



Office of the Washington State Auditor  
Pat McCarthy

## **Financial Statements and Federal Single Audit Report**

# **Highline School District No. 401**

**For the period September 1, 2019 through August 31, 2020**

*Published September 23, 2021*

Report No. 1029047



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**Office of the Washington State Auditor  
Pat McCarthy**

September 23, 2021

Board of Directors  
Highline School District No. 401  
Burien, Washington

**Report on Financial Statements and Federal Single Audit**

Please find attached our report on Highline School District No. 401's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Highline School District No. 401 September 1, 2019 through August 31, 2020

#### SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Highline School District No. 401 are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

##### Financial Statements

We issued an unmodified opinion on the fair presentation of the District’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

##### Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

##### Federal Awards

##### Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District’s compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

## **Identification of Major Federal Programs**

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
10.555	Child Nutrition Cluster – National School Lunch Program
10.555	COVID 19 – Child Nutrition Cluster – National School Lunch Program
10.559	Child Nutrition Cluster – Summer Food Service Program for Children
84.425	COVID 19 – Education Stabilization Fund

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The District did not qualify as a low-risk auditee under the Uniform Guidance.

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

See Finding 2020-001.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Highline School District No. 401 September 1, 2019 through August 31, 2020

#### **2020-001    The District did not have adequate internal controls to ensure compliance with federal cash management requirements.**

<b>CFDA Number and Title:</b>	84.425D – COVID 19 – Elementary and Secondary School Emergency Relief (ESSER) Fund
<b>Federal Grantor Name:</b>	Department of Education
<b>Federal Award/Contract Number:</b>	S425D200015
<b>Pass-through Entity Name:</b>	OSPI
<b>Pass-through Award/Contract Number:</b>	0120128
<b>Questioned Cost Amount:</b>	\$0

#### ***Description of Condition***

The objective of the COVID-19 Elementary and Secondary School Emergency Relief (ESSER) Fund is to provide state educational agencies (SEAs) and local educational agencies (LEAs), including charter schools that are LEAs, with emergency relief funds to address the impact that COVID-19 has had, and continues to have, on elementary and secondary schools across the nation. During fiscal year 2020, the District spent \$4,118,826 in federal funds through the ESSER Fund to purchase supplies and equipment for distance learning during the COVID-19 pandemic.

Federal regulations require recipients to establish and follow internal controls to ensure compliance with program requirements. These controls include understanding grant requirements and monitoring the effectiveness of established program controls.

ESSER grant recipients may receive payment for allowable program costs on a cost reimbursement or cash-advance basis. For cash advances, federal regulations require grant recipients to have written procedures that minimize the time between the transfer of federal funds from the grantor and the disbursement of those funds to a subrecipient or contractor providing goods and services. The District's awarding agency policy required it to disburse funds within three days of receiving

reimbursement. Federal regulations also require recipients to track interest earned from cash advances, and remit any interest to the Department of Health and Human Services (HHS) Payment Management System (PMS) when earnings are \$500 or more.

The District did not have written procedures establishing internal controls over cash management to ensure it disbursed funds received in advance to its subrecipients and contractors within three days as required by the grantor. In addition, the District did not have a process in place to track interest earned on cash advances or for remittance to the HHS PMS.

We consider these internal control deficiencies to be a material weakness that led to material noncompliance.

This issue was not reported as a finding in the prior audit.

### *Cause of Condition*

The District was not aware that it requested reimbursement from the ESSER Fund for expenditures that were also charged to the State Learning Assistance Program (LAP). District staff were not aware that this resulted in a cash advance until January 2021, at which time it notified the awarding agency. District staff were also not aware of the requirement to have written procedures to minimize the time between the transfer of federal funds or to track and remit interest earned on federal cash advances exceeding \$500.

### *Effect of Condition*

The District did not comply with cash management requirements and held \$857,435 of a federal cash advance for 181 days. This resulted in \$5,685 of interest earned from the cash advance, of which \$5,185 should have been remitted to the granting agency. The District subsequently withheld the amount over claimed from its April 2021 reimbursement claim.

## ***Recommendation***

We recommend the District:

- Provide the training necessary to effectively administer and monitor the District's compliance with program cash management requirements.
- Establish written procedures that limits the time between the reimbursement of federal funds from the grantor to the disbursement of the funds to subrecipients or contractors to three days.
- Implement procedures to track and remit interest earned on federal cash advances exceeding \$500.

## ***District's Response***

*The District concurs with this finding. Staff who oversee and manage federal grants will receive training on their responsibilities around compliance, with an emphasis on proper accounting and procurement. Additionally, separation of duties will be more defined for those who play active roles in administering federal relief aid. Finally, more staffing support will be provided to ensure that historic levels of relief aid are utilized in accordance to regulation and the law.*

## ***Auditor's Remarks***

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regularly scheduled audit.

## ***Applicable Laws and Regulations***

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 935, paragraph 11.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516 Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 302, Financial management, establishes requirements for financial management systems and reporting accurate, current and complete financial results of Federal awards.



Title 2 CFR Part 200, Uniform Guidance, section 303, internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities

Title 2 CFR Part 200, Uniform Guidance, section 305, Federal payment, establishes requirements for the method of reimbursement and disbursement of Federal funds by non-Federal entities.

OSPI Bulletin Number 071-20 GRANTS MANAGEMENT dated September 17, 2020 establishes the requirements for districts to disburse funds within three days.

## INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

### **Highline School District No. 401 September 1, 2019 through August 31, 2020**

Board of Directors  
Highline School District No. 401  
Burien, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Highline School District No. 401, as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated September 16, 2021.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because as described in Note 1, the *Accounting Manual for Public School Districts in the State of Washington* does not require the District to prepare the government-wide statements presenting the financial position and changes in financial position of its governmental activities as required by GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

As discussed in Note 3 to the 2020 financial Statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control

and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

September 16, 2021

## INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

### Highline School District No. 401 September 1, 2019 through August 31, 2020

Board of Directors  
Highline School District No. 401  
Burien, Washington

## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Highline School District No. 401, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2020. The District's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

### Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2020.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2020-001. Our opinion on each major federal program is not modified with respect to these matters.

### **District's Response to Findings**

The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing

their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2020-001, that we consider to be a material weakness.

### **District's Response to Findings**

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

September 16, 2021

# INDEPENDENT AUDITOR'S REPORT

## Report on the Financial Statements

### **Highline School District No. 401 September 1, 2019 through August 31, 2020**

Board of Directors  
Highline School District No. 401  
Burien, Washington

## **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of Highline School District No. 401, as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 20.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the *Accounting Manual for Public School Districts in the State of Washington* (Accounting Manual) described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 District'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 District'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 account 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 opinions.

### **Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)**

As described in Note 1, the District has prepared these financial statements to meet the financial reporting requirements of state law using accounting practices prescribed by the Accounting Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The difference in these accounting practices is also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Highline School District No. 401, as of August 31, 2020, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

### **Basis for Adverse Opinion on U.S. GAAP**

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. GAAP requires presentation of government-wide financial statements to display the financial position and changes in financial position of its governmental activities.

As described in Note 1, the Accounting Manual does not require the District to prepare the government-wide financial statements, and consequently such amounts have not been determined or presented. We are therefore required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

## **Adverse Opinion on U.S. GAAP**

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Highline School District No. 401, as of August 31, 2020, or the changes in financial position or cash flows thereof for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

## **Matters of Emphasis**

As discussed in Note 3 to the 2020 financial statements, the full extent of the COVID-19 pandemic’s direct or indirect financial impact on the District is unknown. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Long-Term Liabilities is also presented for purposes of additional analysis, as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2021 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report

is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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Pat McCarthy, State Auditor

Olympia, WA

September 16, 2021

## **FINANCIAL SECTION**

### **Highline School District No. 401 September 1, 2019 through August 31, 2020**

#### **FINANCIAL STATEMENTS**

Balance Sheet – Governmental Funds – 2020  
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2020  
Statement of Fiduciary Net Position – 2020  
Statement of Changes in Fiduciary Net Position – 2020  
Notes to the Financial Statements – 2020

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Long-Term Liabilities – 2020  
Schedule of Expenditures of Federal Awards – 2020  
Notes to the Schedule of Expenditures of Federal Awards – 2020

Highline School District No. 401  
Balance Sheet - Governmental Funds  
August 31, 2020

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>Assets</b>							
Cash and Cash Equivalents	41,489,564.97	1,043,388.96	22,032,306.00	79,307,380.46	1,420,013.12	0.00	145,292,653.51
Minus Warrants Outstanding	-4,464,335.80	-951.71	0.00	-6,594,952.09	0.00	0.00	-11,060,239.60
Taxes Receivable	23,062,593.34		25,884,663.62	0.00	0.00	0.00	48,947,256.96
Due From Other Funds	0.00	691.02	0.00	0.00	0.00	0.00	691.02
Due From Other Governmental Units	7,022,139.90	0.00	0.00	0.00	0.00	0.00	7,022,139.90
Accounts Receivable	1,443,599.95	0.00	0.00	0.00	0.00	0.00	1,443,599.95
Interfund Loans Receivable	0.00						
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	275,311.55	0.00		0.00			275,311.55
Prepaid Items	7,500.00	604.56			0.00	0.00	8,104.56
Investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investments/Cash With Trustee	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
<b>TOTAL ASSETS</b>	<b>68,836,373.91</b>	<b>1,043,732.83</b>	<b>47,916,969.62</b>	<b>72,712,428.37</b>	<b>1,420,013.12</b>	<b>0.00</b>	<b>191,929,517.85</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>							
Deferred Outflows of Resources - Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>68,836,373.91</b>	<b>1,043,732.83</b>	<b>47,916,969.62</b>	<b>72,712,428.37</b>	<b>1,420,013.12</b>	<b>0.00</b>	<b>191,929,517.85</b>
<b>LIABILITIES</b>							
Accounts Payable	6,391,528.08	15,692.31	0.00	3,935,470.02	0.00	0.00	10,342,690.41
Contracts Payable Current	340,833.25	3,802.62		509,067.51	0.00	0.00	853,703.38
Accrued Interest Payable			0.00				0.00

The accompanying notes are an integral part of this financial statement.

