, 2015, 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.

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

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, 2015, 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 2 to the financial statements, for the year ended June 30, 2015, Water Infrastructure Finance Authority of Arizona adopted new accounting guidance, Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, that had a material impact on the financial statements. For Water Infrastructure Finance Authority of Arizona, these statements impacted the presentation of the financial statements by establishing standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pension benefits provided through defined benefit pension plans. In addition Statement No. 68 requires disclosure of information related to pension benefits. As discussed in Note 2 to the financial statements, the adoption of GASB Statements 68 and 71 resulted in the restatement of beginning net position. Our opinions are 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. The information is the representation of management. We have not audited or reviewed such required supplementary information, and, accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2015, 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
September 29, 2015

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

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, 2015. 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 2015, the Net Position for WIFA had increased by \$26,944,609 to a total of \$581,678,866. Of this amount \$581,634,133 is restricted for the revolving loan program and debt service and \$44,733 is the net investment in capital assets.
- In fiscal year 2015, WIFA had a slight decrease in the total dollars approved for new loans, approximately \$38 million in FY 15 versus \$44.9 million in FY 14. The number of new loans for FY 15 was 10 while the number of new loans in FY 14 was 13. At the start of 2016 we are currently working on nine (9) loans with a total value of approximately \$91 million. Even if some of these loans do not materialize, we believe the Agency will see an increase of overall loans being processed.
- WIFA had a total of five (5) loans retired in 2015. Two (2) of the loans were based on normal retirement, but three (3) were due to prepayment. The prepayment trend will continue into 2016 with a total of four (4) loans already prepaid (on July 1, 2015) and another seven (7) loans scheduled for prepayment.
- WIFA conducted a bond refunding this fiscal year. The \$342,565,000 refunding action refunded or defeased portions of the 2006A, 2008A, 2009A, 2010A, and 2012 A & B bond series. In addition, the 2004A Revenue and the 2004A Refunded bond series were retired. The Agency's long term debt payments were reduced by approximately \$38.8 million and produced an economic gain of approximately \$22.3 million.

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

Statement of Net Position

As of June 30,	2015	2014	Dollar Change
Current assets	\$ 183,247,872	\$ 226,440,613	\$ (43,192,741)
Other noncurrent assets	1,169,200,288	1,208,599,814	(39,399,526)
	<hr/>	<hr/>	<hr/>
Total assets	1,352,448,161	1,435,040,427	(82,592,267)
Deferred outflows of resources	53,400,300	25,908,095	27,492,205
	<hr/>	<hr/>	<hr/>
Total assets and deferred outflows of resources	\$1,405,848,461	\$ 1,460,948,522	(\$55,100,062)
Current liabilities	\$ 55,747,995	\$ 56,078,587	\$ (330,592)
Noncurrent liabilities	768,101,364	848,284,522	(80,183,158)
	<hr/>	<hr/>	<hr/>
Total liabilities	823,849,359	904,363,109	(80,513,750)
Deferred Inflows of Resources	320,236		320,236
	<hr/>	<hr/>	<hr/>
Total net position	581,678,866	556,585,413	26,944,609
	<hr/>	<hr/>	<hr/>
Total liabilities and net position	\$1,405,848,461	\$ 1,460,948,522	\$ (57,251,588)

WIFA's net position increased to \$581,678,866 during fiscal year 2015, an increase of \$26,944,609 over fiscal year 2014. The increase in net position was primarily the result of the refunding. After our scheduled October 1, 2014 payment of \$58.7 million our outstanding bond balance was approximately \$760 million. After the refunding our balance was \$712.3 million. As part of the refunding, we retired the 2004 Revenue series and 2004 Refunding bonds and defeased portions of other series, using available cash, of approximately \$38.8 million. The retirement did cause a small arbitrage payment of \$141,000. The refunding also decreased our overall investments (approximately \$19.6 million), increased our deferred outflow of resources (\$27.2 million), and reduced our overall bonds payable (approximately \$48 million).

