



WATER INFRASTRUCTURE FINANCE AUTHORITY  
OF ARIZONA  
PHOENIX, ARIZONA  
FINANCIAL STATEMENTS  
Year Ended June 30, 2018



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, 2018, 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 opinions 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, 2018, 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 September 17, 2018, 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 17, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **For the year ending June 30, 2018**

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, 2018. 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 2018, the Net Position for WIFA had increased by \$16,787,546 to a total of \$639,693,005. The total amount of \$639,693,005 is restricted for the revolving loan program and debt.
- In fiscal year 2018, WIFA closed fourteen (14) loans totaling \$39,063,733 and is expecting another seven (7) loans totaling approximately \$16 million to be approved and executed by the end of December 2018. As applications are received year-round, WIFA expects additional loans to be approved as the year progresses.
- WIFA had a total of sixteen (16) loans retired in 2018. All but two (2) of these loans were due to prepayments of \$16.9 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 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	2018	2017	Dollar Change
Current assets	\$ 323,420,401	\$ 430,564,115	\$ (107,143,714)
Other noncurrent assets	791,919,352	850,320,994	(58,401,642)
Total assets	<u>1,115,339,753</u>	<u>1,280,885,109</u>	<u>(165,545,356)</u>
Deferred outflows of resources	<u>34,596,601</u>	<u>47,181,088</u>	<u>(12,584,487)</u>
Total assets and deferred outflows of resources	<u>\$ 1,149,936,354</u>	<u>\$ 1,328,066,197</u>	<u>\$ (178,129,843)</u>
Current liabilities	\$ 46,136,346	\$ 48,247,173	\$ (2,110,827)
Noncurrent liabilities	463,817,823	656,587,720	(192,769,897)
Total liabilities	<u>509,954,169</u>	<u>704,834,893</u>	<u>(194,880,724)</u>
Deferred Inflows of resources	<u>289,180</u>	<u>325,845</u>	<u>(36,665)</u>
Total net position	<u>639,693,005</u>	<u>622,905,459</u>	<u>16,787,546</u>
Total liabilities and net position	<u>\$ 1,149,936,354</u>	<u>\$ 1,328,066,197</u>	<u>\$ (178,129,843)</u>

WIFA's net position increased to \$639,693,005 during fiscal year 2018, an increase of \$16,787,546 over fiscal year 2017. The increase in net position was primarily the result of a reduction in long-term debt. In January and May 2018, WIFA used existing cash to defease approximately \$127.7 million in outstanding bonds.

## 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,	2018	2017	Dollar Change
Operating revenues:			
Program loan interest and fee income	\$ 22,098,808	\$ 27,328,009	\$ (5,229,201)
Operating expenses:			
Total operating expenses	<u>7,102,805</u>	<u>6,913,828</u>	<u>188,977</u>
Operating income	<u>14,996,003</u>	<u>20,414,181</u>	<u>(5,418,178)</u>
Non-operating revenues (expenses)	<u>(16,577,514)</u>	<u>(18,781,510)</u>	<u>2,203,996</u>
Income (loss) before contributions	(1,581,511)	1,632,671	(3,214,182)
Capital contributions	<u>18,369,057</u>	<u>13,043,415</u>	<u>5,325,642</u>
Change in net position	16,787,546	14,676,086	2,111,460
Net position, beginning of year	<u>622,905,459</u>	<u>608,229,373</u>	<u>14,676,086</u>
Net position, end of year	<u><u>\$ 639,693,005</u></u>	<u><u>\$ 622,905,459</u></u>	<u><u>\$ 16,787,546</u></u>

In fiscal year 2018, the total operating revenue decreased by \$5,229,201. The decrease in operating revenue is a reflection of the maturities and prepayments that have occurred in the program over the past few years. The total operating expense increased by \$188,977. These changes combined with an increase of \$5,325,642 in capital grant contributions (about 41%) led to a net increase in total net position of \$16,787,546 or 2.70%.

## Budgetary Highlights

WIFA's Board of Directors adopted an operating budget of \$2,174,950 for the period July 1, 2017 through June 30, 2018.

