



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Highline College

For the period July 1, 2019 through June 30, 2020

Published March 29, 2021

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

March 29, 2021

Board of Trustees
Highline College
Des Moines, Washington

Report on Financial Statements

Please find attached our report on the Highline College's financial statements.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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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 College July 1, 2019 through June 30, 2020

Board of Trustees
Highline College
Des Moines, 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 the business-type activities and the aggregate discretely presented component units of the Highline College, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 22, 2021.

Our report includes a reference to other auditors who audited the financial statements of the Highline College Foundation (the Foundation), as described in our report on the College's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

The financial statements of the Highline College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2020, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the College'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 College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College'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 College'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 College's financial statements are free from material misstatement, we performed tests of the College'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 College'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 College'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 that reads "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

March 22, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Highline College July 1, 2019 through June 30, 2020

Board of Trustees
Highline College
Des Moines, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Highline College, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Highline College Foundation (the Foundation), which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the reports of the other auditors.

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. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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 College'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 College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Highline College, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of the Highline College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2020, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2021 on our consideration of the College'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 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 College's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

March 22, 2021

FINANCIAL SECTION

Highline College July 1, 2019 through June 30, 2020

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

College Statement of Net Position – 2020

College Statement of Revenues, Expenses and Changes in Net Position – 2020

College Statement of Cash Flows – 2020

Foundation Consolidated Statement of Financial Position – 2020

Foundation Consolidated Statement of Activities – 2020

Notes to Financial Statements – 2020

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Highline College's Share of Net Pension Liability – PERS 1, PERS 2/3, TRS 1, TRS 2/3 – 2020

Schedules of Contributions – PERS 1, PERS 2/3, TRS 1, TRS 2/3 – 2020

Schedule of Changes in the Total Pension Liability and Related Ratios – State Board Supplemental Defined Benefit Plans – Notes to Required Supplementary Information – 2020

Schedule of Changes in the Total OPEB Liability and Related Ratios – Other Postemployment Benefits Information – Notes to Required Supplementary Information – 2020

Management's Discussion and Analysis

Highline College

The following discussion and analysis provides an overview of the financial position and activities of Highline College (the College) for the fiscal year ended June 30, 2020 (FY 2020). This overview provides readers with an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the College's financial statements and accompanying note disclosures.

Reporting Entity

Highline College is one of thirty-four public community and technical college districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs to approximately 16,000 students annually. The college confers baccalaureate degrees, associates degrees, certificates and high school diplomas. The College was established in 1961 and its primary purpose is to promote student engagement, learning, and achievement, integrate diversity and globalism throughout the college, sustain relationships within its communities, and practice sustainability in human resources, operations, and teaching and learning.

Highline's main campus is located in Des Moines, Washington on an 80-acre wooded site, 20 minutes south of downtown Seattle. Classes are also offered at the Marine Science and Technology (MaST) Center at Redondo Beach and additional locations in the community. The college is governed by a five-member Board of Trustees appointed by the governor with the consent of the state senate. By statute, the Board of Trustees has full control of the college, except as otherwise provided by law.

Using the Financial Statements

The financial statements presented in this report encompass the college and its discretely presented component unit, the Highline College Foundation. The College's financial statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the college as of June 30, 2020. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position are reported under the accrual basis of accounting where all of the current year's revenues and expenses are taken into account regardless of when cash is received or payments are made. Full accrual statements are intended to provide a view of the College's financial position similar to that presented by most private-sector companies. These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

Statement of Net Position

The Statement of Net Position provides information about the College's financial position, and presents the College's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of the end of the fiscal year. A condensed comparison of the Statement of Net Position is as follows:

Highline College Condensed Statement of Net Position As of June 30, 2020		
	2020	2019
Assets		
Current Assets	\$ 42,349,782	\$ 39,356,204
Capital Assets, net	75,656,559	69,667,799
Other Assets, non-current	7,938,671	9,038,149
Total Assets	<u>125,945,012</u>	<u>118,062,152</u>
Deferred Outflows of Resources	<u>8,197,617</u>	<u>5,227,874</u>
Liabilities		
Current Liabilities	9,595,078	11,595,788
Other Liabilities, non-current	42,132,174	38,800,062
Total Liabilities	<u>51,727,252</u>	<u>50,395,850</u>
Deferred Inflows of Resources	<u>11,326,507</u>	<u>12,392,752</u>
Net Position		
Net Investment in Capital Assets	72,428,164	65,588,890
Restricted	331,710	475,051
Unrestricted	(1,671,004)	(5,562,517)
Total Net Position	<u>71,088,870</u>	<u>60,501,424</u>