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

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,	<u>2015</u>	<u>2014</u>	<u>Change</u>
Operating Revenues:			
Program loan interest and fee income	\$ 34,177,691	\$ 35,928,884	\$ (1,751,193)
Total operating revenue	<u>34,177,691</u>	<u>35,928,884</u>	<u>(1,751,193)</u>
Operating Expenses:			
Total operating expenses	<u>38,450,010</u>	<u>44,716,946</u>	<u>(6,266,936)</u>
Operating income	<u>(4,272,319)</u>	<u>(8,788,062)</u>	<u>4,515,743</u>
Non-Operating revenues			
Income before contributions	<u>9,128,643</u>	<u>11,268,530</u>	<u>(2,139,887)</u>
Capital contributions - federal	<u>4,856,324</u>	<u>2,480,468</u>	<u>2,375,856</u>
	<u>22,088,285</u>	<u>34,313,247</u>	<u>(12,224,962)</u>
Change in net position	<u>26,944,609</u>	<u>36,793,715</u>	<u>(9,849,106)</u>
Net position, beginning of year, adjusted for GASB 68	<u>554,734,257</u>	<u>519,791,698</u>	<u>34,942,559</u>
Net position, end of year	<u>\$ 581,678,866</u>	<u>\$ 556,585,413</u>	<u>\$ 25,093,453</u>

In fiscal year 2015, total operating revenue decreased by \$1,751,193 or 4.87%; the total program expenses decreased by \$6,266,936 or 14.01. %; and non-program revenues, decreased by \$2,139,877 or 18.99%. The reduction of operating revenue is a reflection of the maturities and prepayments taking place in the program. The decrease in operating expenses was caused by a reduction of approximately \$6.5 million in program interest expense, a \$1.7 million reduction in administrative expenses offset by an increase in loan forgivable expense of about \$2.1 million. The significant items in the decrease of non-operating revenues were a reduction of approximately \$0.8 million in investment earnings and a decrease of approximately \$1.4 million in administrative grant revenue. Federal grant contributions decreased by approximately \$12.2 million as WIFA continued to spend down its available federal funds. Net position increased by \$26,944,609 or 4.84%.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

WIFA's Board of Directors adopted an operating budget of \$2,098,260 for the period July 1, 2014 through June 30, 2015.

<u>Budget Line Item</u>	<u>Amount</u>
Salaries and benefits	\$ 1,535,060
Professional and outside services	249,200
In state travel	20,000
Out of state travel	20,000
Other operating	220,000
Equipment	54,000
	<hr/>
Total	\$ 2,098,260

Actual expenditures were \$2,002,736 or 4.6% below budget. These figures do not include arbitrage payments made by the agency of \$141,659. The Agency continues to keep administrative expenses as low as possible but still perform its mission. WIFA is also exploring cost savings by streamlining work through enhanced software and reviews of existing procedures.

Capital Assets

WIFA's capital assets consist primarily of computer equipment. In fiscal year 2015, WIFA spent \$11,655 for leases and software license renewals. No new equipment was purchased in FY 2015. 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 2015 is as follows. See additional information in Notes 7 and 8.

<u>Year Ended June 30,</u>	<u>2015</u>
Beginning balance	\$ 818,750,000
Additions	-
Payments	(58,745,000)
Refunded bonds	(47,700,000)
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Ending balance	\$ 712,305,000

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

Economic and Other Factors

Anticipated Bond Sales

During fiscal year 2016, WIFA is not considering any new bonding. However, we are exploring additional options for reducing our long term debt.

Federal Capitalization Grants

WIFA has submitted applications for federal funding of \$16.0 million for Drinking Water and \$9.5 million for Clean Water in fiscal year 2016.

Loan activity

WIFA is experiencing both an increase in prepayment requests and cash on hand. The Agency is conducting discussions with the Environmental Protection Agency (EPA) in an effort to determine what new project types are available for funding under the current laws, as well as participating in statewide events to ensure communities and organizations are aware of WIFA's funding opportunities.

Financial Contact

WIFA's financial statements present users with a general overview of WIFA's finances and demonstrate WIFA's accountability. If you have any questions about the report or require additional financial information, please contact Michael Clark, Controller, Water Infrastructure Finance Authority of Arizona, 1110 West Washington, Suite 290, Phoenix, Arizona 85007 or by phone at (602) 364-1324 or toll-free at (877)298-0425.