<u>Budget Line Item</u>	<u>Amount</u>
Salaries and benefits	\$ 1,637,500
Professional and outside services	188,750
In state travel	23,500
Out of state travel	21,000
Other operating	264,200
Equipment	40,000
Total	<u>\$ 2,174,950</u>

Actual expenditures were \$1,740,738 or 19% below budget, primarily due to staff vacancies. WIFA expects to continue filling these vacancies in fiscal year 2019.

## Capital Assets

WIFA's capital assets consist primarily of computer equipment. WIFA purchased a new server in March 2018 with a cost of \$13,000.

## Debt Outstanding

WIFA's long-term bond debt activity for fiscal year 2018 is as follows. See additional information in Notes 6 and 7.

<u>Year Ended June 30</u>	<u>2018</u>
Beginning Balance	\$ 606,270,000
Additions	-
Payments	<u>(168,760,000)</u>
Ending Balance	<u>\$ 437,510,000</u>

## **Economic and Other Factors**

### Anticipated Bond Sales

WIFA is not anticipating issuing new bonds in fiscal year 2019. However, this may change based on the demand for new loans.

### Federal Capitalization Grants

WIFA has submitted applications for federal funding of \$19.9 million for Drinking Water and \$10.8 million for Clean Water in fiscal year 2019.

## **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, 2018

ASSETS	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Current assets			
Cash and cash equivalents			
Cash with treasurer	\$ 132,889,511	\$ 110,265,409	\$ 243,154,920
Cash with trustee	7,930,964	1,056,968	8,987,932
Total cash and cash equivalents	140,820,475	111,322,377	252,142,852
Receivables, net of uncollectibles			
Debt management	2,600,596	2,173,949	4,774,545
Interest	3,304,826	2,325,497	5,630,323
Program loans	34,524,448	26,348,233	60,872,681
Total current assets	181,250,345	142,170,056	323,420,401
Noncurrent assets			
Investments	70,665,635	15,404,190	86,069,825
Program loans	399,256,889	306,579,850	705,836,739
Capital assets, net	3,197	9,591	12,788
Total noncurrent assets	469,925,721	321,993,631	791,919,352
Total assets	651,176,066	464,163,687	1,115,339,753
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on debt refunding	26,382,714	8,030,065	34,412,779
Deferred charges related to pensions	55,089	128,733	183,822
Total deferred outflows of resources	26,437,803	8,158,798	34,596,601
LIABILITIES			
Current liabilities			
Accrued payroll	11,521	34,562	46,083
Compensated absences	16,182	48,545	64,727
Interest payable	3,927,282	1,338,256	5,265,538
Bonds payable-current	26,850,646	13,909,352	40,759,998
Total current liabilities	30,805,631	15,330,715	46,136,346
Noncurrent liabilities			
Loan reserve	69,484	2,096,913	2,166,397
Net pension liability	369,143	1,250,975	1,620,118
Bonds payable	344,888,808	115,142,500	460,031,308
Total noncurrent liabilities	345,327,435	118,490,388	463,817,823
Total liabilities	376,133,066	133,821,103	509,954,169

See accompanying notes.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
STATEMENT OF NET POSITION (Continued)  
PROPRIETARY FUNDS  
June 30, 2018

	<u>Business-type Activities-Enterprise Funds</u>		
	<u>Clean Water Revolving Fund</u>	<u>Drinking Water Revolving Fund</u>	<u>Total</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	<u>93,110</u>	<u>196,070</u>	<u>289,180</u>
NET POSITION			
Net investment in capital assets	3,197	9,591	12,788
Restricted for revolving loan program and debt service	<u>301,384,496</u>	<u>338,295,721</u>	<u>639,680,217</u>
Total net position	<u>\$ 301,387,693</u>	<u>\$ 338,305,312</u>	<u>\$ 639,693,005</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
Year Ended June 30, 2018

