



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY

June 30, 2021 and 2020

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Report of Independent Auditors

To the Board of Directors
Washington Higher Education Facilities Authority

Report on the 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, 2021 and 2020, 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, 2021 and 2020, 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 Matter

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.

Moss Adams LLP
Seattle, Washington
November 9, 2021

Washington Higher Education Facilities Authority Management's Discussion and Analysis

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, 2021 and 2020 (FY 2021 and FY 2020, 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, 2021, and for the year then ended:

- Cash and investments totaled \$1.1 million, a decrease of \$217.0 thousand as annual fees were waived for FY 2021.
- Prepaid fees and other assets decreased by \$7.1 thousand primarily due to the write-off of a student loan deemed uncollectible.
- Total revenues decreased significantly to \$149.1 thousand from \$679.4 thousand in the prior year. Annual fees were waived this year, and program fees were collected on two financings, down from four in the prior year.
- Total expenses for FY 2021 decreased 1.4% primarily due to reduced state audit fees offset by an increase in salaries.

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 revenues, expenses, and changes in net position.

Economic Outlook

Interest rates continue to be at historically low levels. The COVID-19 pandemic is causing greater uncertainty around enrollment and the need for facilities for our university and college clients. Therefore, we expect most financings to be refunding prior issues, lowering effective interest rates. There will likely be fewer new money financings in the near term. Private placement of tax-exempt debt directly with lending institutions and bonds issued supported by the borrower's credit rating continue to be favored by the borrowers.

Washington Higher Education Facilities Authority

Management's Discussion and Analysis

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, 2021 and 2020 (in thousands):

	<u>2021</u>	<u>2020</u>	<u>Change</u>	
Assets				
Cash and cash equivalents	\$ 1,123.7	\$ 1,340.7	\$ (217.0)	(16.2%)
Prepaid fees and other assets	14.4	21.5	(7.1)	(33.0%)
Total assets	<u>\$ 1,138.1</u>	<u>\$ 1,362.2</u>	<u>\$ (224.1)</u>	(16.5%)
Liabilities				
Payables	\$ 81.8	\$ 80.5	\$ 1.3	1.6%
Total liabilities	<u>\$ 81.8</u>	<u>\$ 80.5</u>	<u>\$ 1.3</u>	1.6%
Net position				
Unrestricted	<u>\$ 1,056.3</u>	<u>\$ 1,281.7</u>	<u>\$ (225.4)</u>	(17.6%)

Washington Higher Education Facilities Authority Management's Discussion and Analysis

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, 2021 and 2020 (in thousands):

	2021	2020	Change	
Revenues				
Program fees	\$ 147.1	\$ 659.8	\$ (512.7)	(77.7%)
Operating fund interest income	2.0	19.6	(17.6)	(89.8%)
Total revenues	<u>149.1</u>	<u>679.4</u>	<u>(530.3)</u>	<u>(78.1%)</u>
Expenses				
Salaries and related expense	277.3	266.3	11.0	4.1%
Communication and office expenses	55.7	60.1	(4.4)	(7.3%)
Professional expense	41.5	53.6	(12.1)	(22.6%)
Total expenses	<u>374.5</u>	<u>380.0</u>	<u>(5.5)</u>	<u>(1.4%)</u>
Change in net position	<u>\$ (225.4)</u>	<u>\$ 299.4</u>	<u>\$ (524.8)</u>	<u>(175.3%)</u>

During the year ended June 30, 2021, the Authority's revenue largely resulted from program fees from initial issuer fees totaling \$147.1 thousand as ongoing annual issuer fees were waived. Expenses of \$374.5 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, 2021, such bonds have an aggregate outstanding principal amount payable of \$735.4 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.

Washington Higher Education Facilities Authority

Management's Discussion and Analysis

Comparison of Fiscal Year 2020 with 2019

Statements of Net Position

The following table summarizes the changes in combined net position between June 30, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>	<u>Change</u>	
Assets				
Cash and cash equivalents	\$ 1,340.7	\$ 1,031.6	\$ 309.1	30.0%
Prepaid fees and other assets	<u>21.5</u>	<u>16.8</u>	<u>4.7</u>	28.0%
Total assets	<u>\$ 1,362.2</u>	<u>\$ 1,048.4</u>	<u>\$ 313.8</u>	29.9%
Liabilities				
Payables	<u>\$ 80.5</u>	<u>\$ 66.1</u>	<u>\$ 14.4</u>	21.8%
Net position				
Unrestricted	<u>\$ 1,281.7</u>	<u>\$ 982.3</u>	<u>\$ 299.4</u>	30.5%

