Report of Independent Auditors
and Financial Statements with
Supplemental Information for

Washington Higher Education Facilities Authority

June 30, 2016 and 2015

MOSS-ADAMS LLP

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, 2016 and 2015, 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 we have 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, 2016 and 2015, 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 21 through 23 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 audits 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
October 28, 2016

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, 2016 and 2015. 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, 2016:

- Cash and investments totaled $26.5 million, decreasing by $6.1 million as proceeds from bond issues were used to fund project draws.

- Loans receivable, net of discounts, premiums, and unamortized bond insurance premiums decreased $12.8 million due to mortgage payments of $72.0 million, partially offset by the funding of one new loan ($54.8 million) coupled with the funding of existing loans ($4.4 million).

- At fiscal year-end, the Authority had total bonds and notes payable of $747.1 million, net of premiums and discounts. This represents a net decrease of $18.8 million, or 2.5%, resulting from the issuance of one new bond ($53.2 million, net of premiums and discounts), offset by principal payments on bonds ($72.0 million).

- Bond interest expense decreased by $1.0 million as bonds outstanding declined.

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.

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 continue 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.

Much of our clients' debt has been or is expected to be refinanced during this time of low interest rates. Therefore, future financings will be related to new borrowings. Also, given the continued low rates, the institutions may choose to do some financing in the taxable market since the spread to tax-exempt rates is low.

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, 2016 and 2015 (in millions):

	2016	2015	Change	
Assets				
Cash and cash equivalents	$ 11.2	$ 13.9	$ (2.7)	(19.4%)
Investments	15.3	18.7	(3.4)	(18.2%)
Accrued interest receivable	5.3	5.2	0.1	1.9%
Loans receivable, net	723.5	736.3	(12.8)	(1.7%)
Prepaid fees and other assets	0.6	1.1	(0.5)	(45.5%)
Total assets	$ 755.9	$ 775.2	$ (19.3)	(2.5%)
Liabilities				
Accrued interest payable	$ 5.5	$ 5.7	$ (0.2)	(3.5%)
Amounts due to borrower and other payables	1.6	1.7	(0.1)	(5.9%)
Bonds payable, net	747.1	765.9	(18.8)	(2.5%)
Total liabilities	$ 754.2	$ 773.3	$ (19.1)	(2.5%)
Net position				
Unrestricted	$ 1.7	$ 1.9	$ (0.2)	(10.5%)

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, 2016 and 2015 (in millions):

	2016	2015	Change	
Revenues				
Bond programs loan interest	$ 25.8	$ 27.4	$ (1.6)	(5.8%)
Program fees and General				
Operating Fund interest income	0.6	0.2	0.4	200.0%
Total revenues	26.4	27.6	(1.2)	(4.3%)
Expenses				
Bond programs interest expense	26.9	27.9	(1.0)	(3.6%)
Other bond programs expenses	(0.6)	(0.2)	(0.4)	200.0%
General Operating Fund expenses	0.3	0.3	-	- %
Total expenses	26.6	28.0	(1.4)	(5.0%)
Change in net position	$ (0.2)	$ (0.4)	$ 0.2	(50.0%)

Loan related interest earnings ($25.8 million) and bond interest expense ($26.9 million) are the primary components of total revenues and expenses, respectively, for the bond programs for the year ended June 30, 2016.

During the year ended June 30, 2016, the Authority's revenue in the General Operating Fund was $81,724, primarily from issuer fees on new bonds. During the year, the Authority waived its annual issuer fees on the bonds outstanding. General operating expenses of $321,520 are comprised of communication, office expense, and other professional fees.

DEBT ADMINISTRATION

The Authority has debt obligations of $747.1 million, net of bond discounts and premiums at June 30, 2016. 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, 2016, 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 tax-exempt 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.