Current assets consist primarily of cash and cash equivalents, short-term investments, accounts receivables and inventories. The increase in current assets in FY 2020 is the result of an increase in cash of over \$6,700,000, offset by a decrease in short-term investments of \$2,800,000 and a decrease of nearly \$1,000,000 in accounts receivable. Almost \$12,000,000 in bonds matured or were called due to declining interest rates. About \$8,000,000 was reinvested in the bond market and the remainder was transferred to the LGIP.

Net capital assets increased by approximately \$6,000,000 from FY 2019 to 2020. Building 26 construction was completed towards the end of December 2019 was officially opened for business in January. The additions to capital assets were offset by annual depreciation recorded in the amount of \$2,475,675.

Non-current assets consist of the long-term portion of certain investments. Long-term investments decreased by approximately \$1,100,000 as several bonds were called because of a drop in interest rates. Not all of the proceeds from these bonds were reinvested in the bond market but were transferred to the LGIP.

Deferred outflows of resources and deferred inflows of resources represent deferrals in pension and postemployment benefits associated with the implementation of GASB Statement No. 68 in FY 2015, Statement No. 73 in FY 2017, and Statement No. 75 in FY 2018. The increase in deferred outflows reflect the College's proportionate share of an increase in the state-wide amounts reported by the Department of Retirement System (DRS) and Health Care Authority (HCA) due to differences between expected and actual experience related to the actuarial assumptions. The College recorded \$5,227,874 in FY 2019 and \$8,197,617 in FY2020 of pension and postemployment-related deferred outflows. The increase reflects the change in proportionate share.

Similarly, the decrease in deferred inflows in 2020 reflects the decrease in the difference between actual and projected investment earnings on the state's pension plans and other post-employment benefits.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificate of Participation (COP) debt, deposits held for others and unearned revenue. Current liabilities can fluctuate from year to year depending on the timeliness of vendor invoices and resulting vendor payments, especially in the area of capital assets and improvements.

The decrease in current liabilities from FY 2019 to FY 2020 is a decrease in accounts payable of approximately \$2,700,000 related to building 26 construction. Additionally, there was a decrease in unearned tuition revenue, as due to the COVID 19 pandemic, summer enrollments were lower than in previous years, offset by CARES Act Funding not yet earned.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees and the long-term portion of Certificates of Participation debt.

The College's non-current liabilities increased reflecting a change in the College's proportionate share of the postemployment benefit liability for state's OPEB, offset by the current year principal reduction on the Certificate of Participation. Changes in non-current liabilities also include fluctuations in employee vacation and sick leave balances.

Net position represents the value of the College's assets and deferred outflows after liabilities and deferred inflows are deducted. The College is required by accounting standards to report its net position in four categories:

Net Investment in Capital Assets – The College's total investment in property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets. Changes in these balances are discussed above.

Restricted:

Non Expendable – consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for spending but for investment purposes only. Historically, donors interested in establishing such funds to benefit the College or its students have chosen to do so through the Foundation. As a result, the college is not reporting any balance in this category.

Expendable – resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset. The college has a balance of \$331,710 in funds restricted for qualified financial aid expenditures.

Unrestricted – Includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. Prudent balances are maintained for use as working capital, as a reserve against emergencies, and for other purposes in accordance with policies established by the Board of Trustees.

Net Position		
As of June 30th	FY 2020	FY 2019
Net investment in capital assets	\$ 72,428,164	\$ 65,588,890
Restricted		
Expendable	\$ 331,710	\$ 475,051
Unrestricted	\$ (1,671,004)	\$ (5,562,517)
Total Net position	\$ 71,088,870	\$ 60,501,424

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position accounts for the College's changes in total net position during FY 2020. The objective of the statement is to present the revenues earned, both operating and non-operating, and the expenses paid or incurred by the College, along with any other revenue, expenses, gains and losses of the College.

Generally, operating revenues are earned by the College in exchange for providing goods and services. Tuition and grants and contracts are included in this category. In contrast, non-operating revenues include monies the college receives from another government without directly giving equal value to that government in return. Accounting standards require that the College categorize state operating appropriations and Pell Grants as non-operating revenues.