Highline School District No. 401  
Balance Sheet - Governmental Funds

August 31, 2020

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
Accrued Salaries	574,561.40	0.00	0.00	0.00	0.00		574,561.40
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
<b>LIABILITIES:</b>							
Payroll Deductions and Taxes Payable	3,932,585.36	241.90		0.00			3,932,827.26
Due To Other Governmental Units	130,463.96	0.00		0.00	0.00	0.00	130,463.96
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	1,401,268.05						1,401,268.05
Due To Other Funds	691.02	0.00	0.00	0.00	0.00	0.00	691.02
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	1,139,412.42	210.00	0.00	0.00	0.00		1,139,622.42
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
<b>TOTAL LIABILITIES</b>	<b>13,911,343.54</b>	<b>19,946.83</b>	<b>0.00</b>	<b>4,444,537.53</b>	<b>0.00</b>	<b>0.00</b>	<b>18,375,827.90</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unavailable Revenue - Taxes Receivable	23,062,593.34		25,884,663.62	0.00	0.00		48,947,256.96
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>23,062,593.34</b>	<b>0.00</b>	<b>25,884,663.62</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>48,947,256.96</b>
<b>FUND BALANCE:</b>							
Nonspendable Fund Balance	282,811.55	604.56	0.00	0.00	0.00	0.00	283,416.11
Restricted Fund Balance	7,283,854.28	1,023,181.44	22,032,306.00	66,384,439.49	1,420,013.12	0.00	98,143,794.33
Committed Fund Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assigned Fund Balance	12,478,000.00	0.00	0.00	1,883,451.35	0.00	0.00	14,361,451.35

The accompanying notes are an integral part of this financial statement.

Highline School District No. 401  
Balance Sheet - Governmental Funds  
August 31, 2020

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
Unassigned Fund Balance	11,817,771.20	0.00	0.00	0.00	0.00	0.00	11,817,771.20
<b>TOTAL FUND BALANCE</b>	<b>31,862,437.03</b>	<b>1,023,786.00</b>	<b>22,032,306.00</b>	<b>68,267,890.84</b>	<b>1,420,013.12</b>	<b>0.00</b>	<b>124,606,432.99</b>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	68,836,373.91	1,043,732.83	47,916,969.62	72,712,428.37	1,420,013.12	0.00	191,929,517.85

The accompanying notes are an integral part of this financial statement.

**Highline School District No. 401**

**Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds**

**For the Year Ended August 31, 2020**

	<b>General Fund</b>	<b>ASB Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Transportation Vehicle Fund</b>	<b>Permanent Fund</b>	<b>Total</b>
<b>REVENUES:</b>							
Local	46,661,896.42	560,904.37	51,981,157.16	3,615,374.18	31,261.20		102,850,593.33
State	244,882,880.45		0.00	26,536,083.91	663,793.49		272,082,757.85
Federal	24,772,335.64		0.00	0.00	0.00		24,772,335.64
Other	2,146,475.21			0.00	0.00	0.00	2,146,475.21
<b>TOTAL REVENUES</b>	<b>318,463,587.72</b>	<b>560,904.37</b>	<b>51,981,157.16</b>	<b>30,151,458.09</b>	<b>695,054.69</b>	<b>0.00</b>	<b>401,852,162.03</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	162,103,226.24						162,103,226.24
Special Education	48,377,191.32						48,377,191.32
Vocational Education	6,747,796.13						6,747,796.13
Skill Center	4,223,446.15						4,223,446.15
Compensatory Programs	34,184,425.97						34,184,425.97
Other Instructional Programs	2,522,798.39						2,522,798.39
Community Services	4,625,404.66						4,625,404.66
<b>Support Services</b>	<b>51,511,217.19</b>						<b>51,511,217.19</b>
<b>Student Activities/Other</b>		<b>404,049.63</b>				<b>0.00</b>	<b>404,049.63</b>
<b>CAPITAL OUTLAY:</b>							
Sites				47,182.40			47,182.40
Building				105,007,088.53			105,007,088.53
Equipment				213,008.30			213,008.30
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					586,392.24		586,392.24
Sales and Lease				0.00			0.00
Other	398,270.26						398,270.26
<b>DEBT SERVICE:</b>							
Principal	0.00		29,885,000.00	0.00	0.00		29,885,000.00
Interest and Other Charges	100.00		20,286,480.80	0.00	0.00		20,286,580.80

The accompanying notes are an integral part of this financial statement.



**Highline School District No. 401**

**Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds**

**For the Year Ended August 31, 2020**

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
Bond/Levy Issuance				0.00	0.00		0.00
<b>TOTAL EXPENDITURES</b>	<b>314,693,876.31</b>	<b>404,049.63</b>	<b>50,171,480.80</b>	<b>105,267,279.23</b>	<b>586,392.24</b>	<b>0.00</b>	<b>471,123,078.21</b>
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	3,769,711.41	156,854.74	1,809,676.36	-75,115,821.14	108,662.45	0.00	-69,270,916.18
<b>OTHER FINANCING SOURCES (USES) :</b>							
Bond Sales & Refunding Bond Sales	0.00		27,274,847.75	0.00	0.00		27,274,847.75
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		0.00	0.00	0.00		0.00
Transfers Out (GL 536)	0.00		0.00	0.00	0.00	0.00	0.00
Other Financing Uses (GL 535)	0.00		-26,955,000.00	0.00	0.00		-26,955,000.00
Other	0.00		0.00	0.00	0.00		0.00
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>0.00</b>		<b>319,847.75</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>319,847.75</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>3,769,711.41</b>	<b>156,854.74</b>	<b>2,129,524.11</b>	<b>-75,115,821.14</b>	<b>108,662.45</b>	<b>0.00</b>	<b>-68,951,068.43</b>
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>28,092,725.62</b>	<b>866,931.26</b>	<b>19,902,781.89</b>	<b>143,383,711.98</b>	<b>1,311,350.67</b>	<b>0.00</b>	<b>193,557,501.42</b>
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>ENDING TOTAL FUND BALANCE</b>	<b>31,862,437.03</b>	<b>1,023,786.00</b>	<b>22,032,306.00</b>	<b>68,267,890.84</b>	<b>1,420,013.12</b>	<b>0.00</b>	<b>124,606,432.99</b>

The accompanying notes are an integral part of this financial statement.

Highline School District No. 401  
Statement of Fiduciary Net Position  
August 31, 2020

	Private Purpose Trust	Other Purpose Trust
<b>ASSETS:</b>		
Imprest Cash	0.00	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	381,579.22	0.00
Minus Warrants Outstanding	-14,000.00	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	0.00	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	0.00
Capital Assets, Land	0.00	0.00
Capital Assets, Buildings	0.00	0.00
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	0.00
Accum Depreciation, Equipment	0.00	0.00
<b>TOTAL ASSETS</b>	<b>367,579.22</b>	<b>0.00</b>
<b>LIABILITIES:</b>		
Accounts Payable	104,255.58	0.00
Due To Other Funds	0.00	0.00
<b>TOTAL LIABILITIES</b>	<b>104,255.58</b>	<b>0.00</b>
<b>NET POSITION:</b>		
<b>Held in trust for:</b>		
Held In Trust For Intact Trust Principal	0.00	0.00
Held In Trust For Private Purposes	98,587.40	0.00
Held In Trust For Pension Or Other Post-Employment Benefits	164,736.24	0.00
Held In Trust For Other Purposes	263,323.64	0.00
<b>TOTAL NET POSITION</b>		

The accompanying notes are an integral part of this financial statement.

