

**Pennsylvania Higher Educational
Facilities Authority**

(A Component Unit of the Commonwealth
of Pennsylvania)

Financial Statements and
Required Supplementary Information

Years Ended June 30, 2018 and 2017
with Independent Auditor's Report

MaherDuessel

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**PENNSYLVANIA HIGHER EDUCATIONAL
FACILITIES AUTHORITY**

(A Component Unit of the Commonwealth of Pennsylvania)

YEARS ENDED JUNE 30, 2018 AND 2017

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Independent Auditor's Report

**The Board of Directors
Pennsylvania Higher
Educational
Facilities Authority**

Authority's basic financial statements as listed in the table of contents.

We have audited the accompanying financial statements of the Pennsylvania Higher Educational Facilities Authority (Authority), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the

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 Authority as of June 30, 2018 and 2017, and the changes in its financial position and 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 i through iv 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.

Maher Duessel

Harrisburg, Pennsylvania
September 7, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

This discussion and analysis of the financial performance of the Pennsylvania Higher Educational Facilities Authority (Authority) is supplementary information required by the Governmental Accounting Standards Board. It introduces the basic financial statements and provides an analytical overview of the Authority's financial activities. Read it in conjunction with the financial statements that follow this discussion.

The Authority is a public corporation and a public instrumentality of the Commonwealth of Pennsylvania, created by the Act of December 6, 1967 (P.L. 678, No. 318), known as the Pennsylvania Higher Educational Facilities Authority Act (24 P.S. § 5501 *et seq.*), to provide a source of tax-exempt financing for colleges and universities. The Authority is governed by a nine-member body composed of the Governor, State Treasurer, Auditor General, Secretary of Education, Secretary of General Services, President Pro Tempore of the Senate, Speaker of the House of Representatives, Minority Leader of the Senate, and Minority Leader of the House of Representatives. The Authority finances projects through the issuance of bonds, the principal and the interest of which are paid by the annual lease/loan payments collected from colleges and universities. The Authority has no general liability with respect to these obligations and has no beneficial interest in the related assets held by trustees. Acting solely in an agency capacity, the Authority serves as a financing conduit, bringing the ultimate borrower and the ultimate lender together.

The Authority does not receive an appropriation from the Commonwealth of Pennsylvania and is funded from administrative fees charged to participating colleges and universities. Administrative fees collected by the Authority are remitted to the State Public School Building Authority's (SPSBA) Administrative Fund in exchange for all management and administrative services and operating expenses. The management and the board members are identical for both the Authority and SPSBA.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

The following table summarizes the financial position and results of operations of the Authority as of and for the years ended June 30, 2018, 2017, and 2016:

	2018	2017	2016
Assets:			
Total assets	\$ -	\$ -	\$ -
Liabilities:			
Total liabilities	-	-	-
Net position:			
Total net position	\$ -	\$ -	\$ -
Operating revenues:			
Administrative fees	\$ 1,040,973	\$ 1,122,648	\$ 1,181,971
Total operating revenues	1,040,973	1,122,648	1,181,971
Operating expenses:			
SPSBA management fee	1,040,973	1,122,648	1,181,971
Total operating expenses	1,040,973	1,122,648	1,181,971
Change in net position	-	-	-
Total net position - beginning of year	-	-	-
Total net position - end of year	\$ -	\$ -	\$ -

Overview of the Financial Statements

The three basic statements presented within the financial statements are as follows:

- Statement of Net Position – This statement presents information reflecting the Authority's assets, liabilities, and net position. Net position represents the amount of total assets less total liabilities. The statement of net position is categorized as to current and noncurrent assets and liabilities. For purposes of the financial statements, current

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JUNE 30, 2018

assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within one year of the statement date.

- Statement of Revenues, Expenses, and Changes in Fund Net Position – This statement reflects the operating revenues and expenses, as well as nonoperating revenues and expenses during the operating year. Operating revenue is generated from administrative fees charged to colleges and universities. Operating expenses are the payment of the SPSBA management fee. The change in net position for an enterprise fund is similar to net profit or loss for any other business enterprise.
- Statement of Cash Flows – The statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating, financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the fiscal year.