FINANCIAL STATEMENTS

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2015

ASSETS	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Current assets			
Cash and cash equivalents			
Cash with treasurer	\$ 68,003,315	\$ 79,253,981	\$ 147,257,296
Cash with trustee	12,116,656	771,777	12,888,433
Restricted cash with trustee	4,457,675	1,590,804	6,048,479
Total cash and cash equivalents	<u>84,577,646</u>	<u>81,616,562</u>	<u>166,194,208</u>
Receivables, net of uncollectibles			
Debt management	4,690,050	2,198,671	6,888,721
Interest	7,161,297	3,003,647	10,164,944
Internal balances	<u>(16,371,626)</u>	<u>16,371,626</u>	<u>-</u>
Total current assets	<u>80,057,367</u>	<u>103,190,506</u>	<u>183,247,873</u>
Noncurrent assets			
Investments	77,812,244	16,835,043	94,647,287
Program loans	722,828,641	351,679,626	1,074,508,267
Capital assets, net	<u>4,280</u>	<u>40,454</u>	<u>44,734</u>
Total noncurrent assets	<u>800,645,165</u>	<u>368,555,123</u>	<u>1,169,200,288</u>
Total assets	<u>880,702,532</u>	<u>471,745,629</u>	<u>1,352,448,161</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on debt refunding	40,949,817	12,173,298	53,123,115
Deferred charges related to pensions	<u>69,124</u>	<u>208,061</u>	<u>277,185</u>
Total deferred outflows of resources	<u>41,018,941</u>	<u>12,381,359</u>	<u>53,400,300</u>
LIABILITIES			
Current liabilities			
Accrued payroll	7,425	22,265	29,690
Compensated absences	27,418	82,240	109,658
Interest payable	6,243,221	1,825,428	8,068,649
Bonds payable-current	<u>38,415,440</u>	<u>9,124,558</u>	<u>47,539,998</u>
Total current liabilities	<u>44,693,504</u>	<u>11,054,491</u>	<u>55,747,995</u>
Noncurrent liabilities			
Loan reserve	69,484	2,121,476	2,190,960
Net pension liability	457,823	1,373,467	1,831,290
Bonds payable	<u>590,079,111</u>	<u>174,000,003</u>	<u>764,079,114</u>
Total noncurrent liabilities	<u>590,606,418</u>	<u>177,494,946</u>	<u>768,101,364</u>
Total liabilities	<u>635,299,922</u>	<u>188,549,437</u>	<u>823,849,359</u>

See accompanying notes.

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	<u>80,059</u>	<u>240,177</u>	<u>320,236</u>
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Total deferred inflows of resources	<u>80,059</u>	<u>240,177</u>	<u>320,236</u>
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NET POSITION

Net investment in capital assets	4,280	40,454	44,734
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Restricted for revolving loan program and debt service	<u>286,337,212</u>	<u>295,296,920</u>	<u>581,634,132</u>
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Total net position	<u>\$ 286,341,492</u>	<u>\$ 295,337,374</u>	<u>\$ 581,678,866</u>
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WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2015

	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Operating revenues			
Program loan interest and fee revenue	\$ 23,200,348	\$ 10,977,343	\$ 34,177,691
Operating expenses			
Administrative expenses	640,482	3,473,472	4,113,954
Technical assistance	112,581	198,773	311,354
Forgivable principal expense	1,063,716	4,702,991	5,766,707
Depreciation	-	3,614	3,614
Total operating expenses	1,816,779	8,378,850	10,195,629
Operating income	21,383,569	2,598,493	23,982,062
Nonoperating revenues (expenses)			
Administrative grants	363,205	3,495,381	3,858,586
Investment earnings	4,151,422	1,118,635	5,270,057
Program loan interest expense	(22,020,643)	(6,233,738)	(28,254,381)
Total nonoperating revenues (expenses)	(17,506,016)	(1,619,722)	(19,125,738)
Income before contributions	3,877,553	978,771	4,856,324
Capital contributions-federal	8,468,797	13,619,488	22,088,285
Change in net position	12,346,350	14,598,259	26,944,609
Net position - Beginning of year	274,457,931	282,127,482	556,585,413
Restatement	462,789	1,388,367	1,851,156
Net position - Beginning of year restated	273,995,142	280,739,115	554,734,257
Total net position-end of year	\$ 286,341,492	\$ 295,337,374	\$ 581,678,866