Highline School District No. 401  
Statement of Changes in Fiduciary Net Position  
For the Year Ended August 31, 2020

	Private Purpose Trust	Other Purpose Trust
<b>ADDITIONS:</b>		
Contributions:		
Private Donations	248,951.88	0.00
Employer		0.00
Members		0.00
Other	0.00	0.00
<b>TOTAL CONTRIBUTIONS</b>	<b>248,951.88</b>	<b>0.00</b>
Investment Income:		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	8,958.35	0.00
Less Investment Expenses	0.00	0.00
Net Investment Income	8,958.35	0.00
<b>Other Additions:</b>		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
<b>TOTAL ADDITIONS</b>	<b>257,910.23</b>	<b>0.00</b>
<b>DEDUCTIONS:</b>		
Benefits		0.00
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	388,659.26	
Other	13,803.93	0.00
<b>TOTAL DEDUCTIONS</b>	<b>402,463.19</b>	<b>0.00</b>
Net Increase (Decrease)	-144,552.96	0.00
Net Position--Prior Year August Beginning	407,692.47	0.00
Prior Year F-196 Manual Revision	184.13	0.00
Net Position - Total	407,876.60	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00
<b>NET POSITION--ENDING</b>	<b>263,323.64</b>	<b>0.00</b>

The accompanying notes are an integral part of this financial statement.

**Highline School District**  
**Notes to the Financial Statements**  
**September 1, 2019 through August 31, 2020**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Highline School District (District) is a municipal corporation organized pursuant to Title 28A of the Revised Code of Washington (RCW) for the purposes of providing public school services to students in grades PreK–12. Oversight responsibility for the District's operations is vested with the independently elected board of directors. Management of the District is appointed by and is accountable to the board of directors. Fiscal responsibility, including budget authority and the power to set fees, levy property taxes, and issue debt consistent with provisions of state statutes, also rests with the board of directors.

The District presents governmental fund financial statements and related notes on the modified accrual basis of accounting in accordance with the *Accounting Manual for Public School Districts in the State of Washington*, issued jointly by the State Auditor's Office and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1), and RCW 28A.505.020. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- (1) Districtwide statements, as defined in GAAP, are not presented.
- (2) A Schedule of Long-Term Liabilities is presented as supplementary information.
- (3) Supplementary information required by GAAP is not presented.
- (4) Property Taxes collected after the end of the fiscal period are not considered available for revenue accrual as described below.

**Fund Accounting**

Financial transactions of the District are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (or expenses) as appropriate. All funds are considered major funds. The various funds in the report are grouped into governmental (and fiduciary) funds as follows:

***Governmental Funds***

General Fund

This fund is used to account for all expendable financial resources, except for those that are required to be accounted for in another fund. In keeping with the principle of having as few funds as are necessary, activities such as food services, maintenance, data processing, printing, and student transportation are included in the General Fund.

Capital Projects Funds

These funds account for financial resources that are to be used for the construction or acquisition of major capital assets. There are two funds that are considered to be of the capital projects fund type: the Capital Projects Fund and the Transportation Vehicle Fund.

Capital Projects Fund. This fund is used to account for resources set aside for the acquisition and construction of major capital assets such as land and buildings.

Transportation Vehicle Fund. This fund is used to account for the purchase, major repair, rebuilding, and debt service expenditures that relate to pupil transportation equipment.

#### Debt Service Fund

This fund is used to account for the accumulation of resources for and the payment of matured general long-term debt principal and interest.

#### Special Revenue Fund

In Washington State, the only allowable special revenue fund for school districts is the Associated Student Body (ASB) Fund. This fund is accounted for in the District's financial statements as the financial resources legally belong to the District. As a special revenue fund, amounts within the ASB Fund may only be used for those purposes that relate to the operation of the Associated Student Body of the District.

#### ***Fiduciary Funds***

Fiduciary funds include pension and other employee benefit trust funds, private-purpose trust funds, and agency funds, and are used to account for assets that are held in trust by the District in a trustee and agency capacity.

#### Private-Purpose Trust Fund

This fund is used to account for resources that are legally held in trust by the District. The trust agreement details whether principal and interest may both be spent, or whether only interest may be spent. Money from a Private-Purpose Trust Fund may not be used to support the District's programs, and may be used to benefit individuals, private organizations, or other governments.

### **Measurement focus, basis of accounting, and fund financial statement presentation**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered "measurable" if the amount of the transaction can be readily determined. Revenues are considered "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year-end. Categorical program claims and interdistrict billings are measurable and available and are accrued. Property taxes not collected by the fiscal year end are measurable and recorded as a receivable, however the receivable is not considered available of revenue accrual, but is recorded as a deferred inflow of resources.

Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for unmatured principal and interest on long-term debt which are recorded when due. Purchases of capital assets are expensed during the year of acquisition. For federal grants, the recognition of expenditures is dependent on the obligation date. (Obligation means a purchase order has been issued, contracts have been awarded, or goods and/or services have been received.)

## **Budgets**

Chapter 28A.505 RCW and Chapter 392-123 Washington Administrative Code (WAC) mandate school district budget policies and procedures. The board adopts annual appropriated budgets for all governmental funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Appropriations lapse at the end of the fiscal period.

Budgets are adopted on the same modified accrual basis as used for financial reporting. Fund balance is budgeted as available resources and, under statute, may not be negative, unless the District enters into binding conditions with state oversight pursuant to RCW 28A.505.110.

### **The government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.**

The District receives state funding for specific categorical education-related programs. Amounts that are received for these programs that are not used in the current fiscal year may be carried forward into the subsequent fiscal year, where they may be used only for the same purpose as they were originally received. When the District has such carryover, those funds are expended before any amounts received in the current year are expended.

Additionally, the District has other restrictions placed on its financial resources. When expenditures are recorded for purposes for which a restriction or commitment of fund balance is available, those funds that are restricted or committed to that purpose are considered first before any unrestricted or unassigned amounts are expended.

### **The government's fund balance classifications policies and procedures.**

The District classifies ending fund balance for its governmental funds into five categories.

**Nonspendable Fund Balance.** The amounts reported as Nonspendable are resources of the District that are not in spendable format. They are either non-liquid resources such as inventory or prepaid items, or the resources are legally or contractually required to be maintained intact.

**Restricted Fund Balance.** Amounts that are reported as Restricted are those resources of the District that have had a legal restriction placed on their use either from statute, WAC, or other legal requirements that are beyond the control of the board of directors. Restricted fund balance includes anticipated recovery of revenues that have been received but are restricted as to their usage.

**Committed Fund Balance.** Amounts that are reported as Committed are those resources of the District that have had a limitation placed upon their usage by formal action of the District's board

of directors. Commitments are made either through a formal adopted board resolution or are related to a school board policy. Commitments may only be changed when the resources are used for the intended purpose or the limitation is removed by a subsequent formal action of the board of directors.

Assigned Fund Balance. In the General Fund, amounts that are reported as Assigned are those resources that the District has set aside for specific purposes. These accounts reflect tentative management plans for future financial resource use such as the replacement of equipment or the assignment of resources for contingencies. Assignments reduce the amount reported as Unassigned Fund Balance, but may not reduce that balance below zero.

In other governmental funds, Assigned fund balance represents a positive ending spendable fund balance once all restrictions and commitments are considered. These resources are only available for expenditure in that fund and may not be used in any other fund without formal action by the District's board of directors and as allowed by statute.

The Superintendent or designee are the only persons who have the authority to create Assignments of fund balance.

Unassigned Fund Balance. In the General Fund, amounts that are reported as Unassigned are those net spendable resources of the District that are not otherwise Restricted, Committed, or Assigned, and may be used for any purpose within the General Fund.

In other governmental funds, Unassigned fund balance represents a deficit ending spendable fund balance once all restrictions and commitments are considered.

A negative Unassigned fund balance means that the legal restrictions and formal commitments of the District exceed its currently available resources.

## **Cash and Cash Equivalents**

All of the District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

## **Inventory**

Inventory is valued at cost using the first-in, first-out (FIFO) method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of fund balance, representing inventory, is considered Nonspendable. (Such reserves for inventory indicate that a portion of net current assets is set aside to replace or increase the inventory.) USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

## **NOTE 2: DEPOSITS AND INVESTMENTS**

All of the District's bank balances are insured by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Statutes authorize the District to invest in (1) securities, certificates, notes, bonds, short-term securities, or other obligations of the United States, and (2) deposits in any state bank or trust company, national banking association, stock savings bank, mutual savings bank, savings and loan association, and any branch bank engaged in banking in the state in accordance with RCW 30.04.300 if the institution has been approved by the Public Deposit Protection Commission to hold public deposits and has segregated eligible collateral having a value of not less than its maximum liability.

The King County Treasurer is the *ex officio* treasurer for the District and holds all accounts of the District. The District directs the County Treasurer to invest those financial resources of the District that the District has determined are not needed to meet the current financial obligations of the District.

The district's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

The district's participation in the King County Investment Pool is voluntary and the pool does not have a credit rating. The district reports its investment in the pool at the fair value amount. The fair value of the district's investment in the pool is measured using a net asset value (NAV) as determined by the pool. The pool maintains a (duration/weighted average maturity) of 1.07 years as of the third quarter of 2020.

All of the District's investments during the year and at year-end were insured or registered and held by the District or its agent in the District's name.