	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Operating revenues			
Program loan interest	\$ 7,228,608	\$ 4,307,164	\$ 11,535,772
Debt management fees	6,107,988	4,455,048	10,563,036
Total operating revenues	<u>13,336,596</u>	<u>8,762,212</u>	<u>22,098,808</u>
Operating expenses			
Administrative expenses	450,283	3,850,018	4,300,301
Technical assistance	147,815	307,399	455,214
Forgivable principal expense	166,423	2,180,660	2,347,083
Depreciation	52	155	207
Total operating expenses	<u>764,573</u>	<u>6,338,232</u>	<u>7,102,805</u>
Operating income	<u>12,572,023</u>	<u>2,423,980</u>	<u>14,996,003</u>
Nonoperating revenues (expenses)			
Administrative grants	260,617	3,508,368	3,768,985
Investment earnings	4,694,549	2,195,222	6,889,771
In-substance defeasance	(470,521)	(698,872)	(1,169,393)
Interest expense	(19,826,638)	(6,240,239)	(26,066,877)
Total nonoperating revenues (expenses)	<u>(15,341,993)</u>	<u>(1,235,521)</u>	<u>(16,577,514)</u>
Income (loss) before contributions	(2,769,970)	1,188,459	(1,581,511)
Capital contributions	<u>7,486,149</u>	<u>10,882,908</u>	<u>18,369,057</u>
Change in net position	<u>4,716,179</u>	<u>12,071,367</u>	<u>16,787,546</u>
Net position - beginning of year	<u>296,671,514</u>	<u>326,233,945</u>	<u>622,905,459</u>
Net position-end of year	<u>\$ 301,387,693</u>	<u>\$ 338,305,312</u>	<u>\$ 639,693,005</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	Business-type Activities-Enterprise Funds		
	Clean Water Revolving Fund	Drinking Water Revolving Fund	Total
Receipt of borrower loan repayments	\$ 42,515,682	\$ 31,059,926	\$ 73,575,608
Loans made to borrowers	(8,308,106)	(21,570,584)	(29,878,690)
Receipt of loan interest	7,796,221	4,900,301	12,696,522
Receipt of debt management fees	6,599,149	4,951,189	11,550,338
Receipt (use) of loan reserves	-	(95,523)	(95,523)
Payment of administrative costs	(528,323)	(3,957,585)	(4,485,908)
Payment of technical assistance costs	(147,815)	(307,399)	(455,214)
Payment of forgivable principal expense	(166,423)	(2,180,660)	(2,347,083)
Net cash provided (used) by operating activities	<u>47,760,385</u>	<u>12,799,665</u>	<u>60,560,050</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Principal paid on bonds	(140,418,701)	(28,341,299)	(168,760,000)
Interest paid on bonds	(21,460,789)	(6,579,651)	(28,040,440)
Payments for in-substance defeasance	(10,983,417)	(1,504,185)	(12,487,602)
Receipt of administrative grants	260,617	3,508,368	3,768,985
Capital contributions	7,486,149	10,882,908	18,369,057
Net cash provided (used) by noncapital financing activities	<u>(165,116,141)</u>	<u>(22,033,859)</u>	<u>(187,150,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	<u>(3,249)</u>	<u>(9,746)</u>	<u>(12,995)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments	59,570,380	12,344,120	71,914,500
Purchase of investments	(48,207,839)	(12,051,960)	(60,259,799)
Interest received on investments	4,380,125	4,197,609	8,577,734
Net cash provided (used) by investing activities	<u>15,742,666</u>	<u>4,489,769</u>	<u>20,232,435</u>
Net increase (decrease) in cash and cash equivalents	(101,616,339)	(4,754,171)	(106,370,510)
Cash and cash equivalents at beginning of year	<u>242,436,814</u>	<u>116,076,548</u>	<u>358,513,362</u>
Cash and cash equivalents at end of year	<u>\$ 140,820,475</u>	<u>\$ 111,322,377</u>	<u>\$ 252,142,852</u>

See accompanying notes.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2018

	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	\$ 12,572,023	\$ 2,423,980	\$ 14,996,003
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	52	155	207
(Increase) decrease in			
Program loans	34,207,576	9,489,342	43,696,918
Debt management receivable	491,161	496,141	987,302
Interest receivable	567,613	593,137	1,160,750
Deferred charges related to pensions	60,581	94,843	155,424
Increase (decrease) in			
Accrued payroll	(15,739)	(6,432)	(22,171)
Compensated absences	(21,631)	(8,325)	(29,956)
Loan reserve	-	(95,523)	(95,523)
Net pension liability	(88,401)	(163,838)	(252,239)
Deferred inflows related to pensions	(12,850)	(23,815)	(36,665)
Total adjustments	35,188,362	10,375,685	45,564,047
Net cash provided (used) by operating activities	\$ 47,760,385	\$ 12,799,665	\$ 60,560,050
<b>NONCASH INVESTING ACTIVITIES</b>			
Amortization of bond premiums	\$ 20,478,042	\$ 3,449,093	\$ 23,927,135
Amortization of deferred amount on retirement of bonds	9,821,863	2,607,200	12,429,063
Change in fair value of investments	1,317,633	1,963,867	3,281,500

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

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 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 donations received from any public or private source. In order to receive federal capitalization grants, the State must provide matching funds in a ratio of \$1 of State matching funds for every \$5 of federal capitalization grants. The State began appropriating money for deposit into the Funds in 1998.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

NOTE 1 ORGANIZATION AND REPORTING ENTITY (Continued)

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.