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Receipt of borrower loan repayments	\$ 46,396,764	\$ 21,269,596	\$ 67,666,360
Loans made to borrowers	(21,613,608)	(26,216,090)	(47,829,698)
Receipt of loan interest	22,428,841	10,601,463	33,030,304
Receipt of debt management fees	774,482	372,853	1,147,335
Receipt (use) of loan reserves	241	158,212	158,453
Payment of administrative costs	(632,111)	(3,449,100)	(4,081,211)
Payment of technical assistance costs	(112,581)	(198,773)	(311,354)
Payment of forgivable principal expense	(1,063,716)	(4,702,991)	(5,766,707)
Net cash provided (used) by operating activities	<u>46,178,312</u>	<u>(2,164,830)</u>	<u>44,013,482</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Principal paid on bonds	(352,259,397)	(96,750,603)	(449,010,000)
Interest paid on bonds	(23,135,967)	(8,401,484)	(31,537,451)
Receipts from new bond issue	274,639,947	67,925,052	342,564,999
Receipt of administrative grants	363,205	3,495,381	3,858,586
Interfund receipts (payments)	(954,642)	954,642	-
Capital contributions	8,468,797	13,619,488	22,088,285
Net cash used by noncapital financing activities	<u>(92,878,057)</u>	<u>(19,157,524)</u>	<u>(112,035,581)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	<u>(3,154)</u>	<u>(27,375)</u>	<u>(30,529)</u>
Net cash used by capital and related financing activities	<u>(3,154)</u>	<u>(27,375)</u>	<u>(30,529)</u>

See accompanying notes.

CASH FLOWS FROM INVESTING ACTIVITIES	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Sale of investments	14,521,372	5,103,578	19,624,950
Interest received on investments	4,142,782	1,142,949	5,285,731
Net cash provided by investing activities	18,664,154	6,246,527	24,910,681
Net decrease in cash and cash equivalents	(28,038,745)	(15,103,202)	(43,141,947)
Cash and cash equivalents at beginning of year	112,616,391	96,719,764	209,336,155
Cash and cash equivalents at end of year	\$ 84,577,646	\$ 81,616,562	\$ 166,194,208

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2015

	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	<u>\$ 21,383,569</u>	<u>\$ 2,598,493</u>	<u>\$ 23,982,062</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	-	3,614	3,614
Pension expense	36,702	110,106	146,808
Employer pension contributions	(30,733)	(92,890)	(123,623)
(Increase) decrease in			
Program loans	24,779,759	(4,982,441)	19,797,318
Debt management receivable	2,975	(3,027)	(52)
Interest receivable	3,397	35,947	39,344
Increase (decrease) in			
Accrued payroll	1,061	3,181	4,242
Compensated absences	1,341	3,975	5,316
Loan reserve	241	158,212	158,453
Total adjustments	<u>24,794,743</u>	<u>(4,763,323)</u>	<u>20,031,420</u>
Net cash provided (used) by operating activities	<u>\$ 46,178,312</u>	<u>\$ (2,164,830)</u>	<u>\$ 44,013,482</u>
 NONCASH INVESTING ACTIVITIES			
Amortization of bond premiums	\$ 21,234,586	\$ 4,082,513	\$ 25,317,099
Amortization of deferred amount on retirement of bonds	21,280,364	5,934,656	27,215,020

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization and Reporting Entity

Reporting entity – The Water Infrastructure Finance Authority of Arizona (WIFA) is a political body and a component unit of the State of Arizona (State). WIFA's financial information is discretely presented in the Comprehensive Annual Financial Report of the State of Arizona. It is authorized to administer the Clean Water Revolving Fund and the Drinking Water Revolving Fund (Funds) and has an operating agreement with the 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 FINANCIAL STATEMENTS

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

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 \$509,514,035 of which \$245,292,493 is restricted for Clean Water and \$264,197,180 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 FINANCIAL STATEMENTS

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 8).

