



Report of Independent Auditors  
and Financial Statements with  
Supplemental Information for

Washington Higher Education  
Facilities Authority

June 30, 2015 and 2014

**MOSS-ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Washington Higher Education Facilities Authority

### **Report on Financial Statements**

We have audited the accompanying financial statements of the Washington Higher Education Facilities Authority, which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington Higher Education Facilities Authority as of June 30, 2015 and 2014, and the changes in its net position and results of its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

### *Supplemental Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements. The supplemental schedules of program net position, program revenues, expenses, and changes in program net position, and program cash flows on pages 20 through 22 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules of program net position, program revenues, expenses, and changes in program net position, and program cash flows are fairly stated in all material respects in relation to the financial statements as a whole.

*Moss Adams LLP*

Seattle, Washington  
November 4, 2015

# **WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY**

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

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As management of the Washington Higher Education Facilities Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the years ended June 30, 2015 and 2014. This overview and analysis is required by accounting principles generally accepted in the United States of America (GAAP) and the Governmental Accounting Standards Board.

### **FINANCIAL HIGHLIGHTS**

During the fiscal year ended or as of June 30, 2015:

- Cash and investments totaled \$32.7 million, decreasing by \$43.2 million as proceeds from bond issues were used to fund project draws.
- Loans receivable, net of discounts, premiums, and unamortized bond insurance premiums increased \$34.2 million due to the funding of one new loan (\$4.2 million) coupled with the funding of existing loans (\$49.6 million), partially offset by mortgage payments of \$19.6 million.
- At fiscal year-end, the Authority had total bonds and notes payable of \$765.9 million, net of premiums and discounts. This represents a net decrease of \$7.2 million, or 0.9%, resulting from the issuance of one new bond (\$9.4 million), offset by principal payments on bonds (\$16.6 million).
- Bond interest expense increased by \$2.6 million as bonds issued in the prior year accrued the first full year of interest during the current fiscal year.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements consist of three parts: Management's Discussion and Analysis, the financial statements, and the notes to the financial statements. The financial statements are presented in a manner similar to that of a private business, using the economic resources measurement focus and the accrual basis of accounting. The financial statements report information for all Authority programs and operations. The statement of net position includes all of the Authority's assets and liabilities. All of the revenues and expenses of the Authority are reflected in the statement of revenues, expenses, and changes in net position.

In addition, program financial statements are presented as supplemental schedules. The supplemental information separates the financial statements into the Restricted Bond Fund and General Operating Fund.

# WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

#### Economic Outlook

Interest rates continue at near record low levels, creating an advantageous borrowing opportunity for our clients. Financing structures have changed to reflect financial market conditions in which bond insurance or letter of credit backed bond issuances are no longer the norm. Instead, we have continued to see a much greater reliance on private placement of tax-exempt debt with lending institutions and bonds issued supported by the borrower's credit rating.

### FINANCIAL ANALYSIS OF THE AUTHORITY

#### Statements of Net Position

The following table summarizes the changes in assets, liabilities, and net position between the years ended June 30, 2015 and 2014 (in millions):

	<u>2015</u>	<u>2014</u>	<u>Change</u>	
<b>Assets</b>				
Cash and cash equivalents	\$ 13.9	\$ 18.3	\$ (4.4)	(24.0%)
Investments	18.7	57.5	(38.8)	(67.5%)
Accrued interest receivable	5.2	5.3	(0.1)	(1.9%)
Loans receivable, net	736.3	702.1	34.2	4.9%
Prepaid fees and other assets	<u>1.1</u>	<u>1.2</u>	<u>(0.1)</u>	<u>(8.3%)</u>
Total assets	<u>\$ 775.2</u>	<u>\$ 784.4</u>	<u>\$ (9.2)</u>	<u>(1.2%)</u>
<b>Liabilities</b>				
Accrued interest payable	\$ 5.7	\$ 5.7	\$ -	- %
Amounts due to borrower and other payables	1.7	3.4	(1.7)	(50.0%)
Bonds payable, net	<u>765.9</u>	<u>773.1</u>	<u>(7.2)</u>	<u>(0.9%)</u>
Total liabilities	<u>\$ 773.3</u>	<u>\$ 782.2</u>	<u>\$ (8.9)</u>	<u>(1.1%)</u>
<b>Net Position</b>				
Unrestricted	<u>\$ 1.9</u>	<u>\$ 2.2</u>	<u>\$ (0.3)</u>	<u>(13.6%)</u>

**WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)**

**Statements of Revenues, Expenses and Changes in Net Position**

The following table summarizes the changes in revenues and expenses between the years ended June 30, 2015 and 2014 (in millions):

	<u>2015</u>	<u>2014</u>	<u>Change</u>	
Revenues				
Bond programs loan interest	\$ 27.4	\$ 24.8	\$ 2.6	10.5%
Program fees and General Operating Fund interest income	<u>0.2</u>	<u>1.7</u>	<u>(1.5)</u>	(88.2%)
Total revenues	<u>27.6</u>	<u>26.5</u>	<u>1.1</u>	4.2%
Expenses				
Bond programs interest expense	27.9	25.3	2.6	10.3%
Other bond programs expenses	(0.2)	1.0	(1.2)	(120.0%)
General Operating Fund expenses	<u>0.3</u>	<u>0.3</u>	<u>-</u>	- %
Total expenses	<u>28.0</u>	<u>26.6</u>	<u>1.4</u>	5.3%
Change in net position	<u>\$ (0.4)</u>	<u>\$ (0.1)</u>	<u>\$ (0.3)</u>	300.0%

Loan related interest earnings (\$27.4 million) and bond interest expense (\$27.9 million) are the primary components of total revenues and expenses, respectively, for the bond programs.