Washington State statutes authorize the district to invest in the following types of securities:

- Certificates, notes, or bonds of the United States, its agencies, or any corporation wholly owned by the government of the United States,
- Obligations of government-sponsored corporations which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System,
- Bankers' acceptances purchased on the secondary market,
- Repurchase agreements for securities listed in the three items above, provided that the transaction is structured so that the public treasurer obtains control over the underlying securities,
- Investment deposits with qualified public depositories,
- Washington State Local Government Investment Pool, and
- County Treasurer Investment Pools.

The District's investments as of August 31, 2020, are as follows:

	Fair Value	Effective Duration
King County Investment Pool	\$144,755,390.95	1.12 Years

**Impaired Investments.** As of August 31, 2020, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool



also held the residual investments in two commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal is \$138,306.76 and the District's fair value of these investments is \$84,379.82.

**Credit Risk.** As of August 31, 2020, the district's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, corporate note (rated at least "A"), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

**Interest Rate Risk.** As of August 31, 2020, the Pool's average duration was 1.12 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

## **NOTE 3: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS**

### **COVID-19 Pandemic**

In February 2020, Governor Inslee declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures include closing schools, canceling public events, limiting gathering sizes, and requiring people to stay home unless they are leaving for an essential function. On April 6, 2020, the Governor closed all public and private K–12 school buildings throughout the remainder of the 2019–20 school year. The school district, however, continues to operate; educating students using continuous learning models.

Many of the precautionary measures put in place during the 2019-20 school year remain in effect; and are affecting the district for the 2020–21 school year in new ways.

The district is using a distance learning-only model to begin the 2020-21 school year, which will remain in place until at least January 2021. As a result, there is limited on-campus activity. As of the writing of this Note, some employees in the district Transportation department will soon begin participating in the state Employment Security Department's SharedWork program.

The district experienced a decrease in enrollment at the beginning of the 2020–2021, of approximately 3.4%, compared to the budgeted amount. However, since the start of school year in September, that percentage difference between actual and budgeted enrollment continues to shrink as enrollment increases month over month.

The district experienced anticipated, historic increases in unemployment compensation costs during the April-June 2020 quarter, primarily from substitute and coach claims. However,

despite that historically high quarter, the district's unemployment pool fund balance remains healthy, and many times above the mandated minimum.

The length of time and the full extent of the financial impact of the COVID-19 pandemic on the school district is unknown at this time.

## **NOTE 4: PENSION PLANS**

### **General Information**

The Washington State Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, prepares a stand-alone comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each pension plan. The pension plan's basic financial statement is accounted for using the accrual basis of accounting. The measurement date of the pension plans is June 30. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The school district is reporting the net pension liability in the notes and on the Schedule of Long-term Liabilities calculated as the district's proportionate allocation percentage multiplied by the total plan collective net pension liability.

### **The Collective Net Pension Liability**

The collective net pension liabilities for the pension plans districts participated in are reported in the following tables

The Collective Net Pension Liability as of June 30, 2020 – Dollars in Thousands				
	Total Pension Liability	Plan fiduciary net position	Participating employers' net pension liability	Plan fiduciary net position as a percentage of the total pension liability
PERS 1	\$11,256,796	\$7,726,256	\$3,530,540	68.64%
SERS 2/3	\$7,043,384	\$6,511,420	\$531,964	92.45%
TRS 1	\$8,179,362	\$5,770,576	\$2,408,786	70.55%
TRS 2/3	\$18,559,021	\$17,023,040	\$1,535,981	91.72%

Detailed information about the pension plans' fiduciary net position is available in the separately issued DRS CAFR. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, P.O. Box 48380, Olympia, WA 98504-8380; or online at <https://www.drs.wa.gov/administration/annual-report>.

### **Membership Participation**

Substantially all school district full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by DRS: Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS), and School Employees' Retirement System (SERS).

Membership participation by retirement plan as of June 30, 2020, was as follows:

Plan	Retirees and Beneficiaries Receiving Benefits	Inactive Plan Members Entitled to but not yet Receiving Benefits	Active Plan Members
PERS 1	44,359	310	1,181
SERS 2	11,112	6,274	28,943
SERS 3	11,200	9,064	36,772
TRS 1	31,777	92	263
TRS 2	6,201	2,808	22,980
TRS 3	15,316	8,279	56,593

## Membership & Plan Benefits

Certificated employees are members of TRS. Classified employees are members of PERS (if Plan 1) or SERS. Plan 1 under the TRS and PERS programs are defined benefit pension plans whose members joined the system on or before September 30, 1977. TRS 1 and PERS 1 are closed to new entrants.

### TRS Plan Information

TRS was established in 1938, and its retirement provisions are contained in RCW Chapters 41.34 and 41.32. TRS is a cost-sharing multi-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. TRS eligibility for membership requires service as a certificated, public school employee working in an instructional, administrative, or supervisory capacity.

TRS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

TRS Plan 1 provides retirement, disability, and death benefits. TRS 1 members were vested after the completion of five years of eligible service. Retirement benefits are determined as two percent of the average final compensation (AFC), for each year of service credit, up to a maximum of 60 percent, divided by twelve. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two. Members are eligible for retirement at any age after 30 years of service, or at the age of

60 with five years of service, or at the age of 55 with 25 years of service. Other benefits include temporary and permanent disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

TRS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) per year of service for Plan 2 members and one percent of AFC for Plan 3 members. The AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit. Members are eligible for normal retirement at the age of 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. TRS Plan 2/3 members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit.

The benefit is reduced by a factor that varies according to age, for each year before age 65. TRS Plan 2/3 members who have 30 or more years of service credit, were hired prior to May 1, 2013, and are at least 55 years old, can retire under one of two provisions: With a benefit that is reduced by three percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules. TRS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. TRS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

#### PERS Plan Information

PERS was established in 1947, and its retirement benefit provisions are contained in RCW Chapters 41.34 and 41.40. PERS is a cost-sharing, multi-employer retirement system. PERS Plan 1 provides retirement, disability and death benefits. PERS 1 members were vested after the completion of five years of eligible service. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service.

Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

#### SERS Plan Information

SERS was established by the legislature in 1998, and the plan became effective in 2000. SERS retirement benefit provisions are established in RCW Chapters 41.34 and 41.35. SERS is a cost-sharing, multiemployer retirement system comprised of two separate plans for membership purposes. SERS Plan 2 is a defined benefit plan and SERS Plan

3 is a defined benefit plan with a defined contribution component. SERS members include classified employees of school districts and educational service districts.

SERS is reported as two separate plans for accounting purposes: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

SERS provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and one percent of AFC for Plan 3. The AFC is the monthly average of the member's 60 highest-paid consecutive service months before retirement, termination, or death. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. SERS members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit.

The benefit is reduced by a factor that varies according to age, for each year before age 65. SERS members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 2, 2013: With a benefit that is reduced by three percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules. SERS members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. SERS retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

## **Plan Contributions**

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2, and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon the rates set by the Legislature. The methods used to determine the contribution requirements are established under chapters 41.34 and 41.40 RCW for PERS, 41.34 and 41.35 RCW for SERS, and 41.32 and 41.34 RCW for TRS. Employers do not contribute to the defined contribution portions of TRS Plan 3 or SERS Plan 3. Under current law the employer must contribute 100 percent of the employer-required contribution. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at six percent and does not vary from year to year.

The employer and employee contribution rates for the PERS plan were effective as of July 1, 2019. SERS and TRS contribution rates are effective as of September 1, 2019. All plans will not

have a contribution rate change until September 1, 2020. The pension plan contribution rates (expressed as a percentage of covered payroll) for fiscal year 2020 are listed below:

<b>Pension Contribution Rates from September 01, 2019 to August 31, 2020</b>			
	Employer	Employee	
PERS Plan 1	12.86%	6.00%	
TRS Plan 1	15.51%	6.00%	
TRS Plan 2/3	15.51%	7.77%	*/**
SERS Plan 2/3	13.19%	8.25%	*/**
<i>Note: The Employer rates include .0018 DRS administrative expense.</i>			
* – TRS and SERS Plan 3 Employee Contribution Variable from 5% to 15% based on rate selected by the employee member.			
** – TRS and SERS Plan 2/3 Employer Contributions for defined benefit portion only.			

### **The School District's Proportionate Share of the Net Pension Liability (NPL)**

At June 30, 2020, the school district reported a total liability of \$103,025,411 for its proportionate shares of the individual plans' collective net pension liability. Proportion of net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2020, the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2020	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	\$2,660,273	\$4,431,187	\$10,541,820	\$11,671,684
Proportionate Share of the Net Pension Liability	\$12,959,301	\$10,900,799	\$48,353,601	\$30,811,710

At June 30, 2020, the school district's percentage of the proportionate share of the collective net pension liability was as follows and the change in the allocation percentage from the prior period is illustrated below.