Program Description and Highlights

The Authority provides services to borrowers including assistance with preparation of documents prior to issuing bonds; and computation, compliance, and reporting assistance for federal arbitrage regulations. The colleges and universities are assessed an annual fee to cover administrative costs of the Authority.

Program highlights for the year ended June 30, 2018 include the following:

- Issued three financings on behalf of higher education institutions totaling \$652,280,000. The bond proceeds were used by the institutions to construct and acquire new facilities; renovate existing buildings; purchase equipment; and refund prior bond issues.
- Operating revenues declined by \$81,675 or 7.3% due to refundings of Authority bonds by local authorities.

Program highlights for the year ended June 30, 2017 include the following:

- Issued seven financings on behalf of higher education institutions totaling \$818,620,000. The bond proceeds were used by the institutions to construct and acquire new facilities; renovate existing buildings; purchase equipment; and refund prior bond issues.

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JUNE 30, 2018

- Operating revenues declined by \$59,323 or 5.0% due to refundings of Authority bonds by local authorities.

Debt Administration

As of June 30, 2018, the Authority had approximately \$5.88 billion of conduit debt outstanding (nonrecourse debt to the Authority that is repaid solely from revenue derived from the related facilities acquired). This is a decrease of approximately \$36 million from June 30, 2017. The outstanding conduit debt is not recorded in the Authority's financial statements. A schedule of conduit debt outstanding is included in Note 3 to the financial statements. The Authority has no outstanding debt financing for its operation.

Contacting the Authority's Management

This financial report is designed to provide interested parties with a general overview of the Authority's finances. If you have questions about this report or need additional financial information, contact:

Pennsylvania Higher Educational Facilities Authority
1035 Mumma Road, Suite 300
Wormleysburg, PA 17043

Phone – 717-975-2200

Email – fmgmt@phefa.org

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STATEMENTS OF NET POSITION

JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>Assets</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Liabilities and Net Position</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Operating Revenues:		
Administrative fees	\$ 1,040,973	\$ 1,122,648
Total operating revenues	1,040,973	1,122,648
Operating Expenses:		
SPSBA management fee	1,040,973	1,122,648
Total operating expenses	1,040,973	1,122,648
Change in Net Position	-	-
Net Position:		
Beginning of year	-	-
End of year	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>Cash Flows From Operating Activities:</u>		
Receipts from colleges and universities	\$ 1,040,973	\$ 1,122,648
Payments to SPSBA	<u>(1,040,973)</u>	<u>(1,122,648)</u>
Net cash provided by operating activities	<u>-</u>	<u>-</u>
<u>Cash and Cash Equivalents:</u>		
Beginning of year	<u>-</u>	<u>-</u>
End of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

1. Summary of Significant Accounting Policies

The Pennsylvania Higher Educational Facilities Authority (Authority) is a public corporation and a public instrumentality of the Commonwealth of Pennsylvania (Commonwealth), created by the Act of December 6, 1967 (P.L. 678, No. 318), known as the Pennsylvania Higher Educational Facilities Authority Act (24 P.S. § 5501 *et seq.*), to provide a source of tax-exempt financing for colleges and universities. The Authority is governed by a nine-member Board of Directors (Board). The entity acts as a financing authority created for the purpose of constructing and improving higher educational institutions. The Authority finances projects through the issuance of bonds, the principal and interest of which are paid by the annual lease/loan payments collected from the higher educational institutions.

(a) Reporting Entity

The Authority is a component unit of the Commonwealth. Criteria considered in making this determination include the Commonwealth's appointment of the Authority's Board pursuant to statute and the Commonwealth's ability to impose its will on the Authority.

(b) Basis of Presentation and Accounting

The Authority follows the accounting and financial reporting standards issued by the Governmental Accounting Standards Board (GASB). The Authority is accounted for as an enterprise fund and, accordingly, utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. The fund is used to account for the revenues and expenses of the Authority's operations.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the enterprise fund are administrative fees collected by the Authority, and the principal operating expenses of the enterprise fund are the payment of the administrative fees to the State Public School Building Authority's (SPSBA) Administrative Fund.