DEBT ADMINISTRATION (continued)

The loans, which may be secured by real and/or personal property, are used by the higher education institutions for capital costs and/or refunding of prior such financings. 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 2015 WITH 2014

Statements of Net Position

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

	2015	2014	Change	
Assets				
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	1.1	1.2	(0.1)	(8.3%)
Total assets	$ 775.2	$ 784.4	$ (9.2)	(1.2%)
Liabilities				
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	765.9	773.1	(7.2)	(0.9%)
Total liabilities	$ 773.3	$ 782.2	$ (8.9)	(1.1%)
Net Position				
Unrestricted	$ 1.9	$ 2.2	$ (0.3)	(13.6%)

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 2015 and 2014 (in millions):

	2015	2014	Change	
Revenues				
Bond programs loan interest	$ 27.4	$ 24.8	$ 2.6	10.5%
Program fees and General				
Operating Fund interest income	0.2	1.7	(1.5)	(88.2%)
Total revenues	27.6	26.5	1.1	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	0.3	0.3	-	- %
Total expenses	28.0	26.6	1.4	5.3%
Change in net position	$ (0.4)	$ (0.1)	$ (0.3)	300.0%

During the fiscal year ended June 30, 2015, the Authority's combined total assets decreased by $9.2 million primarily due to the decrease in cash and cash equivalents and investments ($43.2 million) as proceeds from bond issues were received to fund future project draws, partially offset by the increase in loans receivable ($34.2 million) due to the funding of previously issued loans as well as one new loan.

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 2nd Avenue, Suite 2700, Seattle, Washington 98104 (206-464-7139).

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY
STATEMENTS OF NET POSITION

ASSETS

	June 30, 2016	June 30, 2015
CASH AND CASH EQUIVALENTS	$ 11,204,377	$ 13,953,274
INVESTMENTS	15,307,179	18,669,564
ACCRUED INTEREST RECEIVABLE	5,330,601	5,249,490
LOANS RECEIVABLE, net	723,468,822	736,290,274
PREPAID FEES AND OTHER ASSETS	576,806	1,068,500
TOTAL ASSETS	$ 755,887,785	$ 775,231,102

LIABILITIES AND NET POSITION

	June 30, 2016	June 30, 2015
ACCRUED INTEREST PAYABLE	$ 5,494,770	$ 5,734,586
AMOUNTS DUE TO BORROWER	1,548,255	1,597,643
ACCOUNTS PAYABLE	39,318	90,244
BONDS PAYABLE		
Interest bonds	722,667,475	739,833,331
Taxable bonds	20,000,000	20,000,000
Unamortized bond premium	6,576,136	8,329,258
Unamortized bond discount	(2,113,385)	(2,268,972)
	747,130,226	765,893,617
TOTAL LIABILITIES	754,212,569	773,316,090
NET POSITION		
Unrestricted	1,675,216	1,915,012
TOTAL LIABILITIES AND NET POSITION	$ 755,887,785	$ 775,231,102

See accompanying notes.

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

	Years Ended June 30,	
	2016	2015
REVENUES		
Interest earned on loans and investments	$ 25,823,633	$ 27,442,993
Fee income	583,893	196,549
	26,407,526	27,639,542
EXPENSES		
Interest on debt	26,926,405	27,865,121
Amortization of bond premium	(1,753,122)	(641,732)
Amortization of bond discount	155,586	131,017
Bond issuance costs	507,835	191,549
Amortization of bond insurance premium	489,098	85,910
Communication and office expense	270,095	243,694
Professional fees	51,425	54,891
	26,647,322	27,930,450
CHANGE IN NET POSITION	(239,796)	(290,908)
NET POSITION		
Beginning of year	1,915,012	2,205,920
End of year	$ 1,675,216	$ 1,915,012

See accompanying notes.

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY
STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2016	Years Ended June 30, 2015
OPERATING ACTIVITIES		
Interest received on loans	$ 26,200,254	$ 27,578,425
Cash received from fee income	75,745	5,000
Cash received from loan repayments	71,980,856	19,649,694
Cash payments for acquisition of loans	(59,459,949)	(53,713,541)
Cash payments for bond program expenses	(557,223)	(1,983,097)
Salaries, benefits, and vendor payments	(369,535)	(247,423)
Net cash provided by (used for) operating activities	37,870,148	(8,710,942)
INVESTING ACTIVITIES		
Purchase of investments	(8,657,797)	(6,707,466)
Sale of investments	12,320,728	45,495,167
Interest received on investments	50,100	61,029
Net cash provided by investing activities	3,713,031	38,848,730
NON CAPITAL FINANCING ACTIVITIES		
Proceeds from issuance of bonds and notes	54,815,000	12,998,000
Interest paid on debt	(27,166,220)	(27,846,770)
Debt repayments	(71,980,856)	(19,649,694)
Net cash used for financing activities	(44,332,076)	(34,498,464)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,748,897)	(4,360,676)
CASH AND CASH EQUIVALENTS		
Beginning of year	13,953,274	18,313,950
End of year	$ 11,204,377	$ 13,953,274
RECONCILIATION OF EXCESS OF EXPENSES OVER REVENUES TO NET CASH PROVIDED FROM FROM OPERATING ACTIVITIES		
Change in net position	$ (239,796)	$ (290,908)
Adjustments to reconcile excess of expenses over revenues to net cash used by operating activities		
Amortization of loan discount	(155,586)	(131,017)
Amortization of loan premium	1,753,122	641,732
Amortization of prepaid bond insurance	(489,098)	(85,910)
Amortization of bond discount	155,586	131,017
Amortization of bond premium	(1,753,122)	(641,732)
Amortization of bond insurance premium	489,098	85,910
Cash from changes in operating assets and liabilities		
Acquisition of loans	(59,459,949)	(53,713,541)
Repayments of loans	71,980,856	19,649,694
Interest and other receivables	(429,163)	27,436
Interest and other payables	26,018,200	25,616,377
Net cash provided by (used for) operating activities	$ 37,870,148	$ (8,710,942)

