



Report of Independent Auditors
and Financial Statements with
Supplemental Information for

Washington Higher Education
Facilities Authority

June 30, 2013 and 2012

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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CONTENTS

	PAGE
REPORT OF INDEPENDENT AUDITORS	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-7
FINANCIAL STATEMENTS	
Statements of Net Position	8
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11-19
SUPPLEMENTAL INFORMATION	
Schedules of Program Net Position	20
Schedules of Program Revenues, Expenses and Changes in Program Net Position	21
Schedules of Program Cash Flows	22

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 (the Authority), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Washington Higher Education Facilities Authority as of June 30, 2013 and 2012, and the results of its operations and 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 basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

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

Mess Adams LLP

Seattle, Washington
October 24, 2013

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, 2013 and 2012. 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, 2013:

- Cash and investments totaled \$41.6 million, decreasing by \$0.6 million as proceeds from bond issues were used to fund project draws.
- Loans receivable, net of discounts, premiums, and unamortized bond insurance premiums increased \$34.6 million due to funding of \$93.9 million of four new loans and \$7.0 million funding of existing loans, partially offset by mortgage payments of \$66.4 million, including early payoff of one loan.
- At fiscal year-end, the Authority had total bonds and notes payable of \$714.1 million, net of premiums and discounts. This represents a net increase of \$34.2 million, or 5%, resulting from the issuance of four new bonds (\$100.5 million), offset by principal payments on bonds (\$66.4 million) that included \$49.1 million of one currently refunded bond issue.
- Bond interest expense increased by \$2 million due to the continued increase in bonds outstanding.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of three parts: Management's Discussion and Analysis, the basic 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. These statements separate the financial statements into the restricted bond funds and general operating fund.

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Economic Outlook

Interest rates continue at near record low levels, creating an advantageous borrowing opportunity for our clients. Credit ratings on providers such as the monoline bond insurance companies and investment providers have continued to be lower than past levels and, in many cases, are under continued downward pressure. Financing structures have changed to reflect financial market conditions in which bond insurance or letter of credit backed bond issuances are no longer the norm. Instead, we have continued to see a much greater reliance on private placement of tax-exempt debt with lending institutions.

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, 2013 and 2012 (in millions):

	2013	2012	Change	
Assets				
Cash and cash equivalents	\$ 17.3	\$ 9.1	\$ 8.2	90.1%
Investments	24.3	33.1	(8.8)	(26.6%)
Accrued interest receivable	4.6	4.3	0.3	7.0%
Loans receivable, net	675.6	641.0	34.6	5.4%
Prepaid fees and other assets	1.3	1.3	-	-
Total assets	<u>\$ 723.1</u>	<u>\$ 688.8</u>	<u>\$ 34.3</u>	5.0%
Liabilities				
Accrued interest payable	\$ 4.7	\$ 4.3	\$ 0.4	9.3%
Amounts due to borrower and other payables	2.0	2.5	(0.5)	(20.0%)
Bonds payable, net	714.1	679.9	34.2	5.0%
Total liabilities	<u>\$ 720.8</u>	<u>\$ 686.7</u>	<u>\$ 34.1</u>	5.0%
Net Position				
Unrestricted	<u>\$ 2.3</u>	<u>\$ 2.1</u>	<u>\$ 0.2</u>	9.5%

**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, 2013 and 2012 (in millions):

	<u>2013</u>	<u>2012</u>	<u>Change</u>	
Revenues				
Bond programs loan interest	\$ 21.4	\$ 20.0	\$ 1.4	7.0%
Program fees and General Operating Fund interest income	<u>1.8</u>	<u>1.3</u>	<u>0.5</u>	38.5%
Total revenues	<u>\$ 23.2</u>	<u>\$ 21.3</u>	<u>\$ 1.9</u>	8.9%
Expenses				
Bond programs interest expense	\$ 22.2	\$ 20.2	\$ 2.0	9.9%
Other bond programs expenses	0.5	0.6	(0.1)	(16.7%)
General Operating Fund expenses	<u>0.3</u>	<u>0.3</u>	-	-
Total expenses	<u>\$ 23.0</u>	<u>\$ 21.1</u>	<u>\$ 1.9</u>	9.0%
Change in net position	<u>\$ 0.2</u>	<u>\$ 0.2</u>	<u>\$ -</u>	-

Loan related interest earnings (\$21.4 million) and bond interest expense (\$22.2 million) are the primary components of total revenues and expenses, respectively, for the bond programs.