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(c) Administrative Fees

The Authority recognizes administrative fees received from the higher educational institutions as revenue as of the periodic billing date.

(d) Conduit Debt Obligations

The Authority issues taxable and tax-exempt instruments (bonds, notes, or other obligations), which do not constitute a debt of the Authority or the Commonwealth. These debt instruments are limited obligations of the Authority, payable solely from payments made by the related borrowing institutions and related assets held by trustees. The Authority has no general liability with respect to these obligations and has no beneficial interest in the related assets held by trustees. Acting solely in an agency capacity, the Authority serves as a financing conduit, bringing the ultimate borrower and the ultimate lender together. The Authority has elected to exclude these obligations and the related assets held by trustees from the financial statements. The Authority has disclosed the outstanding balance in Note 3.

(e) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported and disclosures. Actual results could differ from those estimates.

2. Related Party Transactions - Administration Fees Paid to the State Public School Building Authority

The Administrative Fund of SPSBA provides for its own operation and the operation of the Authority. Administration fees collected by the Authority are deposited directly into SPSBA's Administrative Fund in exchange for all management and administrative services received and operating expenses paid by SPSBA. During the years ended June 30, 2018 and 2017, the amount expensed by the Authority was \$1,040,973 and \$1,122,648, respectively. The management and the board members are identical for both the Authority and SPSBA.

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3. Conduit Debt Obligations

As discussed in Note 1, the following 90 non-course bond issues with an aggregate principal of \$5,884,997,769 were outstanding at June 30, 2018:

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College/University	Final Maturity	Indebtedness	
		Issued	Outstanding
Drexel University, Revenue Bonds, Series A of 2017	2041	\$ 124,020,000	\$ 117,800,000
University of Pennsylvania Health System, Revenue Bonds, Series A of 2017	2047	400,000,000	400,000,000
State System of Higher Education, Revenue Bonds, AU-1, AU-2 & AU-3 of 2017	2042	128,260,000	125,905,000
The Trustees of the University of Pennsylvania, Revenue Bonds, Series A of 2017	2046	178,395,000	178,395,000
State System of Higher Education, Revenue Bonds, Series AT-1 and AT-2 of 2016	2055	298,110,000	286,110,000
University of Pennsylvania Health System, Series C of 2016	2041	129,290,000	129,015,000
Mount Aloysius College, Revenue Bonds, AICUP Series 2016 OO4	2046	9,330,000	9,330,000
Drexel University, Revenue Bonds, Series of 2016	2037	117,130,000	117,130,000
UPI East Stroudsburg University of Pennsylvania, Revenue Bonds, Series 2016 A, B, C & D	2035	64,545,000	63,046,096
Saint Joseph's University, Revenue Bond, Series of 2016	2030	21,820,000	19,700,684
State System of Higher Education, Revenue Bonds, Series AS of 2016	2037	47,280,000	44,295,000
The Trustees of the University of Pennsylvania, Revenue Bonds, Series A of 2016	2041	169,635,000	168,565,000
State System of Higher Education, Revenue Bonds, Series AR of 2015	2040	102,365,000	95,475,000
University of Pennsylvania Health System, Revenue Bonds, Series of 2015	2045	357,565,000	300,445,000
State System of Higher Education, Revenue Bonds, Series AQ of 2015	2036	94,975,000	78,930,000
Saint Joseph's University, Revenue Bonds, Series 2015 A & B	2036	74,390,858	69,127,706
The Trustees of the University of Pennsylvania, Revenue Bonds, Series A, B, & C of 2015	2045	378,840,000	366,525,000
Ursinus College, Revenue Bonds, Series of 2015	2036	12,160,000	11,400,000
Thomas Jefferson University, Revenue Bonds, Series 2015 A, B, C, D, E, F, G & H	2050	551,805,000	549,745,000
University of the Sciences in Philadelphia, Revenue Bonds, Series 2015	2036	90,300,000	84,730,000
Widener University, Revenue Bonds, Series 2014	2038	19,605,000	17,905,000
Bryn Mawr College, Revenue Bonds, Series 2014	2044	51,670,000	50,045,000
University of Pennsylvania Health System, Bank Loan, Series A of 2014	2044	100,000,000	100,000,000
York College of Pennsylvania, Revenue Bonds, AICUP Series 2014 T2, T3, and T4	2034	26,065,000	23,125,000
State System of Higher Education, Revenue Bonds, Series AP of 2014	2024	46,110,000	38,045,000
Widener University, Revenue Bonds, Series 2013A	2038	52,875,000	49,400,000
Holy Family University, Revenue Bonds, Series 2013A	2038	37,675,000	31,780,000
Widener University, Revenue Bonds, Series 2013	2043	11,980,000	11,980,000
Saint Joseph's University, Revenue Bonds, Series B of 2013	2033	26,280,000	16,850,000
State System of Higher Education, Revenue Bonds, Series AO-1 & AO-2 of 2013	2038	30,915,000	25,645,000
Lock Haven University Foundation, Student Housing Project, Revenue Bonds, Series 2013A & B	2033	16,235,000	13,765,000
Ursinus College, Revenue Bonds, Series of 2013	2033	12,880,000	10,650,000
Shippensburg University Student Services, Student Housing Project, Revenue Bonds, Series 2012	2024	65,025,000	62,290,000
Bryn Mawr College, Revenue Bonds, Series 2012A	2022	13,100,000	13,100,000
Messiah College, Revenue Bonds, AICUP Series 2012 LL3	2022	10,830,000	7,960,000
Drexel University, Revenue Bonds, Series of 2012	2032	29,435,000	11,480,000
Saint Francis University, Revenue Bonds, AICUP Series 2012 LL2	2023	8,680,000	4,785,000
Delaware Valley College of Science and Agriculture, Revenue Bonds, AICUP Series of 2012 LL1	2042	32,855,000	29,885,000
Thomas Jefferson University, Revenue Bonds, Series 2012	2042	42,195,000	39,520,000
Temple University, Revenue Bonds, First Series of 2012	2042	200,000,000	177,355,000
La Salle University, Revenue Bonds, Series 2012	2042	94,975,000	85,320,000
University of the Sciences in Philadelphia, Revenue Bonds, Series 2012	2042	31,000,000	31,000,000
Ursinus College, Revenue Bonds, Series A of 2012	2033	18,865,000	14,655,000
Gwynedd-Mercy College, Revenue Bonds, AICUP Series 2012 KK1	2042	10,000,000	10,000,000
University of Pennsylvania Health System, Revenue Bonds, Series A of 2012	2042	136,950,000	136,950,000
State System of Higher Education, Revenue Bonds, Series AN of 2012	2023	76,810,000	43,995,000
Mount Aloysius College, Revenue Bonds, AICUP Series 2011 JJ1, R1	2041	10,000,000	10,000,000
Shippensburg University Student Services, Student Housing Project, Revenue Bonds, Series 2011	2043	69,760,000	68,470,000
State System of Higher Education, Revenue Bonds, Series AM of 2011	2036	119,085,000	89,995,000
Drexel University, Revenue Bonds, Series A of 2011	2041	156,705,000	7,710,000
The Trustees of the University of Pennsylvania, Revenue Bonds, Series A of 2011	2041	150,000,000	11,125,000
HSB Bloomsburg University of Pennsylvania, Revenue Bonds, Series 2010A & B	2034	15,590,000	12,990,000
Bryn Mawr College, Revenue Bonds, Series 2010A	2019	28,400,000	23,465,000

(Continued)