During the year ended June 30, 2015, the Authority's revenue in the General Operating Fund was \$7,677, 65.1% of which were issuer fees. During the year, the Authority waived its annual issuer fees on the bonds outstanding. General operating expenses of \$298,585 are comprised of salaries and wages and other professional fees.

**DEBT ADMINISTRATION**

The Authority has debt obligations of \$765.9 million, net of bond discounts and premiums at June 30, 2015. The Authority's bond funds are held by trustees, who ensure that payments of debt service, funding of necessary reserves and other bond resolution requirements are met. At June 30, 2015, amounts held by trustees represent full funding of these requirements.

Most of the debt issued by the Authority is tax-exempt and is issued under the Internal Revenue Code and Treasury Regulations governing mortgage revenue bonds. The bonds sold to provide loans to nonprofit higher education facilities are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

# WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### DEBT ADMINISTRATION (CONTINUED)

The loans, which may be secured by real and/or personal property, are used by the higher education facilities for capital and equipment acquisitions and/or improvements. These bonds are not subject to the limitation of the federal Tax Reform Act of 1986, which imposes an annual ceiling on the aggregate amount of bonds that may be issued during any calendar year by, or on behalf, of states and their political subdivisions.

The Authority has no general obligation bonds and does not currently have an issuer credit rating. The Authority's authorized debt limit is \$1 billion.

Additional information on the Authority's debt obligations can be found in Note 6 of this report.

### COMPARISON OF FISCAL YEAR 2014 WITH 2013

#### Statements of Net Position

The following table summarizes the changes in combined net position between June 30, 2014 and 2013 (in millions):

	2014	2013	Change	
<b>Assets</b>				
Cash and cash equivalents	\$ 18.3	\$ 17.3	\$ 1.0	5.8%
Investments	57.5	24.3	33.2	136.6%
Accrued interest receivable	5.3	4.6	0.7	15.2%
Loans receivable, net	702.1	675.6	26.5	3.9%
Prepaid fees and other assets	1.2	1.3	(0.1)	(7.7%)
Total assets	<u>\$ 784.4</u>	<u>\$ 723.1</u>	<u>\$ 61.3</u>	8.5%
<b>Liabilities</b>				
Accrued interest payable	\$ 5.7	\$ 4.7	\$ 1.0	21.3%
Amounts due to borrower and other payables	3.4	2.0	1.4	70.0%
Bonds payable, net	773.1	714.1	59.0	8.3%
Total liabilities	<u>\$ 782.2</u>	<u>\$ 720.8</u>	<u>\$ 61.4</u>	8.5%
<b>Net Position</b>				
Unrestricted	<u>\$ 2.2</u>	<u>\$ 2.3</u>	<u>\$ (0.1)</u>	(4.3%)

**WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**COMPARISON OF FISCAL YEAR 2014 WITH 2013 (CONTINUED)**

**Statements of Revenues, Expenses and Changes in Net Position**

The following table summarizes the combined changes in net position activity between the fiscal years 2014 and 2013 (in millions):

	<u>2014</u>	<u>2013</u>	<u>Change</u>	
Revenues				
Bond programs loan interest	\$ 24.8	\$ 21.4	\$ 3.4	15.9%
Program fees and General Operating Fund interest income	<u>1.7</u>	<u>1.8</u>	<u>(0.1)</u>	(5.6%)
Total revenues	<u>26.5</u>	<u>23.2</u>	<u>3.3</u>	14.2%
Expenses				
Bond programs interest expense	25.3	22.2	3.1	14.0%
Other bond programs expenses	1.0	0.5	0.5	100.0%
General Operating Fund expenses	<u>0.3</u>	<u>0.3</u>	<u>-</u>	- %
Total expenses	<u>26.6</u>	<u>23.0</u>	<u>3.6</u>	15.7%
Change in net position	<u>\$ (0.1)</u>	<u>\$ 0.2</u>	<u>\$ (0.3)</u>	(150.0%)

During the fiscal year ended June 30, 2014, the Authority's combined total assets increased by \$61.3 million primarily due to the increase in investments (\$34.2 million) as proceeds from bond issues were received to fund future project draws, coupled with the increase in loans receivable (\$26.5 million) due to the funding of four new loans during the year.