The Authority's revenue in the General Operating Fund was \$535,010, 99.4% of which were issuer fees. General operating expenses of \$319,790 are comprised of salaries and wages and other professional fees.

DEBT ADMINISTRATION

The Authority has debt obligations of \$714.1 million, net of bond discounts and premiums at June 30, 2013. 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, 2013, amounts held by trustees represent full funding of these requirements.

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

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

DEBT ADMINISTRATION (CONTINUED)

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

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

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

COMPARISON OF FISCAL YEAR 2012 WITH 2011

Statements of Net Position

The following table summarizes the changes in combined net position between June 30, 2012 and 2011 (in millions):

	2012	2011	Change	
Assets				
Cash and cash equivalents	\$ 9.1	\$ 9.0	\$ 0.1	1.1%
Investments	33.1	23.2	9.9	42.7%
Accrued interest receivable	4.3	3.7	0.6	16.2%
Loans receivable, net	641.0	645.9	(4.9)	(0.8%)
Prepaid fees and other assets	1.3	1.5	(0.2)	(13.3%)
Total assets	\$ 688.8	\$ 683.3	\$ 5.5	0.8%
Liabilities				
Accrued interest payable	\$ 4.3	\$ 4.1	\$ 0.2	4.9%
Amounts due to borrower	2.5	1.1	1.4	127.3%
Bonds payable, net	679.9	676.2	3.7	0.5%
Total liabilities	\$ 686.7	\$ 681.4	\$ 5.3	0.8%
Net Position				
Unrestricted	\$ 2.1	\$ 1.9	\$ 0.2	10.5%

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

COMPARISON OF FISCAL YEAR 2012 WITH 2011 (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 2012 and 2011 (in millions):

	<u>2012</u>	<u>2011</u>	<u>Change</u>	
Revenues				
Bond programs loan interest	\$ 20.0	\$ 20.3	\$ (0.3)	(1.5%)
Program fees and General Operating Fund interest income	<u>1.3</u>	<u>0.6</u>	<u>0.7</u>	116.7%
Total revenues	<u>\$ 21.3</u>	<u>\$ 20.9</u>	<u>\$ 0.4</u>	1.9%
Expenses				
Bond programs interest expense	\$ 20.2	\$ 20.5	\$ (0.3)	(1.5%)
Other bond programs expenses	0.6	(0.1)	0.7	(700.0%)
General Operating Fund expenses	<u>0.3</u>	<u>0.3</u>	<u>-</u>	- %
Total expenses	<u>\$ 21.1</u>	<u>\$ 20.7</u>	<u>\$ 0.4</u>	1.9%
Change in net position	<u>\$ 0.2</u>	<u>\$ 0.2</u>	<u>\$ -</u>	- %

During the fiscal year ended June 30, 2012, the Authority's combined total assets increased by \$5.5 million primarily due to the increase of investments held to fund project draws offset by the decrease in loans receivable occurring through principal reductions.

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

	June 30,	
	2013	2012
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 17,325,082	\$ 9,107,199
INVESTMENTS	24,314,234	33,090,660
ACCRUED INTEREST RECEIVABLE	4,601,040	4,331,702
LOANS RECEIVABLE, net	675,639,144	640,980,260
PREPAID FEES AND OTHER ASSETS	<u>1,240,663</u>	<u>1,334,205</u>
TOTAL ASSETS	<u>\$ 723,120,163</u>	<u>\$ 688,844,026</u>
LIABILITIES AND NET POSITION		
ACCRUED INTEREST PAYABLE	<u>\$ 4,650,507</u>	<u>\$ 4,313,300</u>
AMOUNTS DUE TO BORROWER	<u>1,951,392</u>	<u>2,447,034</u>
ACCOUNTS PAYABLE	<u>165,992</u>	<u>87,164</u>
BONDS PAYABLE		
Interest bonds	706,243,447	674,827,529
Unamortized bond premium	9,513,408	6,804,659
Unamortized bond discount	<u>(1,684,564)</u>	<u>(1,700,421)</u>
	<u>714,072,291</u>	<u>679,931,767</u>
TOTAL LIABILITIES	720,840,182	686,779,265
NET POSITION		
Unrestricted	<u>2,279,981</u>	<u>2,064,761</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 723,120,163</u>	<u>\$ 688,844,026</u>