See accompanying notes.

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, 2015 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.

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 $754.2 million and $773.2 as of June 30, 2016 and June 30, 2015, respectively. 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, 2016 and 2015, 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).

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, US government backed securities, and commercial paper as of the fiscal year ended June 30, 2016 and June 30, 2015. Investments are valued at fair value on a reoccurring basis, except for certificates of deposit, which are recognized on an amortized cost basis.

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Authority's Trustee holds all of the Authority's investments in the name of the Authority. For additional information regards investments, see Note 3

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.

Note 2 – Summary of Significant Accounting Policies (continued)

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

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, 2016 and 2015.

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, 2016 and 2015 were $1,675,216 and $1,915,012, 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, 2016 and 2015.

Adoption of new accounting pronouncements - In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement established general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. This standard generally requires investments to be measured at fair value and establishes a valuation hierarchy that provides greater consistency in across organizations in valuation of investments and the related disclosures. Statement No. 72 is effective for financial statements of fiscal years beginning after June 15, 2015. The impact to the Authority is limited to note disclosure.

In June 2015 GASB issued Statement No. 76, *The Hierarch of Generally Accepted Accounting Principles for State and Local Governments*. This statement outlines what constitutes GAAP for all state and local governmental entities and establishes the order of priority of GASB pronouncements and other sources of accounting and financial reporting guidance available for governmental entities to apply. Statement No. 76 is also effective for financial statements of fiscal years beginning after June 15, 2015. There is no impact to the Authority statements.

Note 3 – Investments

Bond program investment policy – The trust indenture for each bond issued establishes the permitted investments. Although all of the bond program funds must be used for program purposes, certain funds have been restricted for payment of debt service as required by the indentures. Since the Authority is a conduit issuer, the investment of bond program funds is directed by the borrower and the risk associated with the investments accrues directly to the borrower.

The Authority's investments in the bond program were $15.3 million and $18.7 million for the fiscal years ended June 30, 2016 and 2015. They were held in institutions whose credit rating is equivalent to or better than the rating on the bonds being issued and for terms specified in the indentures. Should institution credit ratings fall, collateral might be required. Any collateral would be held by the trustee in the name of the Authority and, therefore; is not subject to custodial credit risk. The Authority has no limit on the amount it or its borrowers may invest in any one provider, potentially exposing them to a concentration of credit risk.

The following schedules provide the weighted average of both the interest rate and term for each investment, as well as its percentage of total investments, by classification and provider.

As of June 30, 2016				Fair Value Measurements Using		
Classification/Provider	Total Investment	Weighted Average of Term (Years)	Weighted Average of Rate	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
US Government and Agency Obligations						
US Treasury Notes	$ 1,877,175	0.13	1.00%	$ 1,877,175	$ -	$ -
US Treasury Bond	524,785	0.17	0.30%	524,785	-	-
Federal Home Loan Mortgage Company Mortgage Note	1,701,355	2.26	1.28%	-	1,701,355	-
Federal National Mortgage Association Mortgage Note	930,186	0.59	1.25%	-	930,186	-
Federal National Mortgage Association Mortgage Bond	1,716,065	3.90	1.63%	-	1,716,065	-
Total US Government and Agency Obligations	6,749,566					
Commerical Paper						
Abbey National NA LLC Commercial Paper	1,674,732	0.03	0.57%	-	1,674,732	-
Credit Suisse AG Commerial Paper	2,668,633	0.33	0.96%	-	2,668,633	-
US Bank National Commercial Paper	3,002,898	0.10	0.32%	-	3,002,898	-
Total Commercial Paper	7,346,263					
Certificate of Deposits						
US Bank National Certificate of Deposit	1,211,350	0.70	1.45%	-	1,211,350	-
Total Bond Fund Investments	$ 15,307,179			$ 2,401,960	$ 12,905,219	$ -