Allocation percentages	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	0.367063%	2.049161%	2.007385%	2.005996%
Prior year proportionate share of the Net Pension Liability	0.303127%	1.710970%	1.722490%	1.727750%
Net difference percentage	0.063936%	0.338191%	0.284895%	0.278246%

### **Actuarial Assumptions**

The total pension liabilities for TRS 1, TRS 2/3, PERS 1, and SERS 2/3 were determined by actuarial valuation as of June 30, 2019, with the results rolled forward to June 30, 2020, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	2.75% total economic inflation, 3.50% salary inflation
Salary increases	In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return	7.40%

### Mortality Rates

Mortality rates used in the plans were developed using the Society of Actuaries' Pub.H-2010 Mortality rates, which vary by member status as the base table. OSA applies age offsets for each system to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale to project mortality rates for every year after the 2010 base table. The actuarial assumptions used in the June 30, 2019, valuation were based on the results of the 2013–2018 Demographic Experience Study Report and the 2019 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report.

### Long-term Expected Rate of Return

OSA selected a 7.40% long-term expected rate of return on pension plan investments using a building-block method. In selecting the assumptions, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns the Washington State Investment Board (WSIB) provided.

The CMAs contain three pieces of information for each class of assets the WSIB currently invest in:

- Expected annual return
- Standard deviation of the annual return
- Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons. The expected future rates of return are developed by the WSIB for each major asset class.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2020, are summarized in the following table:

TRS 1, TRS 2/3, PERS 1, and SERS 2/3		
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20.00%	2.20%
Tangible Assets	7.00%	5.10%
Real Estate	18.00%	5.80%
Global Equity	32.00%	6.30%
Private Equity	23.00%	9.30%

The inflation component used to create the above table is 2.20 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

### Discount Rate

The discount rate used to measure the total pension liability was 7.40 percent. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Based on the assumptions described in the DRS CAFR Certification Letter, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40 percent on pension plan investments was applied to determine the total pension liability.

### **Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following table presents the Highline School District's proportionate share of the collective net pension liability (NPL) calculated using the discount rate of 7.40 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.40 percent) or one percentage-point higher (8.40 percent) than the current rate. Amounts are calculated using the school district's specific allocation percentage, by plan, to determine the proportionate share of the collective net pension liability.



	1% Decrease (6.40%)	Current Discount Rate (7.40%)	1% Increase (8.40%)
<b>PERS 1 NPL</b>	\$4,422,202,000	\$3,530,540,000	\$2,752,919,000
Allocation Percentage	0.367063%	0.367063%	0.367063%
Proportionate Share of Collective NPL	\$16,232,262	\$12,959,301	\$10,104,944
<b>SERS 2/3 NPL</b>	\$1,517,879,000	\$531,964,000	(\$283,583,000)
Allocation Percentage	2.049161%	2.049161%	2.049161%
Proportionate Share of Collective NPL	\$31,103,784	\$10,900,799	\$(5,811,072)
<b>TRS 1 NPL</b>	\$3,051,911,000	\$2,408,786,000	\$1,847,550,000
Allocation Percentage	2.007385%	2.007385%	2.007385%
Proportionate Share of Collective NPL	\$61,263,594	\$48,353,601	\$37,087,436
<b>TRS 2/3 NPL</b>	\$4,526,645,000	\$1,535,981,000	(\$903,643,000)
Allocation Percentage	2.005996%	2.005996%	2.005996%
Proportionate Share of Collective NPL	\$90,804,295	\$30,811,710	\$(18,127,038)

## **NOTE 5: ANNUAL OTHER POST-EMPLOYMENT BENEFIT COST AND NET OPEB OBLIGATIONS**

The state, through the Health Care Authority (HCA), administers a defined benefit other post-employment benefit (OPEB) plan that is not administered through a qualifying trust. The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Benefits purchased by PEBB include medical, dental, life insurance, and long-term disability insurance.

Employers participating in the PEBB plan include the state of Washington (which includes general government agencies and higher education institutions), political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of K–12 school districts and ESDs. The District's retirees are eligible to participate in the PEBB plan under this arrangement.

## Eligibility

District members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits) under Plan 2 or 3 of TRS or SERS.

Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical and life insurance benefits after pension benefit commencement. Survivors of covered members who die are eligible for medical benefits.

## Medical Benefits

Upon retirement, members are permitted to receive medical benefits. Retirees pay the following monthly rates for pre-65 medical coverage for 2020.

<b>Members not eligible for Medicare (or enrolled in Part A only)</b>			
<b>Descriptions</b>	<b>Type of Coverage</b>		
	<b>Employee</b>	<b>Employee &amp; Spouse</b>	<b>Full Family</b>
Kaiser Permanente NW Classic	\$715.66	\$1,426.75	\$1,959.20
Kaiser Permanente NW CDHP	\$608.85	\$1,206.99	\$1,611.85
Kaiser Permanente WA Classic	\$752.15	\$1,499.24	\$2,059.55
Kaiser Permanente WA CDHP	\$610.16	\$1,210.10	\$1,616.32
Kaiser Permanente WA Sound Choice	\$618.49	\$1,231.92	\$1,692.00
Kaiser Permanente WA Value	\$675.71	\$1,346.36	\$1,849.35
UMP Classic	\$679.72	\$1,354.37	\$1,860.37
UMP CDHP	\$608.35	\$1,206.48	\$1,611.34
UMP Plus-Puget Sound High Value Network	\$644.97	\$1,284.88	\$1,764.82
UMP Plus-UW Medicine Accountable Care Network	\$644.97	\$1,284.88	\$1,764.82

Retirees enrolled in Medicare Parts A and B receive an explicit subsidy in the form of reduced premiums on Medicare supplemental plans. Retirees pay the following monthly rates.

<b>Members enrolled in Part A and B of Medicare</b>			
<b>Descriptions</b>	<b>Type of Coverage</b>		
	<b>Employee</b>	<b>Employee &amp; Spouse<sup>1</sup></b>	<b>Full Family<sup>1</sup></b>
Kaiser Permanente NW Senior Advantage	\$173.01	\$342.75	\$875.70
Kaiser Permanente WA Medicare Plan	\$174.55	\$344.04	N/A
Kaiser Permanente WA Classic	N/A	N/A	\$904.36
Kaiser Permanente WA Sound Choice	N/A	N/A	\$804.11
Kaiser Permanente WA Value	N/A	N/A	\$847.03
UMP Classic	\$320.54	\$636.02	\$1,142.01
Note 1: Employee-Spouse and Full Family with two Medicare eligible subscribers.			

## Funding Policy

The funding policy is based upon the pay-as-you go financing.

The School Employee Benefits Board (SEBB) collects benefit premiums from all school district entities for covered employees. The premium includes a fee, established in state law. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees who elect to purchase their health care benefits through the state Health Care Authority PEBB plan. For the fiscal year 2019-20, SEBB was required to collect for the HCA \$69.56 per month per eligible employee to support the program. This amount is set forth in the state's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

The District has no control over the benefits offered to retirees, the rates charged to retirees, nor the fee paid to the Health Care Authority. The District does not determine its annual required contribution, nor the net other post-employment benefit obligation associated with this plan. Accordingly, these amounts are not shown on the financial statements.

For further information on the results of the actuarial valuation of the employer provided subsidies associated with the state's PEBB plan, refer to the Office of the State Actuary.

The plan does not issue a separate report; however, additional information is included in the State of Washington Comprehensive Annual Financial Report, which is available on the OFM website.

## **NOTE 6: COMMITMENTS UNDER LEASES**

For the fiscal year ended August 31, 2020, the District incurred additional long-term debt as follows:

### **RAISBECK AVIATION HIGH SCHOOL GROUND LEASE**

On March 29, 2011 the District entered into a ground lease agreement with the Museum of Flight Foundation for the use of 41,500 square feet of building land to construct an educational facility. The facility is to be dedicated to educating secondary students with an emphasis on aeronautics and aviation.

In exchange for a reduction in the total rent the district will provide the Museum of Flight the right to use certain classroom and meeting areas during non-school hours and days. The base rent for the entire first ten-years (expiring 5/31/2021) is \$1,700,000, which is reduced to \$1,300,000 due to the above consideration. The \$1,300,000 adjusted rent has been paid through an in-kind donation from the Museum of Flight Foundation and its lender. The first amendment to the ground lease amends Section 3.1.1 Base Rent of the agreement per the following: "This section is amended in part to reflect that the Landlord, in consideration for the simultaneous forgiveness by its Lender of an equal amount of debt, agrees to forgive the Tenant's \$1,300,000 Rent payment for the initial ten (10) year lease Term."

This Lease agreement has four (4) ten-year renewal options for a total of fifty years. District liability for the first and second renewal terms is one dollar (\$1) each to exercise the renewal term. No additional rent shall be payable during either of these renewal periods.

The district liability for the third and fourth lease renewal terms is outlined in Section 4.3 of the agreement. Base monthly rent for the first lease year of the third and fourth renewal terms shall be calculated on the fair market rent for a ground lease of the building land without reference to any improvements. The fair market value will be determined for the first year of each renewal

term and will be subject to CPI adjustment the first day of each subsequent lease year. The base for computing any rent increase is the Consumer Price Index All Urban Consumers Seattle-Tacoma Metropolitan Area (1982-84=100), published by the United States Department of Labor, Bureau of Labor Statistics.

In addition, the District is responsible for, unless otherwise exempt, any real and personal property taxes, general and special assessments, and all other charges or taxes levied on or assessed against the building and the land.