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, 2018

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 effective interest rate method.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

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 \$562,840,558 of which \$267,302,750 is restricted for Clean Water and \$295,537,808 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 facilities 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. 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 are set aside for certain drinking water program and technical assistance 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 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  
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 June 30, 2018

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 using the effective interest rate method 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, 2018:

INVESTMENT TYPE	
State investment pool	\$ 243,154,920
Money market	<u>8,987,932</u>
Cash and cash equivalents	<u>252,142,852</u>
Guaranteed investment contract	15,981,199
U.S. Treasury notes	14,474,564
U.S. Treasury bonds	8,746,857
Federal home loans	<u>46,867,205</u>
Total investments	<u>86,069,825</u>
Total Cash and Investments	<u>\$ 338,212,677</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  
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June 30, 2018

NOTE 3 CASH AND INVESTMENTS (Continued)

Cash and cash equivalents (Continued)

At June 30, 2018, the carrying amount of WIFA's cash with treasurer totaled \$243,154,920 of which \$234,921,712 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 \$8,233,208 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, 2018, the carrying amount of WIFA's cash with trustee totaled \$8,987,932, of which \$8,987,932 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, 2018, 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, 2018, WIFA's restricted investments totaled \$57,252,260 which is restricted per the Master Bond Indenture Section 5.6 Reserve Account. The reserve account is a pledged account held by the trustee. The remaining investments totaling \$28,817,565 are unrestricted.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
 NOTES TO FINANCIAL STATEMENTS  
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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, 2018:

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	\$ 14,474,564	\$ 12,925,114	\$ -	\$ 101,379	\$ 1,448,071
U.S. Treasury Bond	8,746,857	-	-	-	8,746,857
Guaranteed Investment Contracts	15,981,199	-	-	-	15,981,199
Federal Home Loan Bks	46,867,205	-	-	46,867,205	-
Money Market Funds	8,987,932	8,987,932	-	-	-
State Investment Pool (LGIP)	243,154,920	243,154,920	-	-	-
	<u>\$338,212,677</u>	<u>\$265,067,966</u>	<u>\$ -</u>	<u>\$46,968,584</u>	<u>\$ 26,176,127</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, 2018.

Investment Type	Amount	Ratings as of Year-End From Moody's			
		Aaa	Aa	A	Unrated
U.S. Treasury Notes	\$ 14,474,564	\$ 14,474,564	\$ -	\$ -	\$ -
U.S. Treasury Bond	8,746,857	8,746,857	-	-	-
Guaranteed Investment Contracts	15,981,199	-	-	-	15,981,199
Federal Home Loan Bks	46,867,205	46,867,205	-	-	-
Money Market Funds	8,987,932	-	-	-	8,987,932
State Investment Pool (LGIP)	243,154,920	-	-	-	243,154,920
	<u>\$ 338,212,677</u>	<u>\$ 70,088,626</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 268,124,051</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
 NOTES TO FINANCIAL STATEMENTS  
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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: Royal Bank of Canada (50.96%), and Mass Mutual Financial Group (49.03%).