Operating expenses are expenses incurred in the normal operation of the College, including depreciation on property and equipment assets. When operating revenues, excluding state appropriations and Pell Grants, are measured against operating expense, the College shows an operating loss. The operating loss is reflective of the external funding necessary to keep tuition lower than the cost of the services provided.

A condensed comparison of the College's revenues, expense and changes in net position for the years ended June 30, 2020 and 2019 follows.

Highline College Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Year Ended June 30, 2020 and 2019		
	2020	2019
Operating Revenues		
Student tuition and fees, net	10,866,383	12,461,107
Auxiliary enterprise sales	2,166,667	3,236,637
Grants and contracts	26,149,830	25,835,386
Other operating revenues	806,514	930,347
Total operating revenues	39,989,394	42,463,477
Non-Operating Revenues		
State appropriations	33,913,165	29,105,184
Federal Pell grant revenue	7,151,985	7,036,193
Federal non-operating revenue	1,483,779	-
Other non-operating revenues	550,262	953,749
Total non-operating revenues	43,099,191	37,095,126
Total revenues	83,088,585	79,558,603
Operating Expenses		
Salaries and Benefits	58,468,163	54,060,284
Scholarships	7,520,089	7,913,519
Depreciation	2,465,020	2,206,567
Other operating expenses	11,866,247	15,871,766
Total operating expenses	80,319,519	80,052,136
Non-Operating Expenses		
Building fee remittance	1,667,791	1,718,499
Other non-operating expenses	534,710	571,387
Total non-operating expenses	2,202,501	2,289,886
Total expenses	82,522,020	82,342,022
Excess (deficiency) before capital contributions	566,565	(2,783,419)
Capital appropriations and contributions	10,020,881	17,011,094
Change in Net position	10,587,446	14,227,675
Net Position		
Net position, beginning of year	60,501,424	46,273,749
Net position, end of year	71,088,870	60,501,424

Revenues

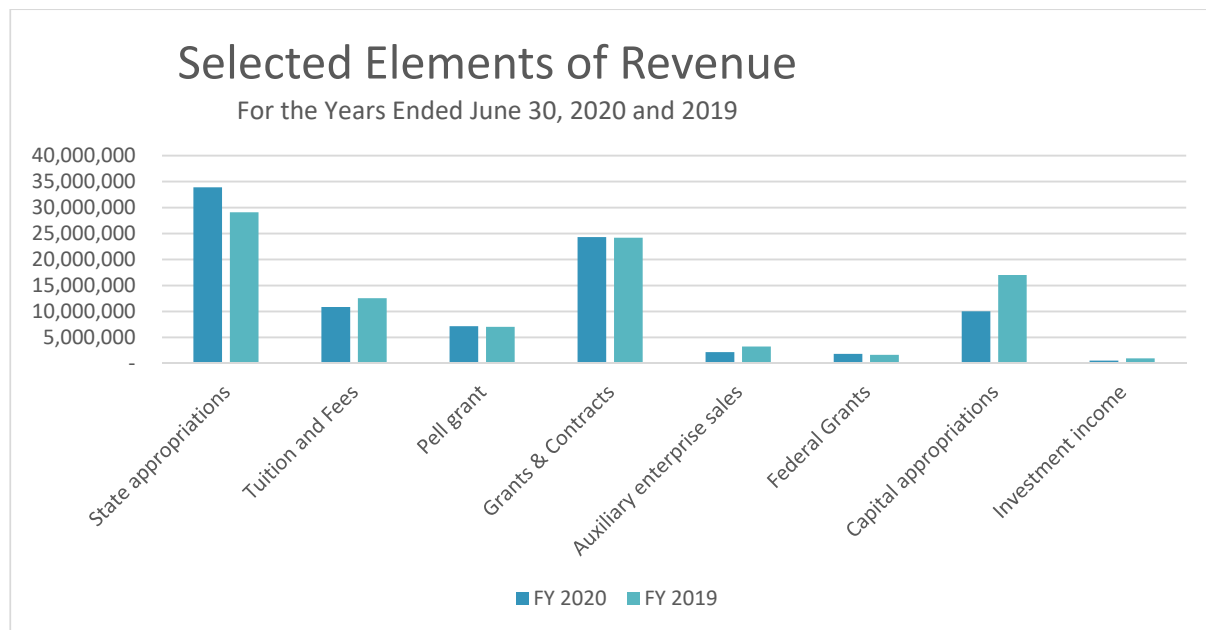
The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. In FY 2020, the SBCTC allocated funds to each of the 34 college's based on three-year average FTE actuals. Additionally, the Supplemental Budget reduces the general fund by the amount set aside specifically for Pension Stabilization. This method of allocation will continue in FY2020.