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, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>	<u>Change</u>	
Revenues				
Program fees	\$ 659.8	\$ -	\$ 659.8	NA
Operating fund interest income	<u>19.6</u>	<u>26.7</u>	<u>(7.1)</u>	(26.6%)
Total revenues	<u>679.4</u>	<u>26.7</u>	<u>652.7</u>	2,444.6%
Expenses				
Salaries and related expense	266.3	247.7	18.6	7.5%
Communication and office expenses	60.1	64.3	(4.2)	(6.5%)
Professional expense	<u>53.6</u>	<u>45.4</u>	<u>8.2</u>	18.1%
Total expenses	<u>380.0</u>	<u>357.4</u>	<u>22.6</u>	6.3%
Change in net position	<u>\$ 299.4</u>	<u>\$ (330.7)</u>	<u>\$ 630.1</u>	(190.5%)

During the year ended June 30, 2020, the Authority's revenue largely resulted from program fees from initial and annual issuer fees totaling \$659.8 thousand as previously waived ongoing annual fees were reinstated. Expenses of \$380.0 thousand are comprised of personnel, communication, office expense, and other professional fees.

Washington Higher Education Facilities Authority Management's Discussion and Analysis

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,	
	<u>2021</u>	<u>2020</u>
CASH AND CASH EQUIVALENTS	\$ 1,123,675	\$ 1,340,656
PREPAID FEES AND OTHER ASSETS	<u>14,430</u>	<u>21,553</u>
TOTAL ASSETS	<u>\$ 1,138,105</u>	<u>\$ 1,362,209</u>

LIABILITIES AND NET POSITION

ACCOUNTS PAYABLE	\$ 81,830	\$ 80,532
NET POSITION		
Unrestricted	<u>1,056,275</u>	<u>1,281,677</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,138,105</u>	<u>\$ 1,362,209</u>

Washington Higher Education Facilities Authority
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended June 30,	
	2021	2020
REVENUES		
Fee income	\$ 147,063	\$ 659,815
Interest earned on investments	2,057	19,656
	149,120	679,471
EXPENSES		
Salaries and related expense	277,264	266,347
Communication and office expense	55,695	60,081
Professional fees	41,563	53,611
	374,522	380,039
CHANGE IN NET POSITION	(225,402)	299,432
NET POSITION		
Beginning of year	1,281,677	982,245
End of year	\$ 1,056,275	\$ 1,281,677

Washington Higher Education Facilities Authority

Statements of Cash Flows

	Years Ended June 30,	
	2021	2020
OPERATING ACTIVITIES		
Cash received from fee income	\$ 147,063	\$ 659,815
Cash payments for salaries and benefits	(273,801)	(256,654)
Vendor payments	(92,299)	(113,769)
Net cash provided by (used in) operating activities	(219,037)	289,392
INVESTING ACTIVITIES		
Interest received on investments	2,056	19,656
Net cash provided by investing activities	2,056	19,656
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(216,981)	309,048
CASH AND CASH EQUIVALENTS		
Beginning of year	1,340,656	1,031,608
End of year	\$ 1,123,675	\$ 1,340,656
RECONCILIATION OF EXCESS OF EXPENSES OVER REVENUES TO NET CASH PROVIDED FROM OPERATING ACTIVITIES		
Change in net position	\$ (225,402)	\$ 299,432
Adjustments to reconcile excess of expenses over revenues to net cash used by operating activities		
Cash from changes in operating assets and liabilities:		
Interest and other receivables	5,066	(24,396)
Interest and other payables	1,299	14,356
Net cash provided by (used in) operating activities	\$ (219,037)	\$ 289,392

Washington Higher Education Facilities Authority

Notes to Financial Statements

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. 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 Comprehensive Annual 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.

Washington Higher Education Facilities Authority

Notes to Financial Statements

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:

- The Authority, as the issuer, is joined by an unrelated third-party obligor, and a debt holder or trustee
- 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
- 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, 2021 and 2020, all bonds outstanding met the definition of conduit bonds 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.

Washington Higher Education Facilities Authority

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2021 and 2020.

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, 2021 and 2020, were \$1,056,275 and \$1,281,677, 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.
1. Federal Home Loan Bank notes and bonds.
2. Federal Land Bank bonds.
3. Federal National Mortgage Association notes, debentures, and guaranteed certificates of participation.
4. 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.
5. 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.
6. 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, 2021 and 2020, the Authority held no investments as all excess funds were held as cash and cash equivalents.

Washington Higher Education Facilities Authority

Notes to Financial Statements

Note 4 – 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:

<u>Contracted Services</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Total charges of the Commission for the fiscal year	\$ 304,420	\$ 298,433
Amount due to the Commission at June 30	79,396	75,226

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, 2021 and June 30, 2020, the conduit bonds issued by the Authority have an aggregate outstanding principal amount payable of \$735.4 million and \$703.0 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, 2021, 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.