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

College/University	Final Maturity	Indebtedness	
		Issued	Outstanding
The Trustees of the University of Pennsylvania, Revenue Bonds, Series of 2010	2033	\$ 71,410,000	\$ 16,935,000
Saint Joseph's University, Revenue Bonds, Series A of 2010	2040	119,545,000	116,795,000
UPI East Stroudsburg University of Pennsylvania, Revenue Bonds, Series of 2010	2042	73,695,000	69,840,000
State System of Higher Education, Revenue Bonds, Series AL of 2010	2035	135,410,000	60,465,000
Bryn Mawr College, Revenue Bonds, Series 2010	2029	15,520,000	10,710,000
Temple University, Revenue Bonds, First Series of 2010	2040	190,255,000	142,220,000
University of Pittsburgh Medical Center, Revenue Bonds, Series 2010E	2031	334,305,000	207,645,000
State System of Higher Education, Revenue Bonds, Series AK of 2009	2024	47,310,000	16,235,000
Carnegie Mellon University, Revenue Bonds, Series 2009	2021	172,430,000	120,000,000
University of Pennsylvania Health System, Revenue Bonds, Series A of 2009	2023	89,060,000	33,005,000
State System of Higher Education, Revenue Bonds, Series AJ of 2009	2039	123,985,000	83,440,000
The Trustees of the University of Pennsylvania, Revenue Bonds, Series A, B, & C of 2009	2032	276,365,000	14,515,000
University of Pennsylvania Health System, Revenue Bonds, Series B of 2008	2026	201,230,000	52,000,000
State System of Higher Education, Revenue Bonds, Series AI of 2008	2025	32,115,000	13,910,000
State System of Higher Education, Revenue Bonds, Series AH of 2008	2038	140,760,000	8,160,000
Foundation for IUP Student Housing (Indiana Univ. of PA), Revenue Bonds, Series 2008	2040	73,440,000	65,430,000
University of Pennsylvania Health System, Revenue Bonds, Series A of 2008	2038	105,805,000	69,995,000
State System of Higher Education, Revenue Bonds, Series AG of 2008	2024	101,335,000	24,965,000
Drexel University, Revenue Bonds, Series B of 2007	2037	30,000,000	24,110,000
Geneva College, Revenue Bonds, Series of 2007	2023	20,052,000	5,600,965
Foundation for IUP Student Housing (Indiana Univ. of PA), Revenue Bonds, Series 2007A	2039	80,540,000	68,495,000
Thomas Jefferson University, Revenue Bonds, Series 2006A & 2006B	2031	85,920,000	11,270,000
The Pennsylvania State University, Revenue Bonds, Series 2006	2025	4,700,000	2,410,000
Drexel University, Revenue Bonds, Series A & B of 2005	2034	60,480,000	29,625,000
Lycoming College, Revenue Bonds, AICUP Series 2004 CC	2034	8,450,000	4,660,000
The Pennsylvania State University, Revenue Bonds, Series 2004	2024	5,600,000	2,540,000
Drexel University, Revenue Bonds, Series A & B of 2002, Series of 2003	2032	82,365,000	40,680,000
The Pennsylvania State University, Revenue Bonds, Series 2002	2022	7,400,000	1,995,000
Keystone College, Revenue Bonds, AICUP Series 2002 J2	2027	2,500,000	900,000
Messiah College, Revenue Bonds, AICUP Series 2001 I3 & I4	2031	29,000,000	22,600,000
Lycoming College, Revenue Bonds, AICUP Series 2001 I1	2031	12,000,000	5,000,000
Susquehanna University, Revenue Bonds, AICUP Series 2001 H9	2031	6,000,000	3,700,000
Keystone College, Revenue Bonds, AICUP Series 2001 H5	2031	8,500,000	5,400,000
Drexel University, Revenue Bonds, Second Series of 2000	2025	22,500,000	22,010,000
Moore College of Art and Design, Revenue Bonds, AICUP Series 2000 F1	2020	6,500,000	1,800,000
The Trustees of the University of Pennsylvania, Revenue Bonds, Series of 1990	2020	6,500,000	6,500,000
PHEFA College Revenue Bonds, Fourteenth Series – 1986	2020	90,590,000	2,527,318 *
			<u>\$ 5,884,997,769</u>

A summary of changes in conduit debt outstanding for the year ended June 30, 2018 is presented below:

Conduit debt, July 1, 2017	\$ 5,920,765,022
Additions:	
Revenue bonds issued	652,280,000
Accretion of interest	179,865
Reductions:	
Principal retirements	(251,962,118)
Refunding of principal	(436,265,000)
Conduit debt, June 30, 2018	<u>\$ 5,884,997,769</u>

* – Accreted bonds