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

	Years Ended June 30,	
	2013	2012
REVENUES		
Interest earned on loans and investments	\$ 21,388,924	\$ 20,017,516
Fee income	1,814,061	1,311,148
	23,202,985	21,328,664
EXPENSES		
Interest on debt	22,145,362	20,234,019
Amortization of bond premium	(954,289)	(550,326)
Amortization of bond discount	101,760	100,309
Bond issuance costs	1,282,285	822,762
Amortization of bond insurance premium	92,857	231,425
Communication and office expense	248,773	220,873
Professional fees	71,017	59,044
	22,987,765	21,118,106
CHANGE IN NET POSITION	215,220	210,558
NET POSITION		
Beginning of year	2,064,761	1,854,203
End of year	\$ 2,279,981	\$ 2,064,761

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY
STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2013	2012
OPERATING ACTIVITIES		
Interest received on loans	\$ 22,430,768	\$ 20,141,552
Cash received from fee income	518,309	-
Cash received from loan repayments	66,377,986	56,413,094
Cash payments for acquisition of loans	(100,863,383)	(51,012,609)
Cash payments for bond program expenses	1,799,207	1,717,398
Salaries, benefits, and vendor payments	(226,811)	(300,220)
Net cash provided by (used for) operating activities	<u>(9,963,924)</u>	<u>26,959,215</u>
INVESTING ACTIVITIES		
Purchase of investments	(33,011,595)	(29,572,131)
Sale of investments	41,614,534	19,653,028
Interest paid on investments	(28,895)	39,764
Net cash provided by (used for) investing activities	<u>8,574,044</u>	<u>(9,879,339)</u>
CAPITAL FINANCING ACTIVITIES		
Proceeds from issuance of bonds and notes	97,793,904	58,960,000
Interest paid on debt	(21,808,155)	(20,014,420)
Debt repayments	(66,377,986)	(55,911,240)
Net cash provided by (used for) financing activities	<u>9,607,763</u>	<u>(16,965,660)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,217,883	114,216
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>9,107,199</u>	<u>8,992,983</u>
End of year	<u>\$ 17,325,082</u>	<u>\$ 9,107,199</u>
RECONCILIATION OF EXCESS OF REVENUES OVER EXPENSES TO NET CASH FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	\$ 215,220	\$ 210,558
Adjustments to reconcile excess of revenues over expenses to net cash used by operating activities		
Amortization of loan discount	(101,760)	(100,309)
Amortization of loan premium	954,289	550,326
Amortization of prepaid bond insurance	(92,857)	(231,425)
Amortization of bond discount	101,760	100,309
Amortization of bond premium	(954,289)	(550,326)
Amortization of bond insurance premium	92,857	231,425
Cash from changes in operating assets and liabilities		
Acquisition of loans	(100,863,383)	(51,012,609)
Repayments of loans	66,377,986	55,911,240
Interest and other receivables	(66,270)	(690,025)
Interest and other payables	24,372,523	22,540,051
Net cash provided by (used for) by operating activities	<u>\$ (9,963,924)</u>	<u>\$ 26,959,215</u>

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 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, 2012 State of Washington Comprehensive Annual Financial Report (CAFR), the Authority is presented as a discrete component unit of the State of Washington.

