Financial Statements
June 30, 2023 and 2022

Washington Higher Education Facilities Authority

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Independent Auditor's Report

To the Board of Directors
Washington Higher Education Facilities Authority
Seattle, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business type activities of the Washington Higher Education Facilities Authority (the Authority), a discretely presented component unit of the State of Washington, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2023 and 2022, and the respective changes in financial position, and cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eide Bailly LLP

Boise, Idaho
December 15, 2023

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, 2023 and 2022 (FY 2023 and FY 2022, respectively). This overview and analysis is required by accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board.

Financial Highlights

At June 30, 2023, and for the year then ended:

- Cash and investments totaled $1.06 million, an increase of $189.7 thousand as annual fees were waived for FY 2022.
- Fees receivable decreased by $47.3 thousand as an unpaid issuance fee from FY 2022 was paid during the year.
- Total revenues increased 211.4% in FY 2023 primarily due to the reinstatement of annual fees levied on debt outstanding.
- Total expenses for FY 2023 increased 5.1% primarily as a result of increased salaries and related expenses, and increased travel costs as operations return to normal following the COVID-19 pandemic.

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 statements of net position include all of the Authority's assets and liabilities. All revenues and expenses of the Authority are reflected in the statements of revenue, expense, and changes in net position.

Economic Outlook

After effects of the COVID-19 pandemic and changing demographics have created uncertainty around enrollment and the need for facilities for our university and college clients. Interest rates have remained at elevated levels during the last fiscal year and we don't expect that to change soon. As a result, we expect refunding opportunities to remain scarce, however there may be an uptick of new money financings if enrollment improves and the need for facilities increases.

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, 2023 and 2022 (in thousands):

	2023	2022	Change	
Assets				
Cash and cash equivalents	$ 1,061.5	$ 871.8	$ 189.7	21.8%
Accounts receivable and other assets	13.6	62.7	(49.1)	-78.3%
Total assets	1,075.1	934.5	140.6	15.0%
Liabilities				
Payables	88.8	70.2	18.6	26.5%
Total liabilities	88.8	70.2	18.6	26.5%
Net Position				
Unrestricted	$ 986.3	$ 864.2	$ 122.1	14.1%

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, 2023 and 2022 (in thousands):

	2023	2022	Change	
Revenues				
Program fees	$ 446.7	$ 154.3	$ 292.4	189.6%
Operating fund interest income	41.9	2.6	39.3	1511.5%
Total revenues	488.6	156.9	331.7	211.4%
Expenses				
Salaries and related expense	272.4	259.8	12.6	4.8%
Communication and office expenses	62.4	51.2	11.2	21.9%
Professional expense	31.8	37.8	(6.0)	-15.9%
Total expenses	366.6	348.8	17.8	5.1%
Change in Net Position	$ 122.0	$ (191.9)	$ 313.9	-163.5%

During the year ended June 30, 2023, the Authority's revenue largely resulted from program fees from initial issuer fees totaling $446.7 thousand as previously waived ongoing annual fees were reinstated. Expenses of $366.6 thousand are comprised of personnel, communication, office expense, and other professional fees.

Debt Administration

The Authority issues bonds on behalf of private higher education facilities. However, the bonds issued meet the definition of conduit debt obligations for which the Authority has not extended any additional commitments for debt service payments beyond the collateral and payments received from the underlying mortgages. As of June 30, 2023, such bonds have an aggregate outstanding principal amount payable of $708.4 million. Because these bonds are considered conduit bond they are not recognized as a liability by the Authority.

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 5 of this report.

Comparison of Fiscal Year 2022 with 2021

Statements of Net Position

The following table summarizes the changes in combined net position between June 30, 2022 and 2021 (in thousands):

	2022	2021	Change	
Assets				
Cash and cash equivalents	$ 871.8	$ 1,123.7	$ (251.9)	-22.4%
Prepaid fees and other assets	62.7	14.4	48.3	335.7%
Total assets	934.5	1,138.1	(203.6)	-17.9%
Liabilities				
Payables	70.2	81.8	(11.6)	-14.1%
Net Position				
Unrestricted	$ 864.3	$ 1,056.3	$ (192.0)	-18.2%

Statements of Revenues, Expenses and Changes in Net Position

The following table summarizes the combined changes in net position activity between the years ended June 30, 2022 and 2021 (in millions):

	2022	2021	Change	
Revenues				
Program fees	$ 154.3	$ 147.1	$ 7.2	4.9%
Operating fund interest income	2.6	2.1	0.5	23.8%
Total revenues	156.9	149.2	7.7	5.1%
Expenses				
Salaries and related expense	259.8	277.3	(17.5)	-6.3%
Communication and office expenses	51.2	55.7	(4.5)	-8.0%
Professional expense	37.8	41.6	(3.8)	-9.0%
Total expenses	348.8	374.6	(25.8)	-6.9%
Change in Net Position	$ (191.9)	$ (225.4)	$ 33.5	-14.9%

During the year ended June 30, 2022, the Authority's revenue largely resulted from program fees from initial issuance fees totaling $154.3 thousand as ongoing annual fees were waived. Expenses of $374.4 thousand are comprised of personnel, communication, office expense, and other professional fees.

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).