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pensions – For purposes of measuring the net pension 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

Note 2 – Summary of Significant Accounting Policies (continued)

Change in Accounting Principle – Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

	<i>Total</i>
Net Position as previously reported at June 30, 2014	\$ 556,585,413
Prior period adjustment - implementation of GASB 68:	
Net pension liability (measurement date as of June 30, 2013)	(1,970,530)
Deferred outflows - Authority contributions made during fiscal year 2014	119,374
Total prior period adjustment	(1,851,156)
Net position as restated, July 1, 2014	\$ 554,734,257

Note 3 – Cash and Investments

Cash and investments consisted of the following as of June 30, 2015:

Investment Type	Amount
State investment pool	\$ 146,130,291
Cash deposits	1,127,005
Money market	12,888,433
Money market - Restricted	6,048,479
Cash and cash equivalents	166,194,208
Guaranteed investment contract	61,692,702
U.S. Treasury notes	10,077,516
Federal bond	22,877,069
Total investments including restricted accounts	94,647,287
Less restricted investments	(62,338,224)
Investments	32,309,063
Total cash and investments	\$ 260,841,495

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

Note 2 – Summary of Significant Accounting Policies (continued)

At June 30, 2015, the carrying amount of WIFA's cash with treasurer totaled \$147,257,296 of which \$141,147,006 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 \$1,127,005 of funds on hand not deposited and \$4,983,285 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, 2015, the carrying amount of WIFA's cash with trustee totaled \$18,936,912, of which \$1,316,353 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, 2015, consisted of collateralized guaranteed investment contracts, Federal bonds and U.S. Treasury notes. The guaranteed investment contracts are not insured by the Federal Deposit Insurance Corporation. At June 30, 2015, WIFA's restricted investments totaled \$62,338,224 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

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, 2015:

<u>Investment Type</u>	Total Clean Water and Drinking Water				
	Remaining Maturity (In Months)				
	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months	
State investment pool	\$ 147,257,296	\$ 147,257,296	\$ -	\$ -	\$ -
Money market funds	18,936,912	18,936,912	-	-	-
Federal bonds	22,877,069	22,877,069	-	-	-
U.S. Treasury notes	10,077,516	9,876,000	201,516	-	-
Guaranteed investment Contracts	61,692,702	2,109,006	-	38,476,500	21,107,196
Totals	<u>\$ 260,841,495</u>	<u>\$ 201,056,283</u>	<u>\$ 201,516</u>	<u>\$ 38,476,500</u>	<u>\$ 21,107,196</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, 2015.

<u>Investment Type</u>	Total Clean Water and Drinking Water				
	Ratings as of Year-End				
	AAA	AA	A	Exempt from Disclosure(*)	
State investment pool	\$ 147,257,296	\$ -	\$ -	\$ -	\$ 147,257,296
Money market funds	18,936,912	-	-	-	18,936,912
Federal bonds	22,877,069	-	-	-	22,877,069
U.S. Treasury notes	10,077,516	-	-	-	10,077,516
Guaranteed investment Contracts	61,692,702	-	61,692,702	-	-
Totals	<u>\$ 260,841,495</u>	<u>\$ -</u>	<u>\$ 61,692,702</u>	<u>\$ -</u>	<u>\$ 199,148,793</u>

(*)Funds held by the State Treasurer or US Government Securities – see Note 3 – Cash and Cash Equivalents.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS

Note 3 – Cash and Investments (continued)

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 (65.79%), the Royal Bank of Canada (21.01%) and GE Funding Capital Market Services (13.20%).