Program Funds:

The Authority summarizes its financial activities in two funds:

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

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

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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 \$720.7 million as of June 30, 2013. 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 Balance Sheet - 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, 2013 there were no uncollateralized or uninsured cash equivalents held in the bond fund. Cash deposits held by the General Operating Fund are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS

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 guaranteed investment contracts, certificates of deposit, commercial paper, and US government backed securities as of June 30, 2013. The guaranteed investments, stated at cost, are non-participating and therefore, the redemption terms are not affected by market rates. Commercial Paper and U.S. government backed securities are stated at market value as of June 30, 2013. The Authority's Trustee holds all of the Authority's investments in the name of the Authority.

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

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

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

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

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

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

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

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Income Taxes - The Authority is exempt from federal income taxes under Internal Revenue Code (IRC) Section 115(a) and, accordingly, no provision for income taxes was made for the years ended June 30, 2013 and 2012.

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, 2013 and 2012 were \$2,279,981 and \$2,064,761, 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, 2013 and 2012.

Note 3 - Investments

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

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

In addition, the following governmental investments are eligible:

1. Treasury bills, notes, and other obligations issued by the United States Department of the Treasury and backed by the full faith and credit of the US government.
2. Federal Home Loan Bank notes and bonds.
3. Federal Land Bank bonds.
4. Federal National Mortgage Association notes, debentures, and guaranteed certificates of participation.

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 3 - Investments (Continued)

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

As of June 30, 2013, \$17.5 million of the Authority’s investments in the bond program are comprised of US government backed securities and \$4.2 million is invested in certificates of deposit (CDs). The CDs are issued by US Bank and rated AAA. The remaining \$2.6 million of the Authority’s investments at June 30, 2013 in the bond program are comprised of guaranteed investment contracts (GICs) with institutions whose credit rating is either at least equivalent to the rating on the bonds being issued and for terms specified in the indentures. Should institution credit ratings fall, collateral may be required. These investment agreements are binding agreements, but are not usually collateralized by specifically identified securities and, as such, are not tradable or subject to risk categorization. However, generally there are provisions that require the provider to collateralize the investment in the event the rating of the provider is downgraded below the required standard, thereby minimizing the Authority’s exposure to credit risk within the bond funds. The collateral is held by the trustee in the name of the Authority and, therefore; is not subject to custodial credit risk. The contracts are designed with redemption terms that are not impacted by market rates and income is based on contractual interest rates, accordingly, these agreements are reported at cost. The terms of each GIC are aligned with the use of the fund proceeds and outlined within the bond documents. The Authority places no limit on the amount the Authority may invest in any one provider, potentially exposing it to a concentration of credit risk. The schedule below provides the weighted average of both the interest rates and terms as well as the percentage of total investments held by each provider. However, as a conduit issuer, this risk accrues directly to the borrower.

Provider	Weighted Average of Term (Years)	Weighted Average of Rate	Total Investment	Percent of Total Investment
Federal National Mortgage Association Mortgage Note	1.66	1.40%	\$ 4,390,359	18.05%
Federal Home Loan Mortgage Company Mortgage Note	1.45	2.02%	3,515,846	14.46%
Federal Home Loan Mortgage Company Mortgage Bond	2.20	0.45%	3,344,940	13.76%
Federal Home Loan Bank Bond	2.70	3.13%	1,358,411	5.59%
US Treasury Notes	2.54	1.75%	4,945,358	20.34%
US Bank National Certificate of Deposit	1.07	0.63%	4,192,314	17.24%
DEPFA Bank GIC	23.61	5.50%	2,567,006	10.56%
			<u>\$ 24,314,234</u>	<u>100.00%</u>

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

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 4 - Loans Receivable, Net

The loans receivable balances in the Restricted Bond Funds at June 30, 2013 and 2012 are comprised of the following:

	<u>2013</u>	<u>2012</u>
Loans receivable	\$ 669,033,402	\$ 637,191,981
Discount on loans	(1,684,564)	(1,700,421)
Mortgage premiums	9,513,408	6,804,659
Bond insurance premiums	<u>(1,226,536)</u>	<u>(1,319,393)</u>
	<u>\$ 675,635,710</u>	<u>\$ 640,976,826</u>

Note 5 - Contracted Staff Services

The Washington State Housing Finance Commission provides staff and other administrative services to the Authority. Total charges were \$214,020 and \$202,678 for the years ended June 30, 2013 and 2012, respectively. The Authority has no directly hired staff and as such has no pension obligations. The Authority has amounts payable to the Commission of \$159,134 and \$51,642 at June 30, 2013 and 2012, respectively.