**ADDITIONAL INFORMATION**

Questions and inquiries may be directed to the Senior Director of Finance or the Senior Controller at Washington Higher Education Facilities Authority, 1000 2<sup>nd</sup> Avenue, Suite 2700, Seattle, Washington 98104 (206-464-7139).

**WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY**  
**STATEMENTS OF NET POSITION**

<b>ASSETS</b>	June 30,	
	2015	2014
CASH AND CASH EQUIVALENTS	\$ 13,953,274	\$ 18,313,950
INVESTMENTS	18,669,564	57,541,415
ACCRUED INTEREST RECEIVABLE	5,249,490	5,254,399
LOANS RECEIVABLE, net	736,290,274	702,142,277
PREPAID FEES AND OTHER ASSETS	1,068,500	1,153,814
<b>TOTAL ASSETS</b>	<b>\$ 775,231,102</b>	<b>\$ 784,405,855</b>
<b>LIABILITIES AND NET POSITION</b>		
ACCRUED INTEREST PAYABLE	\$ 5,734,586	\$ 5,716,232
AMOUNTS DUE TO BORROWER	1,597,643	3,322,933
ACCOUNTS PAYABLE	90,244	38,485
BONDS PAYABLE		
Interest bonds	739,833,331	746,485,024
Taxable bonds	20,000,000	20,000,000
Unamortized bond premium	8,329,258	8,857,508
Unamortized bond discount	(2,268,972)	(2,220,247)
	<u>765,893,617</u>	<u>773,122,285</u>
<b>TOTAL LIABILITIES</b>	<b>773,316,090</b>	<b>782,199,935</b>
NET POSITION		
Unrestricted	<u>1,915,012</u>	<u>2,205,920</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 775,231,102</b>	<b>\$ 784,405,855</b>

**WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

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	Years Ended June 30,	
	2015	2014
<b>REVENUES</b>		
Interest earned on loans and investments	\$ 27,442,993	\$ 24,827,647
Fee income	196,549	1,658,102
	27,639,542	26,485,749
<b>EXPENSES</b>		
Interest on debt	27,865,121	25,273,087
Amortization of bond premium	(641,732)	(655,900)
Amortization of bond discount	131,017	118,956
Bond issuance costs	191,549	1,431,358
Amortization of bond insurance premium	85,910	88,772
Communication and office expense	243,694	250,851
Professional fees	54,891	52,686
	27,930,450	26,559,810
<b>CHANGE IN NET POSITION</b>	(290,908)	(74,061)
<b>NET POSITION</b>		
Beginning of year	2,205,920	2,279,981
End of year	\$ 1,915,012	\$ 2,205,920

**WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY**  
**STATEMENTS OF CASH FLOWS**

	Years Ended June 30,	
	2015	2014
<b>OPERATING ACTIVITIES</b>		
Interest received on loans	\$ 27,578,425	\$ 25,624,424
Cash received from fee income	5,000	226,744
Cash received from loan repayments	19,649,694	115,141,519
Cash payments for acquisition of loans	(53,713,541)	(141,615,379)
Cash payments for bond program expenses	(1,983,097)	(714,456)
Salaries, benefits, and vendor payments	(247,423)	(432,966)
Net cash used for operating activities	<u>(8,710,942)</u>	<u>(1,770,114)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments	(6,707,466)	(65,012,319)
Sale of investments	45,495,167	31,755,866
Interest paid on investments	61,029	(18,784)
Net cash provided by (used for) investing activities	<u>38,848,730</u>	<u>(33,275,237)</u>
<b>NON CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from issuance of bonds and notes	12,998,000	175,383,096
Interest paid on debt	(27,846,770)	(24,207,358)
Debt repayments	(19,649,694)	(115,141,519)
Net cash provided by (used for) financing activities	<u>(34,498,464)</u>	<u>36,034,219</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	(4,360,676)	988,868
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>18,313,950</u>	<u>17,325,082</u>
End of year	<u>\$ 13,953,274</u>	<u>\$ 18,313,950</u>
<b>RECONCILIATION OF EXCESS OF EXPENSES OVER REVENUES TO NET CASH FROM OPERATING ACTIVITIES</b>		
Change in net position	\$ (290,908)	\$ (74,061)
Adjustments to reconcile excess of expenses over revenues to net cash used by operating activities		
Amortization of loan discount	(131,017)	(118,956)
Amortization of loan premium	641,732	655,900
Amortization of prepaid bond insurance	(85,910)	(88,772)
Amortization of bond discount	131,017	118,956
Amortization of bond premium	(641,732)	(655,900)
Amortization of bond insurance premium	85,910	88,772
Cash from changes in operating assets and liabilities		
Acquisition of loans	(53,713,541)	(141,615,379)
Repayments of loans	19,649,694	115,141,519
Interest and other receivables	27,436	(607,227)
Interest and other payables	25,616,377	25,385,034
Net cash used for operating activities	<u>\$ (8,710,942)</u>	<u>\$ (1,770,114)</u>

# WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### **Note 1 – Description of Business**

The Washington Higher Education Facilities Authority (the “Authority”) was created in 1983 in accordance with the Chapter 28B.07 of the Revised Code of Washington (“RCW”). The Authority was formally activated in 1984 with the appointment of five board members. The Authority’s purpose is to reduce the financing costs of higher education facilities through the issuance of tax-exempt, nonrecourse revenue bonds, and to loan the proceeds to qualified, not-for-profit higher education institutions in Washington State. The institutions may use the bond proceeds for refinancing taxable or tax-exempt debt, remodeling, construction, purchase of equipment, or other approved purposes. The Authority’s debt limit is \$1 billion.