Note 3 – Investments (continued)

As of June 30, 2015 Classification/Provider	Total Investment	Weighted Average of Term (Years)	Weighted Average of Rate	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
US Government and Agency Obligations						
US Treasury Notes	$ 8,240,006	0.69	1.34%	$ 8,240,006	$ -	$ -
Federal Home Loan Mortgage Company Mortgage Bond	1,299,875	0.70	3.13%	-	1,299,875	-
Federal National Mortgage Association Mortgage Note	2,617,086	2.66	1.27%	-	2,617,086	-
Federal National Mortgage Association Mortgage Bond	4,876,327	0.97	0.87%	-	4,876,327	-
Total US Government and Agency Obligations	17,033,294					
Certificates of Deposit						
US Bank National Certificate of Deposit	1,636,270	1.29	1.13%	-	1,636,270	-
Total Bond Fund Investments	$ 18,669,564			$ 8,240,006	$ 10,429,558	$ -

Operating fund investment policy – The Authority can invest its operating funds 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.

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 amortized cost.

Note 4 – Loans Receivable, Net

The loans receivable balances in the Restricted Bond Funds at June 30, 2016 and 2015 are comprised of the following:

	2016	2015
Loans receivable	$ 719,565,392	$ 731,278,408
Discount on loans	(2,113,385)	(2,268,972)
Mortgage premiums	6,576,137	8,329,258
Bond insurance premiums	(562,756)	(1,051,854)
	$ 723,465,388	$ 736,286,840

Note 5 – Contracted Staff Services

The Washington State Housing Finance Commission (the Commission) provides staff and other administrative services to the Authority. The Authority has no directly hired staff and as such has no pension obligations. Total charges for each fiscal year and amounts due as of the end of each fiscal year are summarized here:

Contracted Services	2016	2015
Total Charges of the Commission for the Fiscal Year	$ 241,432	$ 212,812
Amount Due to the Commission at June 30	$ 38,094	$ 89,020

Note 6 – Bonds Payable

The Authority's bonds are limited obligations 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.

As of June 30, 2016, the Authority had outstanding bonds of $747.1 million. The bonds bear interest ranging from 0.42% to 6.25% and mature in varying amounts through fiscal year 2046. Bonds outstanding at June 30, 2016 and 2015 are as follows:

	Balance Outstanding	
Series	2016	2015
University of Puget Sound 2001	$ 10,310,000	$ 10,350,000
Whitman College 2004	28,770,000	28,770,000
Walla Walla College 2005	1,659,446	1,899,023
Seattle University 2005	-	18,000,000
Pacific Lutheran University 2006	51,765,000	53,165,000
Seattle University '07A	1,820,000	35,975,000
Seattle University '08A	18,120,000	19,315,000
Whitman College 2008	26,580,000	27,345,000
Whitworth 2009	57,825,000	58,915,000
Gonzaga 2009	33,445,000	34,495,000
Seattle University 2009	41,775,000	41,775,000
Gonzaga 2009 B	49,365,000	50,705,000
Gonzaga 2010 A	23,815,000	27,170,000
Cornish College 2010	20,323,000	20,323,000
Seattle University 2011	12,665,000	13,170,000
Whitworth University 2012	18,720,000	18,990,000
Bastyr University 2012	21,562,733	22,270,347
University of Puget Sound Series 2012 A	34,805,000	34,805,000
Gonzaga University 2012 AB	10,055,000	10,245,000
University of Puget Sound Series 2012 B	27,105,000	28,105,000
Pacific NW University of Health Sciences 2013	23,325,439	24,003,932
Heritage University 2013	8,491,857	8,792,029
Seattle Pacific University 2013	75,220,000	79,465,000
Gonzaga 2013	53,000,000	53,000,000
Saint Martins University 2014	27,990,000	28,785,000
Pacific Lutheran University 2014	10,000,000	10,000,000
Seattle University 2015	54,155,000	-
	742,667,475	759,833,331
Unamortized Bond Premium	6,576,136	8,329,258
Unamortized Bond Discount	(2,113,385)	(2,268,972)
	$ 747,130,226	$ 765,893,617