	2023	2022
Assets		
Cash and cash equivalents	$ 1,061,509	$ 871,818
Accounts receivable	-	47,338
Prepaid fees and other assets	13,606	15,404
Total assets	$ 1,075,115	$ 934,560
Liabilities and Net Position		
Accounts payable	$ 88,814	$ 70,228
Net Position		
Unrestricted	986,301	864,332
Total liabilities and net position	$ 1,075,115	$ 934,560

	2023	2022
Revenues		
Fee income	$ 446,707	$ 154,261
Interest earned on investments	41,934	2,560
Total revenues	488,641	156,821
Expenses		
Salaries and related expense	272,443	259,770
Communication and office expense	62,442	51,244
Professional fees	31,787	37,750
Total expenses	366,672	348,764
Change in Net Position	121,969	(191,943)
Net Position, Beginning of Year	864,332	1,056,275
Net Position, End of Year	$ 986,301	$ 864,332

	2023	2022
Operating Activities		
Cash received from fee income	$ 494,044	$ 106,922
Cash payments for salaries and benefits	(261,462)	(270,769)
Vendor payments	(84,825)	(90,570)
Net Cash from (used for) Operating Activities	147,757	(254,417)
Investing Activities		
Interest received on investments	41,934	2,560
Net Cash from Investing Activities	41,934	2,560
Net Increase (Decrease) in Cash and Cash Equivalents	189,691	(251,857)
Cash and Cash Equivalents, Beginning of Year	871,818	1,123,675
Cash and Cash Equivalents, End of Year	$ 1,061,509	$ 871,818
Reconciliation of Change in Net Position to Net Cash from (used for) Operating Activities		
Change in Net Position	$ 121,969	$ (191,943)
Adjustments to reconcile excess of expenses over revenues to net cash from (used for) operating activities		
Cash from changes in operating assets and liabilities		
Interest and other receivables	7,202	(50,872)
Interest and other payables	18,586	(11,602)
Net Cash from (used for) Operating Activities	$ 147,757	$ (254,417)

Note 1 - Principal Business Activity

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. Four public board members are appointed by the governor to terms of four years, subject to confirmation by the State Senate. Three board members serve ex officio, the Governor (who may designate an employee of the governor's office to serve in the governor's absence), Lieutenant Governor, and the Chair of the Student Achievement Council.

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.

The bonds, which constitute a special obligation of the Authority, are payable solely from the bond fund established pursuant to the indenture. Payments made by the not-for-profit higher education institutions to satisfy the loan agreement are the primary source of payment on the bonds, in addition to any other money held by the bond trustee pursuant to the indenture. 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. For financial reporting purposes, the bonds meet the definition of conduit bonds and are, therefore, not included as a liability to the Authority.

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, the Authority is presented as a discrete component unit of the State of Washington in their Annual Comprehensive Financial Report.

The Authority summarizes its financial activities in the 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 of Washington.

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

The Authority uses a flow of economic resources measurement focus with all assets and all liabilities included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in net position using 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 statements of net position are unclassified.

Cash and Cash Equivalents

Cash deposits 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).

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.

Conduit Bonds

Conduit bonds are defined as debt instruments where:

1. The Authority, as the issuer, is joined by an unrelated third-party obligor, and a debt holder or trustee.
2. The debt obligation is neither a parity bond of the Authority, nor is it cross-collateralized with other debt of the Authority. Debt proceeds are intended and received by the third-party obligor or its agent, and
3. The Authority is not primarily obligated for the debt service payments.

Bonds issued that meet the definition of a conduit bond are reportable in note disclosure rather than within the financial statements.

Prior to bond issuance the Authority determines if the bond meets this definition with periodic subsequent review to ensure the bonds still meet the definition of conduit debt. As of June 30, 2023 and 2022, all bonds outstanding met the definition of conduit bond and are excluded from the financial statements but are summarized in Note 5.

Prepaid Fees

Prepaid fees represent annual property and liability insurance premiums.

Revenue Recognition

The primary source of revenue are issuance fees, charged at bond origination as well as annual fees charged on the loan amounts outstanding. 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, 2023 and 2022.

Use of estimates – The preparation of the financial statements in accordance 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, 2023 and 2022, were $986,301 and $864,332, respectively.

Note 3 - Investments

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.

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.

The Authority measures investments at fair value on a reoccurring basis and 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. However, as of the years ended June 30, 2023 and 2022, the Authority held no investments as all excess funds were held as cash and cash equivalents.

Note 4 - Contracted Self 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:

	2023	2022
Contracted Services		
Total charges of the Commission for the fiscal year	$ 303,255	$ 288,274
Amount due to the Commission at June 30	80,864	69,396

Note 5 - 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 or financing agreement authorizing the bonds. The Authority has made no other commitment to support debt service payments. Uncured default of the debt requires mandatory bond redemption, paid by reassignment of the underlying pledge of the mortgage loan to the bond holder as full payment of the outstanding conduit debt obligation and eliminating the tax-exempt benefits to the remaining parties. As of June 30, 2023 and 2022, the conduit bonds issued by the Authority have an aggregate outstanding principal amount payable of $708.4 million and $734.2 million, respectively, none of which is recognized as a liability by the Authority.

Note 6 - 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 Authority carries commercial insurance. As of June 30, 2023, 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.