## **MARINE TECHNOLOGY GROUND LEASE**

The District has leased from King County a parcel at Seahurst Park since November 25, 1970 and built on the property the Marine Technology facility for instructional use by the Puget Sound Skills Center. In 1993, the City of Burien incorporated and the park became city property. Since that time the lease has been between the City of Burien and the District.

The terms of the lease states, "The Lessee is hereby granted an irrevocable option to renew this lease for an extend terms of forty years, by written notice of renewal to the Lessor at least thirty days prior to the termination of the initial term thereof." The lease option was executed November 1, 2011 for an additional forty years, beginning November 26, 2010 through November 25, 2050. The lease rate is \$10 per year.

## **WAREHOUSE LEASE**

The District leased from The Realty Associates Fund X LP, a building of 13,950 square feet (for warehousing) on July 1, 2014 for 65 calendar months, which expired December 1, 2019. The monthly rental payments were scheduled as below:

Month of Lease Term	Monthly Base Rent
1 - 12	\$ 7,000
13 - 24	\$ 7,210
25 - 36	\$ 7,426
37 - 48	\$ 7,649
49 - 60	\$ 7,879
61 - 65	\$ 8,115

Along with the rental expense, the district also paid \$2,511 in operating expenses each month.

## **NOTE 7: OTHER SIGNIFICANT COMMITMENTS**

The District has active construction projects as of August 31, 2020:

Project	Project Amount	Expended as of 8/31/20	Additional Funds Committed
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Olympic Interim School	\$33,331,875	\$29,861,828	\$3,470,047
Highline High School Replacement	\$151,792,394	\$76,111,778	\$75,680,616
New Middle School at Glacier Site	\$91,401,357	\$81,016,024	\$10,385,333
New Elementary School at Zenith	\$57,782,961	\$55,382,093	\$2,400,868
Safety, Security, and Critical Improvements	\$14,719,177	\$10,185,461	\$4,533,716
<b>Total</b>	<b>\$349,027,764</b>	<b>\$252,557,184</b>	<b>\$96,470,580</b>

## **NOTE 8: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS**

The District's capital assets are insured in the amount of \$1,021,116,560 for fiscal year 2020. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

**Burien Heights** located at 1210 SW 136th Street, Burien, WA 98166

The entire site (land only, no building) is leased to NAVOS. Lease expires in 2058 and requires 24 months written notification for cancellation. Annual amount is \$24,325 (including Leasehold Excise tax). The terms of the lease allow for an annual adjustment equal to the Consumer Price Index (CPI). Every ten years the lease amount will adjust by the current fair market rent for land.

**North Shorewood Elementary School** located at 1410 S. 200th Ave. SW; Seattle, WA 98146  
Facility is leased to Westside School and Explorer West Middle School. Lease expires April, 2049 and requires twelve months written notification for cancellation. Annual amount is \$75,924. The terms of the lease allow for an annual adjustment equal to the Consumer Price Index (CPI.)

**Office Space at Educational Resource and Administrative Center** located at 15675

Ambaum Boulevard SW, Burien, WA 98166

Office space is leased to the Highline Schools Foundation For Excellence. The term of the lease is for 12 months, with an option to extend for an additional 12 months. Annual amount for fiscal year 2019-2020 is \$827.

**Puget Sound Skills Center** located at 18010 Eighth Avenue South, Burien, Washington 98148  
Space in the Health Science building is leased to Sea Mar Community Health Center. Initial lease expired on December 31, 2018 and automatically extends for a maximum of four (4) successive one (1) year terms, each commencing on January 1 immediately following the then-effective expiration date, and expiring on the following December 31, unless terminated by either Landlord or Tenant in writing not later than the March 31 immediately preceding the then-effective expiration date. The monthly rent amount is as listed below:

Period	Monthly Base Amount
Extension Term 1	\$5,412.16
Extension Term 2	\$5,574.52
Extension Term 3	\$5,741.76
Extension Term 4	\$5,914.01

**Salmon Creek** located at 614 SW 120th St; Burien WA 98168  
Facility is leased to Burien Little Theatre, The Hi-Liners, and World Vision. The Burien Little Theatre and the Hi-Liners leases are open and have no end date, but requires twelve months written notification by tenant for cancellation. The World Vision lease is year-to-year in July as long as the District has no need for the space. The annual amount was \$5,568. The lease amount is recalculated annually using the previous 12 months operating costs.

None of the district leases are with related parties, have imputed interest, have an allowance for uncollectible lease payments, or have unguaranteed residual value accruing to the District's benefit. There is no contingent rental included in revenue or any unearned revenue, therefore there is no offset used in recording indirect costs on unearned revenue. Leased assets are fifty years old, and all leases except as noted above are cancelable with thirty days written notification. No contingent rental income is included in revenue.

## **NOTE 9: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES**

### **Long-Term Debt**

Bonds payable at August 31, 2020, are comprised of the following individual issues:

Issue Name	Amount Authorized	Final Maturity	Interest Rate(s)	Amount Outstanding
UTGO Refunding Bonds, 2011	38,015,000	12/01/2023	2.00%-5.00%	35,885,000
UTGO Refunding Bonds, 2012	11,835,000	6/01/2024	2.00%-5.00%	10,730,000
UTGO Refunding Bonds, 2012B	69,760,000	12/01/2025	0.35%-5.00%	62,965,000
UTGO Refunding Bonds, 2015	43,955,000	12/01/2025	4.00%-5.00%	43,955,000
UTGO Bonds, 2017	212,685,000	12/1/2036	3.125%-5.00%	204,555,000
UTGO Bonds, 2018	59,375,000	12/1/2035	3.00%-5.00%	47,575,000
UTGO Refunding Bonds, 2019	26,185,000	12/01/2021	4%	26,185,000
<b>Total General Obligation Bonds</b>	<b>\$461,810,000</b>			<b>\$431,850,000</b>

The following is a summary of general obligation long-term debt transactions of the District for the fiscal year ended August 31, 2020:

Long-Term Debt Payable at 9/1/2019	\$462,505,000
New Issues	\$26,185,000
Debt Retired	\$56,840,000
Long-Term Debt Payable at 8/31/2020	\$431,850,000

The following is a schedule of annual requirements to amortize debt:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2020-21	34,385,000	18,562,800	52,947,800
2021-22	32,900,000	17,471,300	50,371,300
2022-23	26,840,000	16,180,243.75	43,020,243.75
2023-24	26,365,000	14,910,475	41,275,475
2024-25	21,050,000	13,546,700	34,596,700
2025-2030	122,365,000	47,573,575	169,938,575
2030-2035	119,175,000	23,488,575	142,663,575
2035-2037	17,770,000	355,400	18,125,400
<b>Total</b>	<b>\$400,850,000</b>	<b>\$152,089,069</b>	<b>\$522,939,069</b>

At August 31, 2020, the District had \$22,032,306 available in the Debt Service Fund to service the general obligation bonds.

## **REFUNDED DEBT**

On November 5, 2019, the district approved the issuance of \$26,185,000 in general obligation refunding bonds with a true interest cost of 1.44% to refund \$26,955,000 of the District's outstanding 2009 Refunding; bonds with an average interest rate of 5.00%. The net proceeds of \$27,039,074, after payment of \$231,990 in underwriting fees, issuance costs, and a deposit from the Debt Service Fund of \$3,784, were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to retire the 2009 Refunding bonds after December 1, 2019. As a result, the 2009 Refunding bonds are no longer outstanding.

The district refunded the 2009 Refunding bonds to reduce its total debt service payments in years 2020 through 2021 by \$1,262,403 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,235,035.

<b>Cash Flows Difference</b>		
Old Debt Service Cash Flows	\$ 29,000,000	
New Debt Service Cash Flows		\$ 27,741,381
Minus: Contribution to the Debt Service Fund		(3,784)
<b>Total</b>	<b>\$ 29,000,000</b>	<b>\$ 27,737,597</b>

Cash Flow Savings		\$ 1,262,403
<b>Economic Gain</b>		
Present Value of Cash Flows Savings		\$1,231,251
Proceeds Deposited to the Debt Service Fund		3,784
Total Net PV Savings		\$1,235,035

## **NOTE 10: ENTITY RISK MANAGEMENT ACTIVITIES**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

### **Unemployment Insurance**

In 1991, the District joined together with other school districts in the state to form the Puget Sound Educational Service District Unemployment Pool, a public entity risk pool currently operating as a common risk management and insurance program for unemployment insurance. This fund is operated for the District's benefit in lieu of the District having to make monthly premium payments to the State of Washington for unemployment insurance. This practice enables the district to pay unemployment benefits as they occur and minimizes the District's costs for the program. The following is a summary of activity:

2019-2020 Unemployment Pool Balance: \$1,564,286

The agreement for formation of the Puget Sound Educational Service District Unemployment Pool provides that the pool will be self-sustaining through member premiums.

### **Other Insurance**

The Highline School District is a member of the Schools Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1995, when seven mid-sized school districts in the State of Washington joined together by signing an Interlocal Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Presently, the SIAW pool has 37 member districts.