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
2017	$ 17,942,970	$ 26,456,268	$ 44,399,238
2018	18,554,016	25,801,114	44,355,130
2019	19,659,282	25,092,401	44,751,683
2020	20,367,119	24,336,979	44,704,098
2021	20,923,549	23,560,225	44,483,774
2022-2026	111,882,791	104,902,654	216,785,445
2027-2031	169,605,227	80,393,382	249,998,609
2032-2036	136,360,855	57,337,939	193,698,794
2037-2041	158,680,988	30,979,026	189,660,014
2042-2046	67,510,678	5,210,833	72,721,511
2047-2049	1,180,000	30,975	1,210,975
	$ 742,667,475	$ 404,101,796	$ 1,146,769,271

Changes in bonds outstanding during the fiscal year ended June 30, 2016 are summarized in the following table:

June 30, 2015	Issued	Redeemed	June 30, 2016
$ 759,833,331	$ 54,815,000	$ 71,980,856	$ 742,667,475

Bond defeasance – On September 11, 2015, the Seattle University 2015, fixed rate bond transaction of $54,815,000 was used to currently defease the Seattle University 2005 and advance refund a portion of the 2007 bonds totaling $50,555,000. The Seattle University 2005 bonds were fully defeased ($17,250,000). The Seattle University 2007 bonds of $34,155,000, were defeased, leaving $1,820,000 remaining outstanding.

No bonds were defeased during the fiscal year ended June 30, 2015.

Note 6 – Bonds Payable (continued)

Bond issues defeased as advanced refundings in prior fiscal years with balances outstanding at June 30, 2016 are as follows:

Bond Issue	Defeased	Outstanding Balance	Final Payoff
Seattle University 2007	September 2015	$ 33,305,000	November 2017
Whitworth 2006	November 2009	$ 9,900,000	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 were deemed sufficient to service and redeem the defeased bonds by an independent defeasance calculation agent at bond closing and are assumed to remain so. 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 $23,033,870 and $28,787,257 as of June 30, 2016 and June 30, 2015, respectively.

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, 2016, 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, 2016, the Authority has issued $48.9 million in additional bonds and the trustees, under the normal and early redemption provisions of the trust indenture, have redeemed $56.2 million in bonds.

SUPPLEMENTAL INFORMATION

ASSETS

	Restricted Bond Funds	General Operating Fund	June 30, 2016	June 30, 2015
CASH AND CASH EQUIVALENTS	$ 9,507,347	$ 1,697,030	$ 11,204,377	$ 13,953,274
INVESTMENTS	15,307,179	-	15,307,179	18,669,564
ACCRUED INTEREST RECEIVABLE	5,330,581	20	5,330,601	5,249,490
LOANS RECEIVABLE, net	723,465,388	3,434	723,468,822	736,290,274
PREPAID FEES AND OTHER ASSETS	562,756	14,050	576,806	1,068,500
TOTAL ASSETS	$ 754,173,251	$ 1,714,534	$ 755,887,785	$ 775,231,102

LIABILITIES AND NET POSITION

	Restricted Bond Funds	General Operating Fund	June 30, 2016	June 30, 2015
ACCRUED INTEREST PAYABLE	$ 5,494,770	$ -	$ 5,494,770	$ 5,734,586
AMOUNTS DUE TO BORROWER	1,548,255	-	1,548,255	1,597,643
ACCOUNTS PAYABLE	-	39,318	39,318	90,244
BONDS PAYABLE				
Interest bonds	722,667,475	-	722,667,475	739,833,331
Taxable bonds	20,000,000	-	20,000,000	20,000,000
Unamortized bond premium	6,576,136	-	6,576,136	8,329,258
Unamortized bond discount	(2,113,385)	-	(2,113,385)	(2,268,972)
	747,130,226	-	747,130,226	765,893,617
TOTAL LIABILITIES	754,173,251	39,318	754,212,569	773,316,090
NET POSITION				
Unrestricted	-	1,675,216	1,675,216	1,915,012
TOTAL LIABILITIES AND NET POSITION	$ 754,173,251	$ 1,714,534	$ 755,887,785	$ 775,231,102