Effective July 22, 2007, the Authority was granted the power to originate and purchase student loans, to participate in federal programs that provide guarantees for the repayment of educational loans and to issue revenue bonds payable from and secured by educational loans. Revenue bonds so secured are to be excluded from the debt limit of \$1 billion. As of the date of this report, no such revenue bonds have been issued.

The Authority is a legally separate entity from, and incurs no expense or liability to, the State of Washington. Although the governor and lieutenant governor sit on the board and the governor appoints the public members of the board, the State of Washington is not considered to be financially accountable due to the restricted ability of the Washington State legislature to impose its will on the Authority and a lack of any financial dependency of the Authority on any State appropriations. The Authority does not impose a financial burden on, nor is there a benefit to, the State; however, in the June 30, 2014 State of Washington Comprehensive Annual Financial Report (CAFR), the Authority is presented as a discrete component unit of the State of Washington.

### **Program Funds:**

The Authority summarizes its financial activities in two funds:

*General Operating Fund:* The General Operating Fund was established by the Authority to account for the fiscal activities related to the administration of its ongoing program responsibilities. Revenues of the General Operating Fund are derived primarily from fees earned on bond issues and interest income on operating investments. All funds received by the Authority are generated by its activities. Expenditures are not appropriations from the State.

*Bond Fund:* The financial activities of all Authority-issued bonds, including the proceeds from the sale of mortgage revenue bonds and the debt service requirements of these bonds, are recorded in the bond fund. Bonds issued by the Authority are conduit debt, i.e., limited-obligation bonds issued by the Authority for the express purpose of providing financing for a specific third party that is not a part of the Authority’s financial reporting entity. Although the conduit debt securities bear the name of the Authority, it has no obligation for such debt beyond the resources provided by the loan with the third party on whose behalf they are issued.

# WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### **Note 1 – Description of Business (Continued)**

At the time of bond issuance, the Authority generally assigns its rights, title, and interest in the loan agreement (with certain exceptions and reservations), and in any collateral securing the loan, to a bond trustee pursuant to a trust indenture. The bond trustee administers the bond issue. The bonds, which constitute a special obligation of the Authority, are payable solely from the bond fund established pursuant to the indenture, and are funded primarily from payments made by the not-for-profit higher education institutions to satisfy the loan agreement and from any other money held by the bond trustee pursuant to the indenture. As such, the assets so pledged were \$773.2 million as of June 30, 2015. The obligation of the not-for-profit colleges and universities to repay the loan is absolute and unconditional.

The bonds do not constitute a general, moral, or special obligation of the State of Washington, a pledge of the faith and credit of the State, or a general obligation of the Authority. The owners of the bonds have no right to require the State of Washington or the Authority, nor has the State of Washington or the Authority any obligation or legal authorization, to levy any taxes or appropriate or expend any of its funds for the payment of principal thereof, premium, if any, or interest thereon.

### **Note 2 – Summary of Significant Accounting Policies**

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority has applied all applicable GASB pronouncements. The most significant of the Authority's accounting policies are described below.

**Measurement Focus and Basis of Accounting** – All program and general operating funds of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in net position for all funds present increases (e.g., revenues) and decreases (e.g., expenses) in net position. These funds utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**Unclassified Statement of Net Position** – The Authority's business cycle is greater than one year. As such, all assets and liabilities as shown on the statement of net position are unclassified.

**Cash and Cash Equivalents** – Cash deposits in the bond issues are held in the corporate trust departments of commercial banks in the bond issue's name. As of June 30, 2015 and 2014, there were no uncollateralized or uninsured cash equivalents held in the bond fund. Cash deposits held by the General Operating Fund are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

# WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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

For purposes of the statement of cash flows, the Authority considers all highly liquid, interest-bearing instruments purchased with an original maturity of three months or less that are readily convertible to cash to be cash and cash equivalents.

**Investments** – Investments are comprised of certificates of deposit, and US government backed securities as of the fiscal year ended June 30, 2015. Investments as of June 30, 2014 also included Commercial Paper. Commercial Paper and U.S. government backed securities investments are stated at market value as of the fiscal years ended June 30, 2015 and 2014. The Authority's Trustee holds all of the Authority's investments in the name of the Authority.

**Loans Receivable, Net** – Loans receivable are stated at their unpaid principal balance, increased by premiums or reduced by unearned discounts, and unamortized bond insurance premiums which are amortized over the life of the loan.