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

Investments in any one issuer are as follows as of June 30, 2015:

Total Clean Water and Drinking Water		
Issuer	Investment Type	Reported Amount
State Investment Pool	State Investment Pool	\$ 147,257,296
First American US Treasury Money Market	Money Market	18,936,912
Cash and cash equivalents		<u>166,194,208</u>
Bayerische Landesbank	Guaranteed Investment Contract	40,585,506
Royal Bank of Canada	Guaranteed Investment Contract	12,962,360
GE Funding Capital Mkt Svcs Inc.	Guaranteed Investment Contract	8,144,837
Duetsche Bank	U.S. Treasury Notes	10,077,516
Federal Home Loan Banks	Federal Bond	<u>22,877,069</u>
Investments		<u>94,647,287</u>
Total cash and investments		<u>\$ 260,841,495</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, 2015 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.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS

Note 4 – Program Loans

The Funds have made loans to local governments and others in Arizona to finance various projects pursuant to the requirements of the Clean Water and Safe Drinking Water Acts. The loans are generally payable in semiannual installments due January 1 and July 1 of each year, including interest. However, several loans are payable monthly or quarterly. Changes in the program loans are as follows:

	<u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2015</u>
Clean Water Fund	\$ 747,608,400	\$ 22,609,874	\$ (47,389,633)	\$ 722,828,641
Drinking Water Fund	<u>346,697,185</u>	<u>26,530,369</u>	<u>(21,547,928)</u>	<u>351,679,626</u>
	<u>\$1,094,305,585</u>	<u>\$ 49,140,242</u>	<u>\$ (68,937,561)</u>	<u>\$1,074,508,267</u>

Repayment of these loans will be made from pledged property taxes, net revenues from the systems, transaction privilege taxes or from special assessments. Most loans have a .3 to 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, 2015, the debt service reserve was \$69,484 and \$2,121,476 for the Clean Water and Drinking Water funds, respectively, and no allowance for loan loss was recorded.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS

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 \$146,808 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.

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

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, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.6 percent (11.48 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 11.6 percent (10.89 percent for retirement, 0.59 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, 2015, were \$131,804. 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
2015	\$ 6,817	\$ 1,363
2014	\$ 6,547	\$ 2,619
2013	\$ 6,146	\$ 2,458

During fiscal year 2015, the Authority paid for ASRS pension and OPEB contributions as follows: 25 percent from the Clean Water Fund, and 75 percent from the Drinking Water Fund.

Pension Liability - At June 30, 2015, the Authority reported a liability of \$1,831,290 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2014. 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, 2013, to the measurement date of June 30, 2014.

The Authority's reported liability at June 30, 2015, decreased by \$139,240 from the Authority's prior year liability of \$1,970,530 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, 2014, was 0.012376 percent, which was an increase of .000523 from its proportion measured as of June 30, 2013.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS

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 \$146,808. 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	\$ 93,072	\$ -
Changes of assumptions or other inputs		
Net difference between projected and actual earnings on pension plan investments		320,236
Changes in proportion and differences between Authority contributions and proportionate share of contributions	60,490	
Authority contributions subsequent to the measurement date	<u>\$ 123,623</u>	<u> </u>
 Total	 <u>\$ 277,185</u>	 <u>\$ 320,236</u>

The \$123,623 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	\$	13,293
2017		13,293
2018		60,029
2019		80,059

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS

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	June 30, 2013
Actuarial roll forward date	June 20, 2014
Actuarial cost method	Entry age normal
Amortization method:	
Plan amendments	Immediate
Investment gain/loss	5 years
Assumption gain/loss	Average future service lives
Experience gain/loss	Average future service lives
Asset valuation	Fair Value
Discount rate	8%
Projected salary increases	3 - 6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

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	63%	7.03%
Fixed Income	25%	3.20%
Real estate	8%	4.50%
Commodities	4%	4.75%
Total	<u>100%</u>	

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS

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	\$ 2,314,657	1,831,290	\$ 1,569,039

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, 2015, the Clean Water Fund owed the Drinking Water Fund \$16,371,626, which was the result of short-term cash transfers. Funds will be repaid from existing cash.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

NOTES TO FINANCIAL STATEMENTS

Note 7 – Bonds Payable

\$205,400,000 Water Quality Revenue Bonds, Series 2006A, due in annual principal installments ranging from \$1,305,000 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 refunding the last payment is Oct. 1, 2016.	22,250,000
\$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 refunding the last payment is Oct. 1, 2020.	77,895,000
\$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 refunding the last payment is Oct. 1, 2019.	28,510,000
\$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.	12,450,000
\$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 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, callable on October 1, 2017.	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 refunding the last payment is Oct. 1, 2018.	22,700,000
\$342,565,000 Water Quality Refunding bonds, series 2014 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, 2025.	342,565,000
	<u>\$ 712,305,000</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS

Note 7 - Bonds Payable

Bonds payable at June 30, 2015 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.