Note 6 - Bonds Payable

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

As of June 30, 2013, the Authority had outstanding bonds of \$714.1 million. The bonds bear interest ranging from 0.06% to 6.25% and mature in varying amounts through fiscal year 2047.

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 6 - Bonds Payable (Continued)

Bonds outstanding at June 30, 2013 and 2012 are as follows:

Series	Balance Outstanding	
	2013	2012
University of Puget Sound 1998	\$ 775,000	\$ 1,130,000
University of Puget Sound 2001	10,425,000	10,460,000
Seattle University 2003	1,030,000	2,015,000
Whitman College 2005	28,770,000	28,770,000
Walla Walla College 2005	2,340,623	2,547,537
Seattle University 2006	19,405,000	20,070,000
Univ. of Puget Sound 2006	-	49,120,000
Pacific Lutheran University 2006	55,760,000	56,965,000
Heritage University 2007	1,699,798	2,086,992
Saint Martins University	32,520,000	33,185,000
Seattle University '07A	37,400,000	38,075,000
Seattle University '07B	21,585,000	22,660,000
Whitworth 2009	60,955,000	61,915,000
Whitman College 2008	28,800,000	29,485,000
Seattle Pacific University 2008 Refunding	64,555,000	68,300,000
Gonzaga 2009	36,645,000	37,845,000
Seattle University 2009	41,775,000	41,775,000
Gonzaga 2009 B	52,660,000	53,210,000
Gonzaga 2010 A	33,785,000	36,590,000
Cornish College 2010	20,323,000	20,323,000
Seattle University 2011	14,120,000	14,570,000
Whitworth University 2012	19,500,000	19,500,000
Bastyr University 2012	23,621,122	24,230,000
University of Puget Sound Series 2012 A	34,805,000	-
Gonzaga University 2012 AB	9,293,904	-
University of Puget Sound Series 2012 B	29,195,000	-
Pacific NW University of Health Sciences	24,500,000	-
	<u>706,243,447</u>	<u>674,827,529</u>
Unamortized Bond Premium	9,513,408	6,804,659
Unamortized Bond Discount	<u>(1,684,564)</u>	<u>(1,700,421)</u>
	<u>\$ 714,072,291</u>	<u>\$ 679,931,767</u>

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 6 - Bonds Payable (Continued)

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

<u>Years Ending June 30,</u>	<u>Principal Redemption</u>	<u>Interest Requirements</u>	<u>Total</u>
2014	\$ 11,846,155	\$ 22,754,503	\$ 34,600,658
2015	12,010,688	22,283,537	34,294,225
2016	13,166,106	21,759,313	34,925,419
2017	15,093,768	21,189,329	36,283,097
2018	13,985,016	20,560,807	34,545,823
2019-2023	81,420,001	92,545,900	173,965,901
2024-2028	113,413,650	72,636,064	186,049,714
2029-2033	198,766,059	49,331,435	248,097,494
2034-2038	173,161,326	28,322,773	201,484,099
2039-2043	69,015,678	9,458,003	78,473,681
2044-2047	4,365,000	473,681	4,838,681
	<u>\$ 706,243,447</u>	<u>\$ 361,315,345</u>	<u>\$ 1,067,558,792</u>

Changes in bonds outstanding during the fiscal year ended June 30, 2013 are summarized in the following table:

<u>June 30, 2012</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2013</u>
<u>\$ 674,827,529</u>	<u>\$ 97,793,904</u>	<u>\$ 66,377,986</u>	<u>\$ 706,243,447</u>

Bond Defeasance - The University of Puget Sound 2006 bonds totaling \$48,605,000 were defeased on October 1, 2012 by the University of Puget Sound Series 2012A, a fixed rate transaction, and the University of Puget Sound Series 2012B, a variable rate transaction.