No loan loss provisions have been considered necessary as the Authority requires each bond issue to be rated in the investment grade category by Standard & Poor's, Moody's or Fitch or to be privately-placed with a sophisticated investor. In addition to those borrowers whose natural rating is below investment grade, most borrowers have the assets held by all the outstanding indentures secured by letters of credit or bond insurance, issued by either a third-party bank or insurance company, of which payment is guaranteed.

**Prepaid Fees** – Prepaid fees in the Bond Fund represent prepaid mortgage insurance, which is an agreement by a third party to make payment of required debt service in accordance with the terms of the loan agreement on behalf of the borrower in the event they are unable to make the required payments.

**Amounts Due to Borrower** – Amounts due to borrower consist of funds that are to be requisitioned by borrower but have not yet been disbursed as well as reserve funds that are prescribed by bond indentures.

**Bonds Payable** – Interest serial and term bonds are stated at their principal amounts outstanding, net of unamortized bond discount or premium, if any.

**Unamortized Bond Discounts and Premiums** – Unamortized bond discounts or premiums and unamortized bond insurance premiums are amortized using the bonds outstanding method.

**Bond Issuance Costs** – Bond issuance costs, including underwriter's fees, are expensed at issuance.

# WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 2 – Summary of Significant Accounting Policies (Continued)

**Revenue Recognition** – The primary source of revenue for the Authority is interest earned on its loans outstanding and investments. This revenue is used to pay interest expense on the bonds outstanding. In addition, the Authority earns annual fees charged on the loan amounts outstanding. Interest and fees are recognized on an accrual basis.

**Income Taxes** – The Authority is exempt from federal income taxes under Internal Revenue Code (IRC) Section 115(a) and, accordingly, no provision for income taxes was made for the years ended June 30, 2015 and 2014.

**Extinguishment of Debt** – Any costs related to the extinguishment of debt are funded by the borrower, and as such do not create an expense to the Authority.

**Use of Estimates** – The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results may differ from those estimates.

**Unrestricted Net Position** – The unrestricted net position balances at June 30, 2015 and 2014 were \$1,915,012 and \$2,205,920, respectively, and consist of funds provided for general operations.

**Arbitrage Rebate** – No arbitrage rebate is owed to the United States Treasury for the years ended June 30, 2015 and 2014.

### Note 3 – Investments

**Bond Program Investment Policy** – The trust indenture for each bond issue establishes the permitted investments. Although all of the program funds must be used for program purposes, certain funds have been restricted for payment of debt service as required by the indentures.

**Operating Fund Investment Policy** – The Authority can invest in nongovernmental investments, including certificates of deposit, banker’s acceptances, and repurchase agreements.

In addition, the following governmental investments are eligible:

1. Treasury bills, notes, and other obligations issued by the United States Department of the Treasury and backed by the full faith and credit of the US government.
2. Federal Home Loan Bank notes and bonds.

**WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 3 – Investments (Continued)**

3. Federal Land Bank bonds.
4. Federal National Mortgage Association notes, debentures, and guaranteed certificates of participation.
5. The obligations of certain government-sponsored corporations whose obligations are eligible as collateral for advances to member banks, as determined by the Board of Governors of the Federal Reserve System.
6. Shares of mutual funds with portfolios consisting of only US government bonds or US government guaranteed bonds issued by federal agencies with average maturities less than four years.
7. Investments in state investment pool – the Authority is a voluntary participant in the Local Agency Investment Pool operated by the State Treasurer pursuant to RCW 43.250. Investments in the pool are reported at fair value.

As of June 30, 2015, \$17.0 million of the Authority’s investments in the bond program are comprised of US government backed securities and \$1.7 million is invested in certificates of deposit (CDs). The CDs are issued by US Bank and rated AAA. As of June 30, 2014, the Authority’s investments in the bond program were comprised of \$25.4 million of US government backed securities, \$1.2 million in CDs and \$30.9 million in commercial paper. The commercial paper was issued by institutions whose credit rating is either at least equivalent to the rating on the bonds being issued and for terms specified in the indentures. Should institution credit ratings fall, collateral may be required. Should posting of collateral occur, the collateral is held by the trustee in the name of the Authority and, therefore; is not subject to custodial credit risk. The Authority places no limit on the amount the Authority may invest in any one provider, potentially exposing it to a concentration of credit risk.

The schedule below provides the weighted average of both the interest rates and terms as well as the percentage of total investments held by each provider. However, as a conduit issuer, this risk accrues directly to the borrower.

Provider	Weighted Average of Term (Years)	Weighted Average of Rate	Total Investment	Percent of Total Investment
Federal Home Loan Mortgage Company Mortgage Bond	0.70	3.13%	\$ 1,299,875	6.97%
Federal National Mortgage Association Mortgage Note	2.66	1.27%	2,617,086	14.02%
Federal National Mortgage Association Mortgage Bond	0.97	0.87%	4,876,327	26.12%
US Treasury Notes	0.69	1.34%	8,240,006	44.14%
US Bank National Certificate of Deposit	1.29	1.13%	1,636,270	8.75%
			<u>\$ 18,669,564</u>	<u>100.00%</u>

# WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 3 - Investments (Continued)

All other excess bond funds are held as cash and cash equivalents.