Bonds by Fund are as follows:

Arizona Clean Water Revolving Fund	\$ 550,812,148
Arizona Drinking Water Revolving Fund	<u>161,492,852</u>
	<u>\$ 712,305,000</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS

Note 7 – 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
2016	\$ 38,415,440	\$ 24,271,722	\$ 62,687,162
2017	36,590,220	22,879,548	59,469,768
2018	33,998,218	21,522,687	55,520,905
2019	33,065,719	20,137,247	53,202,966
2020	36,426,768	18,552,918	54,979,686
2021-2025	202,501,037	64,015,102	266,516,139
2026-2030	151,563,674	18,263,178	169,826,852
2031	18,251,072	319,394	18,570,466
Total long-term debt	550,812,148	189,961,796	740,773,944
Less current portion	(38,415,440)	(24,271,722)	(62,687,162)
Noncurrent portion	512,396,708	\$ 165,690,074	\$ 678,086,782

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
2016	\$ 9,124,560	\$ 7,136,210	\$ 16,260,770
2017	9,519,780	6,791,187	16,310,967
2018	12,626,782	6,375,203	19,001,985
2019	14,479,281	5,842,811	20,322,092
2020	13,298,232	5,220,613	18,518,845
2021-2025	59,813,963	16,699,148	76,513,111
2026-2030	38,116,326	4,532,697	42,649,023
2031	4,513,928	78,994	4,592,922
Total long-term debt	161,492,852	52,676,863	214,169,715
Less current portion	(9,124,560)	(7,136,210)	(16,260,770)
Noncurrent portion	\$ 152,368,292	\$ 45,540,653	\$ 197,908,945

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO FINANCIAL STATEMENTS

Note 7 – 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
2016	\$ 47,540,000	\$ 31,407,932	\$ 78,947,932
2017	46,110,000	29,670,735	75,780,735
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
2021-2025	262,315,000	80,714,250	343,029,250
2026-2030	189,680,000	22,795,875	212,475,875
2031	22,765,000	398,388	23,163,388
Total long-term debt	712,305,000	242,638,659	954,943,659
Less current portion	(47,540,000)	(31,407,932)	(78,947,932)
Noncurrent portion	664,765,000	\$ 211,230,727	\$ 875,995,727

In March 2012, WIFA issued \$164,610,000 of Water Quality Revenue Refunding Bond series 2012A and \$47,600,000 of Water Quality Revenue Refunding Bond series 2012B for the purpose of advance refunding a portion of the 2004 Water Quality Revenue Bonds, 2004 Water Quality Refunding Bonds, and 2006 Water Quality Revenue Bonds. Under the terms of the refunding issue, sufficient assets to pay all principal and interest in the refunded bonds issues had been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The amount outstanding of the defeased bonds as of June 30, 2015 was \$115,395,000.

In October 2015, WIFA issued \$342,565,000 of Water Quality Revenue Refunding Bond series 2014A for the purpose of advance refunding or defeasing 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, 2015 was \$37,900,000 for the 2014/2012 escrow account and \$352,365,000 for the 2014 escrow account.

In addition to the refunding, the 2004 Series bonds were prepaid. The advanced refunding was done in order to reduce debt payments and take advantage of the low interest rates. The refunding decreased WIFA's total debt payments by approximately \$38.8 million. The transaction resulted in an economic gain of approximately \$ 22.3 million.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

NOTES TO FINANCIAL STATEMENTS

Note 7 – Bonds Payable (continued)

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.