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, 2018 all of WIFA's securities are held in 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	\$ 243,154,920
US Bank	Federal Home Loan Bks	46,867,205
US Bank	US Treasury Notes	12,800,782
First American US Treasury Money Market	Money Market	8,987,932
Wells Fargo	US Treasury Bonds	8,746,857
Mass Mutual Financial Group	Guranteed Investment Contract	8,144,837
Royal Bank of Canada	Guranteed Investment Contract	7,836,362
Wells Fargo	US Treasury Notes	1,673,782
Total Investments		<u>\$ 338,212,677</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
 NOTES TO FINANCIAL STATEMENTS  
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NOTE 3 CASH AND INVESTMENTS (Continued)

Fair Value Measurement

WIFA's investments at June 30, 2018, 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	\$ 14,474,564	\$ -	\$ 14,474,564	\$ -
U.S. Treasury Bond	8,746,857	-	8,746,857	-
Federal Home Loan Bks	46,867,205	-	46,867,205	-
Total Investments by Fair Value Level	<u>\$ 70,088,626</u>	<u>\$ -</u>	<u>\$ 70,088,626</u>	<u>\$ -</u>

Investments categorized as Level 1 are valued using prices quoted in active markets for those investments. The amount of \$243,154,920 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 \$8,987,932 invested in money market funds as well as \$15,981,199 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, 2017	Increases	Decreases	June 30, 2018
Clean Water Fund	\$ 467,988,913	\$ 8,308,106	\$ (42,515,682)	\$ 433,781,337
Drinking Water Fund	342,417,425	21,570,584	(31,059,926)	332,928,083
	<u>\$ 810,406,338</u>	<u>\$ 29,878,690</u>	<u>\$ (73,575,608)</u>	<u>\$ 766,709,420</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
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June 30, 2018

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, 2018, the debt service reserve was \$69,484 and \$2,096,913 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 \$41,733 of pension expenditures related to the pension plan to which it contributes.

Arizona State Retirement Plan

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

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
 NOTES TO FINANCIAL STATEMENTS  
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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:	
	Before July 1, 2011	On or after July 1, 2011
Years of service	80	30 years, age 55
and age required	10 years, age 62	25 years, age 60
to receive benefit	5 years, age 50*	10 years, age 62
	any years age 65	5 years, age 50*
		any years age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive 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  
June 30, 2018

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, 2018, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.5 percent (11.34 percent for retirement and 0.16 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 11.5 percent (10.9 percent for retirement, 0.44 percent for health insurance premium benefit, and 0.16 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 9.49 percent (9.26 percent for retirement, 0.1 percent for health insurance premium benefit, and 0.13 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, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2018, were \$101,824, \$4,110, and \$1,495 respectively.

During fiscal year 2018, the Authority paid for ASRS pension and OPEB contributions as follows: 29 percent from the Clean Water Fund, and 71 percent from the Drinking Water Fund.

Pension Liability - At June 30, 2018, the Authority reported a liability of \$1,620,118 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2017. 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, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2017, reflects a change in actuarial assumption related to changes in loads for future potential permanent benefit increases.

The Authority's reported liability at June 30, 2018, decreased by \$252,239 from the Authority's prior year liability of \$1,872,357 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, 2017, was 0.01040 percent, which was a decrease of .00119 from its proportion measured as of June 30, 2016.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018

NOTE 5 PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Arizona State Retirement Plan (Continued)

Pension Expense and Deferred Outflows/Inflows of Resources - For the year ended June 30, 2018, the Authority recognized pension expense for ASRS of \$110,583. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Pension	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 48,580
Changes of assumptions or other inputs	70,366	48,444
Net difference between projected and actual earnings on pension plan investments	11,632	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	-	192,156
Authority contributions subsequent to the measurement date	101,824	-
Total	<u>\$ 183,822</u>	<u>\$ 289,180</u>

The \$101,824 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	
2019	\$ (172,118)
2020	(4,957)
2021	7,159
2022	(37,268)
2023	-
Thereafter	-

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018

NOTE 5 PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Arizona State Retirement Plan (Continued)

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

Actuarial valuation date	June 30, 2016
Actuarial roll forward date	June 20, 2017
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3 - 6.75% for pensions/not applicable for OPEB
Inflation	3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	1994 GAM Scale BB
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2016, 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 8.7 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%	6.73%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset class	5%	3.41%
Commodities	2%	3.84%
Total	<u>98%</u>	

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018

NOTE 5 PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Arizona State Retirement Plan (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 8.7 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	\$ 2,079,449	\$ 1,620,118	\$ 1,236,307

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

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
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NOTE 6 BONDS PAYABLE