Bond issues defeased in prior fiscal years carry outstanding balances as of June 30, 2013, as follows:

<u>Bond Issue</u>	<u>Defeased</u>	<u>Outstanding Balance</u>	<u>Final Payoff</u>
Gonzaga University 2004	June 2007	\$ 19,090,000	October 2014
Whitworth 2006	November 2009	11,115,000	October 2027
		<u>\$ 30,205,000</u>	

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 6 - Bonds Payable (Continued)

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

Note 7 - Commitments

The Authority has committed to fund loans from related bond proceeds for projects currently in their construction phase. Loan commitments were \$37,328,958 as of June 30, 2013.

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, 2013, 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, 2013, the trustees, under the normal and early redemption provisions of the trust indenture, have redeemed \$33.1 million in bonds.

SUPPLEMENTAL INFORMATION

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY
SCHEDULES OF PROGRAM NET POSITION

ASSETS	Restricted Bond Funds	General Operating Fund	June 30,	
			2013	2012
CASH AND CASH EQUIVALENTS	\$ 14,896,691	\$ 2,428,391	\$ 17,325,082	\$ 9,107,199
INVESTMENTS	24,314,234	-	24,314,234	33,090,660
ACCRUED INTEREST RECEIVABLE	4,601,019	21	4,601,040	4,331,702
LOANS RECEIVABLE, net	675,635,710	3,434	675,639,144	640,980,260
PREPAID FEES AND OTHER ASSETS	<u>1,226,536</u>	<u>14,127</u>	<u>1,240,663</u>	<u>1,334,205</u>
TOTAL ASSETS	<u>\$ 720,674,190</u>	<u>\$ 2,445,973</u>	<u>\$ 723,120,163</u>	<u>\$ 688,844,026</u>
LIABILITIES AND NET POSITION				
ACCRUED INTEREST PAYABLE	<u>\$ 4,650,507</u>	<u>\$ -</u>	<u>\$ 4,650,507</u>	<u>\$ 4,313,300</u>
AMOUNTS DUE TO BORROWER	<u>1,951,392</u>	<u>-</u>	<u>1,951,392</u>	<u>2,447,034</u>
ACCOUNTS PAYABLE	<u>-</u>	<u>165,992</u>	<u>165,992</u>	<u>87,164</u>
BONDS PAYABLE				
Interest bonds	706,243,447	-	706,243,447	674,827,529
Unamortized bond premium	9,513,408	-	9,513,408	6,804,659
Unamortized bond discount	<u>(1,684,564)</u>	<u>-</u>	<u>(1,684,564)</u>	<u>(1,700,421)</u>
	<u>714,072,291</u>	<u>-</u>	<u>714,072,291</u>	<u>679,931,767</u>
TOTAL LIABILITIES	720,674,190	165,992	720,840,182	686,779,265
NET POSITION				
Unrestricted	<u>-</u>	<u>2,279,981</u>	<u>2,279,981</u>	<u>2,064,761</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 720,674,190</u>	<u>\$ 2,445,973</u>	<u>\$ 723,120,163</u>	<u>\$ 688,844,026</u>

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

	Restricted Bond Funds	General Operating Fund	Years Ended June 30,	
			2013	2012
REVENUES				
Interest earned on loans and investments	\$ 21,385,690	\$ 3,234	\$ 21,388,924	\$ 20,017,516
Fee income	1,282,285	531,776	1,814,061	1,311,148
	<u>22,667,975</u>	<u>535,010</u>	<u>23,202,985</u>	<u>21,328,664</u>
EXPENSES				
Interest on debt	22,145,362	-	22,145,362	20,234,019
Amortization of bond premium	(954,289)	-	(954,289)	(550,326)
Amortization of bond discount	101,760	-	101,760	100,309
Bond issuance costs	1,282,285	-	1,282,285	822,762
Amortization of bond insurance premium	92,857	-	92,857	231,425
Communication and office expense	-	248,773	248,773	220,873
Professional fees	-	71,017	71,017	59,044
	<u>22,667,975</u>	<u>319,790</u>	<u>22,987,765</u>	<u>21,118,106</u>
CHANGE IN NET POSITION	-	215,220	215,220	210,558
NET POSITION				
Beginning of year	-	2,064,761	2,064,761	1,854,203
End of year	<u>\$ -</u>	<u>\$ 2,279,981</u>	<u>\$ 2,279,981</u>	<u>\$ 2,064,761</u>