### Note 4 - Loans Receivable, Net

The loans receivable balances in the Restricted Bond Funds at June 30, 2015 and 2014 are comprised of the following:

	<u>2015</u>	<u>2014</u>
Loans receivable	\$ 731,278,408	\$ 696,639,349
Discount on loans	(2,268,972)	(2,220,247)
Mortgage premiums	8,329,258	8,857,506
Bond insurance premiums	<u>(1,051,854)</u>	<u>(1,137,765)</u>
	<u>\$ 736,286,840</u>	<u>\$ 702,138,843</u>

### Note 5 - Contracted Staff Services

The Washington State Housing Finance Commission provides staff and other administrative services to the Authority. Total charges were \$212,812 and \$222,263 for the years ended June 30, 2015 and 2014, respectively. The Authority has no directly hired staff and as such has no pension obligations. The Authority has amounts payable to the Commission of \$89,020 and \$33,243 at June 30, 2015 and 2014, respectively.

### Note 6 - Bonds Payable

The bonds are limited obligations of the Authority payable solely from, and secured by, a pledge of the mortgage loans (including any insurance payments made with respect thereto), restricted investments, and undisbursed bond proceeds and the earnings thereon held under the indenture authorizing the bonds.

**WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 6 – Bonds Payable (Continued)**

As of June 30, 2015, the Authority had outstanding bonds of \$765.9 million. The bonds bear interest ranging from 0.07% to 6.25% and mature in varying amounts through fiscal year 2047. Bonds outstanding at June 30, 2015 and 2014 are as follows:

Series	Balance Outstanding	
	2015	2014
University of Puget Sound 1998	\$ -	\$ 400,000
University of Puget Sound 2001	10,350,000	10,390,000
Whitman College 2004	28,770,000	28,770,000
Walla Walla College 2005	1,899,023	2,122,862
Seattle University 2005	18,000,000	18,715,000
Pacific Lutheran University 2006	53,165,000	54,495,000
Seattle University '07A	35,975,000	36,700,000
Seattle University '08A	19,315,000	20,470,000
Whitman College 2008	27,345,000	28,085,000
Whitworth 2009	58,915,000	59,955,000
Gonzaga 2009	34,495,000	35,545,000
Seattle University 2009	41,775,000	41,775,000
Gonzaga 2009 B	50,705,000	51,860,000
Gonzaga 2010 A	27,170,000	30,445,000
Cornish College 2010	20,323,000	20,323,000
Seattle University 2011	13,170,000	13,655,000
Whitworth University 2012	18,990,000	19,250,000
Bastyr University 2012	22,270,347	22,954,967
University of Puget Sound Series 2012 A	34,805,000	34,805,000
Gonzaga University 2012 AB	10,245,000	10,435,000
University of Puget Sound Series 2012 B	28,105,000	28,655,000
Pacific NW University of Health Sciences	24,003,932	24,500,000
Heritage University 2013	8,792,029	5,969,195
Seattle Pacific University 2013	79,465,000	83,675,000
Gonzaga 2013	53,000,000	53,000,000
Saint Martins University 2014	28,785,000	29,535,000
Pacific Lutheran University 2014	10,000,000	-
	<u>759,833,331</u>	<u>766,485,024</u>
Unamortized Bond Premium	8,329,258	8,857,508
Unamortized Bond Discount	<u>(2,268,972)</u>	<u>(2,220,247)</u>
	<u>\$ 765,893,617</u>	<u>\$ 773,122,285</u>

**WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 6 – Bonds Payable (Continued)**

Future principal and interest requirements are shown in the following table:

Years Ending June 30,	Principal Redemption	Interest Requirements	Total
2016	\$ 17,241,106	\$ 27,498,959	\$ 44,740,065
2017	17,498,970	26,853,058	44,352,028
2018	18,105,016	26,207,845	44,312,861
2019	19,217,282	25,496,265	44,713,547
2020	19,943,119	24,731,087	44,674,206
2021-2025	108,217,456	110,935,438	219,152,894
2026-2030	174,364,098	86,747,168	261,111,266
2031-2035	115,712,579	62,272,643	177,985,222
2036-2040	179,953,027	36,575,225	216,528,252
2041-2045	87,280,678	8,913,225	96,193,903
2046-2050	2,300,000	122,325	2,422,325
	<u>\$ 759,833,331</u>	<u>\$ 436,353,238</u>	<u>\$ 1,196,186,569</u>

Changes in bonds outstanding during the fiscal year ended June 30, 2015 are summarized in the following table:

June 30, 2014	Issued	Redeemed	June 30, 2015
<u>\$ 766,485,024</u>	<u>\$ 10,000,000</u>	<u>\$ 16,651,693</u>	<u>\$ 759,833,331</u>

**Bond Defeasance** – No bonds were defeased during the fiscal year ended June 30, 2015. During the fiscal year ended June 30, 2014, the Heritage University 2007 bonds totaling \$1,499,678 were defeased on October 28, 2013 by the Heritage University 2013 Series A fixed-rate bond transaction of \$1,655,000. On December 19, 2013, the Seattle Pacific University 2013, Series A-C variable rate bond transaction of \$63,135,000 was used to defease the Seattle Pacific University 2008 bonds totaling \$62,800,000. The Saint Martins University 2007 bonds in the amount of \$31,815,000 were defeased on April 24, 2014 by the Saint Martins University 2014 Refunding variable rate bond transaction of \$33,535,000. Each of the defeasances during the fiscal year ended 2014 were current refundings.

**WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 6 – Bonds Payable (Continued)**

Bond issues defeased as advanced refundings in prior fiscal years carrying outstanding balances as of June 30, 2015 are as follows:

<u>Bond Issue</u>	<u>Defeased</u>	<u>Outstanding Balance</u>	<u>Final Payoff</u>
Whitworth 2006	November 2009	\$ 10,320,000	October 2027

The Authority defeased these bonds by placing investments in separate irrevocable trusts to provide for all future debt service payments on the bonds. Accordingly, neither the assets of the respective trust accounts or the liabilities for the defeased bonds are reflected in the Authority’s financial statements. Funds held in the respective trust accounts are assumed sufficient to service and redeem the defeased bonds. While the Authority is the issuer of both the refunding and refunded bonds, due to the conduit nature of the bond transactions, any cash flow and economic gain or loss is borne by the borrower.

**Note 7 – Commitments**

The Authority has committed to fund loans from related bond proceeds for projects currently in their construction phase or otherwise committed to repay the bond. Loan commitments were \$28,787,257 as of June 30, 2015.

**Note 8 – Contingencies**

The Authority is exposed to various risks of loss related to torts; theft of, damages to, and destruction of assets; errors and omissions; natural disasters; and acts of terrorism for which the agency carries commercial insurance. As of June 30, 2015, there were no known asserted or unasserted claims or judgments against the Authority.

Members of the board of directors and persons acting on the Authority’s behalf, while acting within the scope of their duties or employment, shall not be subject to any personal liability resulting from carrying out the powers and duties conferred on them, and shall have the indemnification rights under the provisions of the Authority’s Public Officials and Employees Liability insurance policy.

**Note 9 – Subsequent Events**

Subsequent to June 30, 2015, the Authority has issued \$54.8 million in additional bonds and the trustees, under the normal and early redemption provisions of the trust indenture, have redeemed \$59.7 million in bonds.

**SUPPLEMENTAL INFORMATION**

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**WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY**  
**SCHEDULES OF PROGRAM NET POSITION**

ASSETS	Restricted Bond Funds	General Operating Fund	June 30,	
			2015	2014
CASH AND CASH EQUIVALENTS	\$ 11,968,119	\$ 1,985,155	\$ 13,953,274	\$ 18,313,950
INVESTMENTS	18,669,564	-	18,669,564	57,541,415
ACCRUED INTEREST RECEIVABLE	5,249,469	21	5,249,490	5,254,399
LOANS RECEIVABLE, net	736,286,840	3,434	736,290,274	702,142,277
PREPAID FEES AND OTHER ASSETS	<u>1,051,854</u>	<u>16,646</u>	<u>1,068,500</u>	<u>1,153,814</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 773,225,846</u></b>	<b><u>\$ 2,005,256</u></b>	<b><u>\$ 775,231,102</u></b>	<b><u>\$ 784,405,855</u></b>
<b>LIABILITIES AND NET POSITION</b>				
ACCRUED INTEREST PAYABLE	\$ 5,734,586	\$ -	\$ 5,734,586	\$ 5,716,232
AMOUNTS DUE TO BORROWER	1,597,643	-	1,597,643	3,322,933
ACCOUNTS PAYABLE	-	90,244	90,244	38,485
BONDS PAYABLE				
Interest bonds	739,833,331	-	739,833,331	746,485,024
Taxable Bonds	20,000,000	-	20,000,000	20,000,000
Unamortized bond premium	8,329,258	-	8,329,258	8,857,508
Unamortized bond discount	<u>(2,268,972)</u>	<u>-</u>	<u>(2,268,972)</u>	<u>(2,220,247)</u>
	<u>765,893,617</u>	<u>-</u>	<u>765,893,617</u>	<u>773,122,285</u>
<b>TOTAL LIABILITIES</b>	<b>773,225,846</b>	<b>90,244</b>	<b>773,316,090</b>	<b>782,199,935</b>
NET POSITION				
Unrestricted	<u>-</u>	<u>1,915,012</u>	<u>1,915,012</u>	<u>2,205,920</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 773,225,846</u></b>	<b><u>\$ 2,005,256</u></b>	<b><u>\$ 775,231,102</u></b>	<b><u>\$ 784,405,855</u></b>

**WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY**  
**SCHEDULES OF PROGRAM REVENUES, EXPENSES,**  
**AND CHANGES IN PROGRAM NET POSITION**