Bonds payable at June 30, 2018 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.	\$ 44,070,000
\$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
\$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.	4,190,000
\$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.	32,560,000
\$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.	118,610,000
\$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% - 1.87% 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.	9,515,000
\$342,565,000 Water Quality Refunding bonds, series 2014R 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, 2027. These bonds are callable on or after October 1, 2024.	<u>221,440,000</u>
Total	<u><u>\$ 437,510,000</u></u>
Bonds by Fund are as follows:	
Arizona Clean Water Revolving Fund	<u><u>\$ 324,043,103</u></u>
Arizona Drinking Water Revolving Fund	<u><u>\$ 113,466,897</u></u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

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
2019	\$ 26,850,646	\$ 15,144,918	\$ 41,995,564
2020	31,316,768	13,828,254	45,145,022
2021	29,028,215	12,385,893	41,414,108
2022	31,644,588	10,924,215	42,568,803
2023	32,588,402	9,046,663	41,635,065
2024-2028	172,614,484	21,383,539	193,998,023
Total Long-Term Debt	324,043,103	82,713,482	406,756,585
Less Current Portion	(26,850,646)	(15,144,918)	(41,995,564)
Noncurrent Portion	\$ 297,192,457	\$ 67,568,564	\$ 364,761,021

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
2019	\$ 13,909,352	\$ 5,071,340	\$ 18,980,692
2020	13,298,232	4,463,302	17,761,534
2021	14,871,785	3,771,357	18,643,142
2022	11,460,412	3,124,910	14,585,322
2023	11,661,598	3,193,587	14,855,185
2024-2028	48,265,518	5,451,711	53,717,229
Total Long-Term Debt	113,466,897	25,076,207	138,543,104
Less Current Portion	(13,909,352)	(5,071,340)	(18,980,692)
Noncurrent Portion	\$ 99,557,545	\$ 20,004,867	\$ 119,562,412

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

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	\$ 40,759,998	\$ 20,216,258	\$ 60,976,256
2019	44,615,000	18,291,556	62,906,556
2020	43,900,000	16,157,250	60,057,250
2021	43,105,000	14,049,125	57,154,125
2022	44,250,000	12,240,250	56,490,250
2023-2027	220,880,002	26,835,250	247,715,252
Total Long-Term Debt	437,510,000	107,789,689	545,299,689
Less Current Portion	(40,759,998)	(20,216,258)	(60,976,256)
Noncurrent Portion	\$ 396,750,002	\$ 87,573,431	\$ 484,323,432

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 still outstanding as of June 30, 2018 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 all principal and interest in the defeased 2009A bonds 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 defeased. The interest paid on the defeasance is included in program loan interest expense. The amount of the defeased bonds still outstanding as of June 30, 2018 was \$6,785,000.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

NOTE 6 BONDS PAYABLE (Continued)

In January 2018, WIFA defeased \$46,110,000 of Water Quality Revenue Bonds, Series 2010A, 2010R, 2012A, 2014R using their own resources. Sufficient assets to pay all principal and interest in the defeased bonds 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 defeased. The interest paid on the defeasance is included in program loan interest expense. An in-substance defeasance of \$1,113,514 was recorded in the Clean Water Fund on the Statement of Revenue, Expenses, and Changes in Fund Net Position. The amount of the defeased bonds still outstanding as of June 30, 2018 was \$46,110,000.

In May 2018, WIFA defeased \$81,625,000 of Water Quality Revenue Bonds, Series 2014R using their own resources. Sufficient assets to pay all principal and interest in the defeased bonds 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 defeased. The interest paid on the defeasance is included in program loan interest expense. In-substance defeasances of \$1,584,035 and \$698,872 was recorded in the Clean Water Fund and Drinking Water Fund, respectively, on the Statement of Revenue, Expenses, and Changes in Fund Net Position. The amount of the defeased bonds still outstanding as of June 30, 2018 was \$81,625,000.

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.

NOTE 7 LONG TERM DEBT

Long-term debt activity for the fiscal year ended June 30, 2018 follows for each fund and in total.