The program allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Wrongful Act Liability and Employee Benefit Liability is on a claims-made basis. All other coverages are on an occurrence basis. The program provides the following forms of group



purchased insurance coverage for its members: property, earthquake, general liability, automobile liability, Equipment breakdown, crime, and Wrongful Acts Liability.

The program acquires Liability insurance through their administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention (SIR) of \$100,000. Members are responsible for a standard deductible of \$2,500 for each claim (some member deductibles vary), while the program is responsible for the \$100,000 SIR. Insurance carriers cover insured losses over \$102,500 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 SIR. The program also purchases a Stop Loss Policy with an attachment point of \$4,007,668, which it fully funds in its annual budget.

Property insurance is subject to a per-occurrence SIR of \$250,000. Members are responsible for a \$10,000 deductible for each claim (some member deductibles vary), while the program is responsible for the \$250,000 SIR. Insurance carriers cover insured losses over \$260,000 to the limits of each policy. Equipment Breakdown insurance is subject to a per-occurrence deductible of \$10,000. Members are responsible for the deductible amount of each claim.

Members contract to remain in the program for one year and must give notice before December 31 to terminate participation the following September 1. Renewal of the Interlocal Agreement occurs automatically each year. Even after termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The program is fully funded by its member participants. Claims are filed by members with Clear Risk Solutions, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending August 31, 2020 were \$3,250,141.16.

A board of directors, consisting of eight members, is selected by the membership from the east and west side of the state and is responsible for conducting the business affairs of the program. The Board of Directors has contracted with Clear Risk Solutions to perform day-to-day administration of the program. This program has no employees.

### **Industrial Insurance**

The District self-insures industrial insurance claims that do not exceed \$400,000 per occurrence. It reinsures claims of \$400,000 aggregate or more. After approval by the State of Washington Department of Labor and Industries, the District pays the claim of each eligible employee.

Claims management was assigned to Cannon Cochran Management Services, Inc., Illinois.

### **Dental and Vision Insurance**

Qualified employees receive dental and vision coverage under the district's self-insured insurance plan. Dental plans are administered by United Concordia and Willamette Dental. Vision plan claims are administered by Northwest Benefit Network. Plan premiums are

accumulated and claims are paid through a liability account in the General Fund. At August 31, 2020, the amount of liabilities totaled \$428,923.90.

## **NOTE 12: PROPERTY TAXES**

Property tax revenues are collected as the result of special levies passed by the voters in the District. Taxes are levied on January 1. The taxpayer has the obligation of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The tax collections occurring after the end of the fiscal period are unavailable for revenue accrual. Therefore, the fall portion of property taxes is not accrued as revenue. Instead, the property taxes due after the end of the fiscal period are recorded as a deferred inflow of resources.

## **NOTE 13: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS**

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association by passing a Resolution in June, 1974 and has remained in the joint venture ever since. The District's current equity of \$305,889.24 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

## **Note 14: FUND BALANCE CLASSIFICATION DETAILS**

The District's financial statements include the following amounts presented in the aggregate.

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Nonspendable Fund Balance		\$605			
Inventory and Prepaid Items	\$282,812				
Restricted Fund Balance					
For Carryover	\$2,659,689				
For Fund Purpose		\$1,023,181			\$1,420,013
For Carryover of Skills Centers	\$2,469,755				

For Carryover of Food Service Revenue	\$1,754,411				
For Debt Service				\$22,032,306	
For Uninsured Risks	\$400,000				
For Bond Proceeds			\$41,414,260		
For State Proceeds			\$23,410,681		
For Other Proceeds			\$1,559,498		
Fund Purposes					
Assigned Fund Balance					
Fund Purposes			\$1,883,451		
Other Purposes	\$12,478,000				
Unassigned Fund Balance	\$11,817,771				

The board of directors has established a minimum fund balance policy for the general fund to provide for financial stability and contingencies within the District. The policy is that the District shall maintain an unassigned fund balance above 3% of the current year's expenditures attributable to basic education, special education, support services and transportation. Portions of fund balance that are set aside for the purpose of meeting this policy are recorded on the financial statements as a part of unassigned fund balance.

#### **NOTE 15: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS**

##### **457 Plan – Deferred Compensation Plan**

District employees have the option of participating in a deferred compensation plan as defined in §457 of the Internal Revenue Code that is administered by the District.

##### **403(b) Plan – Tax Sheltered Annuity (TSA)**

The District offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years via an elective deferral (employee contribution).

The District complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various

requirements. The plan is administered by a third party administrator, National Benefits Systems. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements.

## **NOTE 16: TERMINATION BENEFITS**

### **Compensated Absences**

Employees earn sick leave at a rate of 12 days per year up to a maximum of one contract year.

Under the provisions of RCW 28A.400.210, sick leave accumulated by District employees is reimbursed at death or retirement at the rate of one day for each four days of accrued leave, limited to 180 accrued days. This chapter also provides for an annual buy out of an amount up to the maximum annual accumulation of 12 days. For buyout purposes, employees may accumulate such leave to a maximum of 192 days, including the annual accumulation, as of December 31 of each year.

Additionally, teachers are eligible to cash out sick leave balances at a rate of one day for each four days if they separate employment with the District and are at least 55 years of age and have a minimum of 10 years under the teachers' retirement system plan 3 or; are at least 55 years of age and have a minimum of 15 years under the teachers' retirement system plan 2.

These expenditures are recorded when paid, except termination sick leave that is accrued upon death, retirement, or upon termination provided the employee is at least 55 years of age and has sufficient years of service. Vested sick leave was computed using the vesting method.

## **NOTE 18: OTHER DISCLOSURES**

### **Skills Center Core Campus Note**

The District is the host district for the Puget Sound Skills Center, a regional program designed to provide career and technical education opportunities to students in participating districts. The purpose of a Skills Center is to enhance the career and technical education course offerings among districts by avoiding unnecessary duplication of courses.

The Puget Sound Skills Center was created through an agreement of the four member districts. The Skills Center is governed by an Administrative Council, comprised of the superintendents, or their appointed representatives, of all member districts. The Skills Center administration is handled through a director, employed by the District.

As host district, the District has the following responsibilities:

1. Employ staff of the Skills Center.
2. Act as fiscal agent for the Skills Center and maintain separate accounts and fund balances for each fund.
3. Review and adopt the Skills Center budget as a part of the District's overall budget.
4. Provide such services as may be mutually agreed upon by the District and the Skills Center.

### ***Sources of Funding***

The Skills Center is primarily funded by state apportionment, based on the number of students who attend the Skills Center. Other sources of income include federal grants from the Carl D. Perkins program, tuition, and fees.

### ***Capital Improvements***

The District collects an annual fee from all participating districts for minor repair and maintenance. These funds are used for maintenance and related improvements of Skill Center facilities. Fees are collected from each member district in accordance with the interlocal agreement signed by all member districts. Any amounts collected that have not been expended for such purposes are recorded as a restriction of the District's General Fund balance.

### ***Unspent Funds***

Any funds remaining at the end of the year from Skills Center operations are recorded as a restriction of the District's General Fund balance, and are to be used for financing future operations of the Skills Center. Member districts do not have claim to any unspent funds of the Skills Center.

The following districts are member districts of the Skills Center:

- Highline School District #401
- Federal Way School District #210
- Tahoma School District #409
- Tukwila School District #406

Highline School District No. 401  
Schedule of Long-Term Liabilities  
For the Year Ended August 31, 2020

Description	Beginning Outstanding Debt September 1, 2019	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2020	Amount Due Within One Year
<b>Voted Debt</b>					
Voted Bonds	462,505,000.00	26,185,000.00	56,840,000.00	431,850,000.00	34,385,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
<b>Non-Voted Debt and Liabilities</b>					
Non-Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	5,434,986.45	1,079,510.00	0.00	6,514,496.45	1,785,000.00
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
<b>Other Liabilities</b>					
<b>Non-Voted Notes Not Recorded as Debt</b>	0.00	0.00	0.00	0.00	0.00
Net Pension Liabilities:					
Net Pension Liabilities TRS 1	42,645,459.00	5,708,143.00	0.00	48,353,602.00	
Net Pension Liabilities TRS 2/3	10,410,279.00	20,401,431.00	0.00	30,811,710.00	
Net Pension Liabilities SERS 2/3	4,012,188.00	6,888,609.00	0.00	10,900,797.00	
Net Pension Liabilities PERS 1	11,656,323.00	1,302,979.00	0.00	12,959,302.00	
<b>Total Long-Term Liabilities</b>	<b>536,664,235.45</b>	<b>61,565,672.00</b>	<b>56,840,000.00</b>	<b>541,389,907.45</b>	<b>36,170,000.00</b>