	Restricted Bond Funds	General Operating Fund	Years Ended June 30,	
			2015	2014
<b>REVENUES</b>				
Interest earned on loans and investments	\$ 27,440,316	\$ 2,677	\$ 27,442,993	\$ 24,827,647
Fee income	191,549	5,000	196,549	1,658,102
	<u>27,631,865</u>	<u>7,677</u>	<u>27,639,542</u>	<u>26,485,749</u>
<b>EXPENSES</b>				
Interest on debt	27,865,121	-	27,865,121	25,273,087
Amortization of bond premium	(641,732)	-	(641,732)	(655,900)
Amortization of bond discount	131,017	-	131,017	118,956
Bond issuance costs	191,549	-	191,549	1,431,358
Amortization of bond insurance premium	85,910	-	85,910	88,772
Communication and office expense	-	243,694	243,694	250,851
Professional fees	-	54,891	54,891	52,686
	<u>27,631,865</u>	<u>298,585</u>	<u>27,930,450</u>	<u>26,559,810</u>
CHANGE IN NET POSITION	-	(290,908)	(290,908)	(74,061)
<b>NET POSITION</b>				
Beginning of year	-	2,205,920	2,205,920	2,279,981
End of year	<u>\$ -</u>	<u>\$ 1,915,012</u>	<u>\$ 1,915,012</u>	<u>\$ 2,205,920</u>

**WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY**  
**SCHEDULES OF PROGRAM CASH FLOWS**

	Restricted Bond Funds	General Operating Fund	Years Ended June 30,	
			2015	2014
<b>OPERATING ACTIVITIES</b>				
Interest received on loans	\$ 27,578,425	\$ -	\$ 27,578,425	\$ 25,624,424
Cash received from fee income	-	5,000	5,000	226,744
Cash received from loan repayments	19,649,694	-	19,649,694	115,141,519
Cash payments for acquisition of loans	(53,713,541)	-	(53,713,541)	(141,615,379)
Cash payments for bond program expenses	(1,983,097)	-	(1,983,097)	(714,456)
Salaries, benefits, and vendor payments	-	(247,423)	(247,423)	(432,966)
Net cash used for operating activities	<u>(8,468,519)</u>	<u>(242,423)</u>	<u>(8,710,942)</u>	<u>(1,770,114)</u>
<b>INVESTING ACTIVITIES</b>				
Purchase of investments	(6,707,466)	-	(6,707,466)	(65,012,319)
Sale of investments	45,495,167	-	45,495,167	31,755,866
Interest (received) paid on investments	58,352	2,677	61,029	(18,784)
Net cash provided by (used for) investing activities	<u>38,846,053</u>	<u>2,677</u>	<u>38,848,730</u>	<u>(33,275,237)</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>				
Proceeds from issuance of bonds and notes	12,998,000	-	12,998,000	175,383,096
Interest paid on debt	(27,846,770)	-	(27,846,770)	(24,207,358)
Debt repayments	(19,649,694)	-	(19,649,694)	(115,141,519)
Net cash provided by financing activities	<u>(34,498,464)</u>	<u>-</u>	<u>(34,498,464)</u>	<u>36,034,219</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(4,120,930)</b>	<b>(239,746)</b>	<b>(4,360,676)</b>	<b>988,868</b>
<b>CASH AND CASH EQUIVALENTS</b>				
Beginning of year	<u>16,089,049</u>	<u>2,224,901</u>	<u>18,313,950</u>	<u>17,325,082</u>
End of year	<u>\$ 11,968,119</u>	<u>\$ 1,985,155</u>	<u>\$ 13,953,274</u>	<u>\$ 18,313,950</u>
<b>RECONCILIATION OF EXCESS OF REVENUES OVER EXPENSES TO NET CASH FROM OPERATING ACTIVITIES</b>				
Change in net position	\$ -	\$ (290,908)	\$ (290,908)	\$ (74,061)
Adjustments to reconcile excess of revenues over expenses to net cash used by operating activities				
Amortization of loan discount	(131,017)	-	(131,017)	(118,956)
Amortization of loan premium	641,732	-	641,732	655,900
Amortization of prepaid bond insurance	(85,910)	-	(85,910)	(88,772)
Amortization of bond discount	131,017	-	131,017	118,956
Amortization of bond premium	(641,732)	-	(641,732)	(655,900)
Amortization of bond insurance premium	85,910	-	85,910	88,772
Cash from changes in operating assets and liabilities				
Acquisition of loans	(53,713,541)	-	(53,713,541)	(141,615,379)
Repayments of loans	19,649,694	-	19,649,694	115,141,519
Interest and other receivables	30,709	(3,273)	27,436	(607,227)
Interest and other payables	25,564,619	51,758	25,616,377	25,385,034
Net cash used for operating activities	<u>\$ (8,468,519)</u>	<u>\$ (242,423)</u>	<u>\$ (8,710,942)</u>	<u>\$ (1,770,114)</u>