At the end of FY 2015 the amount of money and investments held by the Trustee and the monies held by the State Treasurer was \$260,841,495. The principal and interest repayments received on pledged loans in FY 2015 was \$91,497,955. The principal and interest paid on the outstanding bonds in FY 2015 was \$480,547,451.

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	\$ 26,077	\$ 1,341	\$ -	\$ 27,418	\$ 27,418
Bonds payable	\$ 628,431,598	274,639,947	\$ (352,259,397)	\$ 550,812,148	\$ 38,415,440
Bond premiums	56,447,817	48,657,000	(27,422,414)	77,682,403	
	<u>\$ 684,879,414</u>	<u>\$ 323,296,947</u>	<u>\$ (379,681,811)</u>	<u>\$ 628,494,551</u>	<u>\$ 38,415,440</u>
Description	Drinking Water				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 78,624	\$ 3,976	\$ -	\$ 82,240	\$ 82,240
Bonds payable	\$ 190,318,402	67,925,053	\$ (96,750,603)	\$ 161,492,852	\$ 9,124,558
Bond premiums	17,549,198	12,063,587	(7,981,074)	21,631,711	
	<u>\$ 207,867,600</u>	<u>\$ 79,988,640</u>	<u>\$ (104,731,677)</u>	<u>\$ 183,124,563</u>	<u>\$ 9,124,558</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
NOTES TO 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	\$ 104,341	\$ 5,316	\$ -	\$ 109,657	\$ 109,657
Bonds payable	\$ 818,750,000	342,565,000	\$ (449,010,000)	\$ 712,305,000	\$ 47,540,000
Bond premiums	73,997,014	60,720,587	(35,403,487)	99,314,114	
	<u>\$ 892,747,014</u>	<u>\$ 403,285,587</u>	<u>\$ (484,413,487)</u>	<u>\$ 811,619,114</u>	<u>\$ 47,540,000</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, 2015 are as follows:

Expenses	Clean Water Fund	Drinking Water Fund	Total
Personnel	\$ 286,044	\$ 864,299	\$ 1,150,343
Benefits	117,867	337,564	455,431
Contracts	65,431	174,744	240,175
In state travel	4,436	13,056	17,492
Out of state travel	4,574	13,721	18,295
Other operating expenses	144,650	168,075	312,725
Equipment	2,914	8,741	11,655
Other program activities	14,566	55,196	69,762
subtotal	640,482	1,635,395	2,275,878
Set aside to ADEQ		1,838,076	1,838,076
	<u>640,482</u>	<u>3,473,472</u>	<u>4,113,954</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

NOTES TO FINANCIAL STATEMENTS

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 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 4 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 five years but are usually spent, in their entirety, within 3 years.

At the beginning of FY 15, WIFA had \$7,606,392 available for loans from three Drinking Water grants and \$1,463,716 for loans from two Clean Water grants. During the year an additional loan amount of \$9,087,360 was awarded from a Clean Water Grant and \$11,459,128 from a Drinking Water Grant. In FY 15, \$7,405,081 of the total expenditures for loans was from Clean Water grant funds, with an additional \$1,063,716 provided from forgivable principal. Drinking Water Grants provided \$8,906,388 for loans and \$4,702,991 in forgivable principal. Of the total Administrative costs, \$378,640 were provided from the Clean Water grants and \$1,434,755 from the Drinking Water grants.

In FY16 WIFA expects to receive a \$9,479,000 Clean Water Award and a \$15,969,000 Drinking Water Award. At the end of FY 15 WIFA had \$2,082,279 available from two Clean Water grants for loans and \$6,097,201 available from two Drinking Water grants.



REQUIRED SUPPLEMENTARY INFORMATION

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

	Fiscal Year	
	2015 <u>(2014)</u>	2014 through <u>2006</u>
Authority's proportion of the net pension liability	0.012376%	Information
Authority's proportionate share of the net pension liability	1,831,290	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	167.84%	
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

	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	<u>131,804</u>	<u>125,911</u>	
Authority's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
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

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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, 2015, 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Water Infrastructure Finance Authority of Arizona' 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
September 29, 2015