**Highline School District No. 401**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended August 31, 2020**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Child Nutrition Cluster								
FOOD AND NUTRITION SERVICE, AGRICULTURE, DEPARTMENT OF (via OSPI)	National School Lunch Program	10.555	N/A	4,329,020	-	4,329,020	-	12
	COVID 19 - National School Lunch Program	10.555	N/A	338,121	-	338,121	-	12
	National School Lunch Program	10.555	Commodities	712,034	-	712,034	-	123
		Total CFDA 10.555:		5,379,175	-	5,379,175	-	
FOOD AND NUTRITION SERVICE, AGRICULTURE, DEPARTMENT OF (via OSPI)	COVID 19 - Summer Food Service Program for Children	10.559	N/A	131,262	-	131,262	-	12
			Total Child Nutrition Cluster:		-	5,510,437	-	
FOOD AND NUTRITION SERVICE, AGRICULTURE, DEPARTMENT OF (via OSPI)	Child and Adult Care Food Program	10.558	N/A	7,233	-	7,233	-	12
	Fresh Fruit and Vegetable Program	10.582	N/A	104,894	-	104,894	-	12
FOOD AND NUTRITION SERVICE, AGRICULTURE, DEPARTMENT OF (via OSPI)	COVID 19 - Fresh Fruit and Vegetable Program	10.582	N/A	13,267	-	13,267	-	12
			Total CFDA 10.582:		-	118,161	-	
Forest Service Schools and Roads Cluster								
FOREST SERVICE, AGRICULTURE, DEPARTMENT OF (via King County Treasurer)	Schools and Roads - Grants to States	10.665	N/A	4,871	-	4,871	-	12

*The accompanying notes are an integral part of this schedule.*

**Highline School District No. 401  
Schedule of Expenditures of Federal Awards  
For the Year Ended August 31, 2020**

Federal Agency (Pass-Through Agency)	Federal Program	Expenditures					Passed through to Subrecipients	Note
		CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total		
	<b>Total Forest Service Schools and Roads Cluster:</b>			4,871	-	4,871	-	
<b>WIOA Cluster</b>								
EMPLOYMENT AND TRAINING ADMINISTRATION, LABOR, DEPARTMENT OF (via King County)	WIOA Youth Activities	17.259	17-314-CCW	24,404	-	24,404	-	125
	<b>Total WIOA Cluster:</b>			24,404	-	24,404	-	
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via OSPI)	Title I Grants to Local Educational Agencies	84.010	0203264	5,923,202	-	5,923,202	-	125
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via OSPI)	Title I Grants to Local Educational Agencies	84.010	0270146	29,518	-	29,518	-	125
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via OSPI)	Title I Grants to Local Educational Agencies	84.010	0270838	21,043	-	21,043	-	125
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via OSPI)	Title I Grants to Local Educational Agencies	84.010	0270865	21,252	-	21,252	-	125
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via OSPI)	Title I Grants to Local Educational Agencies	84.010	0270795	34,444	-	34,444	-	125
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via OSPI)	Title I Grants to Local Educational Agencies	84.010	0270817	20,234	-	20,234	-	125

*The accompanying notes are an integral part of this schedule.*



**Highline School District No. 401**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended August 31, 2020**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via OSPI)	Title I Grants to Local Educational Agencies	84.010	0270543	8,832	-	8,832	-	125
		Total CFDA 84.010:			6,058,525	-	-	
Special Education Cluster (IDEA)	Special Education Grants to States	84.027	0306786	3,843,476	-	3,843,476	-	1245
		84.173	0366279	93,742	-	93,742	-	1245
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES, EDUCATION, DEPARTMENT OF (via OSPI)	Special Education Preschool Grants	84.173	0385439	331,715	-	331,715	-	1245
		Total CFDA 84.173:			425,457	-	-	
		Total Special Education Cluster (IDEA):			4,268,933	-	-	
Office of Career, Technical, and Adult Education, EDUCATION, DEPARTMENT OF (via OSPI)	Career and Technical Education -- Basic Grants to States	84.048	0173942	98,141	-	98,141	-	1245
		84.048	0174519	104,919	-	104,919	-	1245
		Total CFDA 84.048:			203,060	-	-	

The accompanying notes are an integral part of this schedule.

**Highline School District No. 401**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended August 31, 2020**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF	Indian Education Grants to Local Educational Agencies	84.060	S060A192480	-	106,785	106,785	-	125
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via OSPI)	Education for Homeless Children and Youth	84.196	0456958	50,899	-	50,899	-	1245
OFFICE OF POSTSECONDARY EDUCATION, EDUCATION, DEPARTMENT OF	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334A140102	-	1,030,872	1,030,872	-	125
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via OSPI)	English Language Acquisition State Grants	84.365	0402762	465,047	-	465,047	-	1245
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via OSPI)	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	0524707	772,185	-	772,185	-	125
EDUCATION, DEPARTMENT OF, EDUCATION, DEPARTMENT OF (via OSPI)	Student Support and Academic Enrichment Program	84.424	0430515	271,054	-	271,054	-	1245
EDUCATION, DEPARTMENT OF, EDUCATION, DEPARTMENT OF (via OSPI)	COVID 19 - Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425D	0120128	4,118,826	-	4,118,826	-	12456

*The accompanying notes are an integral part of this schedule.*

**Highline School District No. 401**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended August 31, 2020**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Passed through to Subrecipients	
ADMINISTRATION FOR CHILDREN AND FAMILIES, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Schools Out Washington)	Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566	N/A	36,000	-	36,000	125
<b>Medicaid Cluster</b>							
CENTERS FOR MEDICARE AND MEDICAID SERVICES, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via WA HCA)	Medical Assistance Program	93.778	N/A	29,271	-	29,271	12
CENTERS FOR MEDICARE AND MEDICAID SERVICES, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via WA HCA)	Medical Assistance Program	93.778	N/A	59,009	-	59,009	12
<b>Total Medicaid Cluster:</b>				<b>88,280</b>	<b>-</b>	<b>88,280</b>	
<b>Total Federal Awards Expended:</b>				<b>21,997,915</b>	<b>1,137,657</b>	<b>23,135,572</b>	

## **NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Include the following notes to the schedule either as an attachment to the schedule or on the face of the schedule (if space permits). The notes should disclose the basis of accounting, definitions of abbreviations, and any other information that might be needed by the reader. Each district should prepare notes that describe their particular programs and circumstances.

### **NOTE 1 – BASIS OF ACCOUNTING**

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The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Highline Public School's financial statements. The Highline Public School uses the Modified Accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

### **NOTE 2 – PROGRAM COSTS/MATCHING CONTRIBUTIONS**

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The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including the Highline Public School's local matching share, may be more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, **or** the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

### **NOTE 3 – NONCASH AWARDS**

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The number of commodities reported on the schedule is the value of commodities distributed by the Highline Public School's during the current year and priced as prescribed by Value of Commodities Shipped Report.

### **NOTE 4 – SCHOOLWIDE PROGRAMS**

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The Highline Public School's operates a "school wide program" in eighteen elementary buildings and thirteen secondary buildings. Using federal funding, school wide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amounts were expended by the Highline Public Schools in its school wide program: Title I Part A (84.010) \$5,923,202.49; OSSI Comprehensive Schools (84.010) \$29,518.07; OSSI Targeted 3+ (84.010) \$96,972.71; OSSI Comprehensive - Low Graduation (84.010) \$8,831.74; CARES Grant (84.425D) \$4,976,261.

### **NOTE 5 - FEDERAL INDIRECT RATE**

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The Highline Public Schools used the federal *restricted* rate of 3.24%, on most programs, when allowed, except for GEAR UP which allows an indirect rate of 8% and the indirect rate of 13.53% on Education Stabilization Fund. The Highline Public School's elected *not* to use the 10-percent de Minimis indirect cost rate allowed under the Uniform Guidance.

## NOTE 6 – EDUCATION STABILIZATION FUND CORRECTIONS

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In January 2021, the Highline Public Schools determined that there were two COVID 19 – Education Stabilization Fund (84.425D) reimbursement claims made the prior fiscal year (2019-20) that required correction. Because of the nature of the Education Stabilization Fund, the Highline Public Schools adjusted claims made in fiscal year 2020-21 to compensate for those 2019-20 corrections. The Highline Public Schools will likewise determine whether those overclaims resulted in any interest earned, and if so, return that interest earned, as appropriate.



## **CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE**

### **Highline School District No. 401 September 1, 2019 through August 31, 2020**

This schedule presents the corrective action planned by the District for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

<b>Finding ref number:</b> 2020-001	<b>Finding caption:</b> The District did not have adequate internal controls to ensure compliance with federal cash management requirements.
<b>Name, address, and telephone of District contact person:</b> Andrew Burgess, Controller 15675 Ambaum Boulevard S.W. Burien, WA 98166 (206) 631-3201	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The district will review and reinforce procedures and internal controls that are in place to ensure compliance with federal requirements, as well as make additional improvements, including:</i> <ol style="list-style-type: none"><li><i>1. More clearly define roles associated with federal relief aid budgeting, approving, expending, accounting, claiming, and reporting</i></li><li><i>2. Onboard a new Director of COVID Recovery, who will share in the management and communication of ESSER funds</i></li><li><i>3. Introduce a new method of earmarking federal relief aid expenditures into the existing chart of accounts in order to better identify and track those costs</i></li></ol>	
<b>Anticipated date to complete the corrective action:</b> August 31, 2022	

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, [www.sao.wa.gov](http://www.sao.wa.gov). Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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