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

	Restricted Bond Funds	General Operating Fund	Years Ended June 30, 2016	2015
REVENUES				
Interest earned on loans and investments	$ 25,817,967	$ 5,666	$ 25,823,633	$ 27,442,993
Fee income	507,835	76,058	583,893	196,549
	26,325,802	81,724	26,407,526	27,639,542
EXPENSES				
Interest on debt	26,926,405	-	26,926,405	27,865,121
Amortization of bond premium	(1,753,122)	-	(1,753,122)	(641,732)
Amortization of bond discount	155,586	-	155,586	131,017
Bond issuance costs	507,835	-	507,835	191,549
Amortization of bond insurance premium	489,098	-	489,098	85,910
Communication and office expense	-	270,095	270,095	243,694
Professional fees	-	51,425	51,425	54,891
	26,325,802	321,520	26,647,322	27,930,450
CHANGE IN NET POSITION	-	(239,796)	(239,796)	(290,908)
NET POSITION				
Beginning of year	-	1,915,012	1,915,012	2,205,920
End of year	$ -	$ 1,675,216	$ 1,675,216	$ 1,915,012

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY
SCHEDULE OF PROGRAM CASH FLOWS

	Restricted Bond Funds	General Operating Fund	Years Ended June 30, 2016	2015
OPERATING ACTIVITIES				
Interest received on loans	$ 26,200,254	$ -	$ 26,200,254	$ 27,578,425
Cash received from fee income	-	75,745	75,745	5,000
Cash received from loan repayments	71,980,856	-	71,980,856	19,649,694
Cash payments for acquisition of loans	(59,459,949)	-	(59,459,949)	(53,713,541)
Cash payments for bond program expenses	(557,223)	-	(557,223)	(1,983,097)
Salaries, benefits, and vendor payments	-	(369,535)	(369,535)	(247,423)
Net cash provided by (used for) operating activities	38,163,938	(293,790)	37,870,148	(8,710,942)
INVESTING ACTIVITIES				
Purchase of investments	(8,657,797)	-	(8,657,797)	(6,707,466)
Sale of investments	12,320,728	-	12,320,728	45,495,167
Interest received on investments	44,435	5,665	50,100	61,029
Net cash provided by investing activities	3,707,366	5,665	3,713,031	38,848,730
NONCAPITAL FINANCING ACTIVITIES				
Proceeds from issuance of bonds and notes	54,815,000	-	54,815,000	12,998,000
Interest paid on debt	(27,166,220)	-	(27,166,220)	(27,846,770)
Debt repayments	(71,980,856)	-	(71,980,856)	(19,649,694)
Net cash used for financing activities	(44,332,076)	-	(44,332,076)	(34,498,464)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,460,772)	(288,125)	(2,748,897)	(4,360,676)
CASH AND CASH EQUIVALENTS				
Beginning of year	11,968,119	1,985,155	13,953,274	18,313,950
End of year	$ 9,507,347	$ 1,697,030	$ 11,204,377	$ 13,953,274
RECONCILIATION OF EXCESS OF REVENUES OVER EXPENSES TO NET CASH FROM OPERATING ACTIVITIES				
Change in net position	$ -	$ (239,796)	$ (239,796)	$ (290,908)
Adjustments to reconcile excess of revenues over expenses to net cash used by operating activities				
Amortization of loan discount	(155,586)	-	(155,586)	(131,017)
Amortization of loan premium	1,753,122	-	1,753,122	641,732
Amortization of prepaid bond insurance	(489,098)	-	(489,098)	(85,910)
Amortization of bond discount	155,586	-	155,586	131,017
Amortization of bond premium	(1,753,122)	-	(1,753,122)	(641,732)
Amortization of bond insurance premium	489,098	-	489,098	85,910
Cash from changes in operating assets and liabilities				
Acquisition of loans	(59,459,949)	-	(59,459,949)	(53,713,541)
Repayments of loans	71,980,856	-	71,980,856	19,649,694
Interest and other receivables	(426,094)	(3,069)	(429,163)	27,436
Interest and other payables	26,069,125	(50,925)	26,018,200	25,616,377
Net cash provided by (used for) operating activities	$ 38,163,938	$ (293,790)	$ 37,870,148	$ (8,710,942)