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY
SCHEDULES OF PROGRAM CASH FLOWS

	Restricted Bond Funds	General Operating Fund	Years Ended June 30,	
			2013	2012
OPERATING ACTIVITIES				
Interest received on loans	\$ 22,430,768	\$ -	\$ 22,430,768	\$ 20,141,552
Cash received from fee income	-	518,309	518,309	-
Cash received from loan repayments	66,377,986	-	66,377,986	56,413,094
Cash payments for acquisition of loans	(100,863,383)	-	(100,863,383)	(51,012,609)
Cash payments for bond program expenses	1,799,207	-	1,799,207	1,717,398
Salaries, benefits, and vendor payments	-	(226,811)	(226,811)	(300,220)
Net cash provided by (used for) operating activities	<u>(10,255,422)</u>	<u>291,498</u>	<u>(9,963,924)</u>	<u>26,959,215</u>
INVESTING ACTIVITIES				
Purchase of investments	(33,011,595)	-	(33,011,595)	(29,572,131)
Sale of investments	41,614,534	-	41,614,534	19,653,028
Interest (received) paid on investments	(32,298)	3,403	(28,895)	39,764
Net cash provided by (used for) investing activities	<u>8,570,641</u>	<u>3,403</u>	<u>8,574,044</u>	<u>(9,879,339)</u>
CAPITAL FINANCING ACTIVITIES				
Proceeds from issuance of bonds and notes	97,793,904	-	97,793,904	58,960,000
Interest paid on debt	(21,808,155)	-	(21,808,155)	(20,014,420)
Debt repayments	(66,377,986)	-	(66,377,986)	(55,911,240)
Net cash provided by (used for) financing activities	<u>9,607,763</u>	<u>-</u>	<u>9,607,763</u>	<u>(16,965,660)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,922,982	294,901	8,217,883	114,216
CASH AND CASH EQUIVALENTS				
Beginning of year	<u>6,973,709</u>	<u>2,133,490</u>	<u>9,107,199</u>	<u>8,992,983</u>
End of year	<u>\$ 14,896,691</u>	<u>\$ 2,428,391</u>	<u>\$ 17,325,082</u>	<u>\$ 9,107,199</u>
RECONCILIATION OF EXCESS OF REVENUES OVER EXPENSES TO NET CASH FROM OPERATING ACTIVITIES				
Excess of revenues over expenses	\$ -	\$ 215,220	\$ 215,220	\$ 210,558
Adjustments to reconcile excess of revenues over expenses to net cash used by operating activities				
Amortization of loan discount	(101,760)	-	(101,760)	(100,309)
Amortization of loan premium	954,289	-	954,289	550,326
Amortization of prepaid bond insurance	(92,857)	-	(92,857)	(231,425)
Amortization of bond discount	101,760	-	101,760	100,309
Amortization of bond premium	(954,289)	-	(954,289)	(550,326)
Amortization of bond insurance premium	92,857	-	92,857	231,425
Cash from changes in operating assets and liabilities				
Acquisition of loans	(100,863,383)	-	(100,863,383)	(51,012,609)
Repayments of loans	66,377,986	-	66,377,986	55,911,240
Interest and other receivables	(63,721)	(2,549)	(66,270)	(690,025)
Interest and other payables	24,293,696	78,827	24,372,523	22,540,051
Net cash provided by (used for) operating activities	<u>\$ (10,255,422)</u>	<u>\$ 291,498</u>	<u>\$ (9,963,924)</u>	<u>\$ 26,959,215</u>