Description	Clean Water				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 37,813	\$ 15,333	\$ (36,964)	\$ 16,182	\$ -
Bonds payable	464,461,803	-	(140,418,700)	324,043,103	26,850,646
Bonds premiums	68,174,394	-	(20,478,041)	47,696,353	-
Net pension liability	457,544	-	(88,401)	369,143	-
	<u>\$ 533,131,554</u>	<u>\$ 15,333</u>	<u>\$(161,022,106)</u>	<u>\$ 372,124,781</u>	<u>\$ 26,850,646</u>

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

NOTE 7 LONG TERM DEBT (Continued)

Description	Drinking Water				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 56,870	\$ 46,000	\$ (54,325)	\$ 48,545	\$ -
Bonds payable	141,808,197	-	(28,341,300)	113,466,897	13,909,354
Bonds premiums	19,034,047	-	(3,449,092)	15,584,955	-
Net pension liability	1,414,813	-	(163,838)	1,250,975	-
	<u>\$ 162,313,927</u>	<u>\$ 46,000</u>	<u>\$ (32,008,555)</u>	<u>\$ 130,351,372</u>	<u>\$ 13,909,354</u>

Description	Total Clean Water and Drinking Water				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 94,683	\$ 61,333	\$ (91,289)	\$ 64,727	\$ -
Bonds payable	606,270,000	-	(168,760,000)	437,510,000	40,760,000
Bonds premiums	87,208,441	-	(23,927,133)	63,281,308	-
Net pension liability	1,872,357	-	(252,239)	1,620,118	-
	<u>\$ 695,445,481</u>	<u>\$ 61,333</u>	<u>\$(193,030,661)</u>	<u>\$ 502,476,153</u>	<u>\$ 40,760,000</u>

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.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018

NOTE 8 ADMINISTRATIVE REVENUES AND EXPENSES (Continued)

The administrative expenses reported by WIFA for June 30, 2018 are as follows:

Expenses	Clean Water Fund	Drinking Water Fund	Total
Personnel	\$ 254,122	\$ 680,798	\$ 934,920
Benefits	65,766	163,168	228,934
Contracts	62,580	223,099	285,679
In State Travel	2,453	5,694	8,147
Out of State Travel	2,332	7,335	9,667
Other Operating Expenses	61,082	100,821	161,903
Equipment	1,948	5,551	7,499
	450,283	1,186,466	1,636,749
Set Aside to ADEQ	-	2,663,552	2,663,552
	\$ 450,283	\$ 3,850,018	\$ 4,300,301

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.

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 state Drinking Water activities. The grants have a budget period of four or five years but are usually spent, in their entirety, within 3 years.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

NOTE 10 CAPITALIZATION GRANTS (Continued)

At the beginning of fiscal year 2018, WIFA had \$6,398,239 available for loans from two Drinking Water grants and \$8,309,084 for loans from two Clean Water grants. During the year an additional amount of \$8,945,000 was awarded from a Clean Water Grant and \$14,879,000 from a Drinking Water Grant. In FY 18, \$7,319,726 of the total expenditures for loans was from Clean Water grant funds, with an additional \$166,423 provided from forgivable principal. Drinking Water Grants provided \$9,818,757 for loans and \$1,064,149 in forgivable principal. Of the total Administrative costs, \$260,613 were provided from the Clean Water grants and \$595,160 from the Drinking Water grants.

In FY 19 WIFA expects to receive a \$10,840,000 Clean Water Award and a \$19,976,000 Drinking Water Award. At the end of FY 18 WIFA had \$9,410,135 available from two Clean Water grants for loans and \$6,650,070 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, 2018

	Fiscal Year				2014 through 2008
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Authority's proportion of the net pension liability	0.010403%	0.011600%	0.012470%	0.012376%	Information not available
Authority's proportionate share of the net pension liability	1,620,118	1,872,357	1,941,637	1,831,290	
Authority's covered payroll	\$ 1,027,132	\$ 1,083,182	\$ 1,136,241	\$ 1,091,083	
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	157.73%	172.86%	170.88%	167.84%	
Plan fiduciary net position as a percentage of the total pension liability	69.92%	67.06%	68.35%	69.49%	

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 June 30, 2018

	Fiscal Year					2013 through 2009
	2018	2017	2016	2015	2014	
Statutorily required contribution	\$ 109,384	\$ 117,812	\$ 124,241	\$ 131,804	\$ 125,911	Information not available
Authority's contributions in relation to the statutorily required contribution	109,384	117,812	124,241	131,804	125,911	
Authority's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	
Authority's covered payroll	\$ 951,165	\$ 1,027,132	\$ 1,083,182	\$ 1,136,241	\$ 1,091,083	
Authority's contributions as a percentage of covered payroll	11.50%	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, 2018, 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  
September 17, 2018