Enrollments continued to decline in FY 2020, hitting the college especially hard when remote operations began at the end of March 2020 in response to the Governor's guidance around the COVID 19 pandemic. For fiscal year 2020, the College continued to keep other fees as stable as possible, resulting in only small changes in these revenues. In addition, the College serves some students and offers some programs on a fee-only basis, as allowed by law.

In FY 2020, state grant and contract revenues increased by approximately \$300,000 when compared with FY 2019. The College continued to serve students under the terms of several large contracted programs. This includes contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. The state's Running Start program offers students the opportunity to attend college and earn credits while at the same time completing high school. Because of the college's proximity to several high schools, Highline has one of the highest Running Start populations of any college in the state. Funding for this program saw an increase in FY 2020. International Student Programs enrollment dropped significantly as the COVID-19 pandemic impacted travel and forced many students to return to their home countries. Parking and Conference Services revenues came to a complete stop as access to the campus was restricted to essential services only.

The College receives capital spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriation revenue on the financial statement is the amount expended in the current year. Expenditures from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenditures that meet the capitalization standard are not shown as expense in the current period and are instead recognized as depreciation expense over the expected useful lifetime of the asset.

The chart below shows the revenue categories for FY 2020 and FY 2019 for comparison.



Expenses

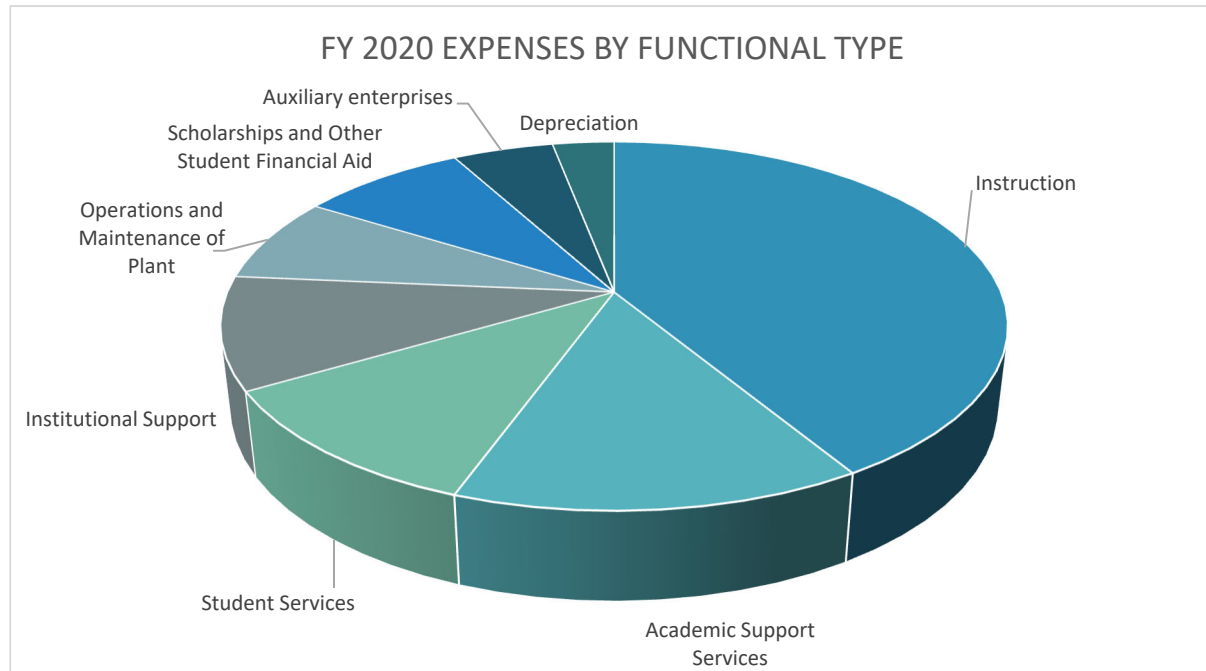
Faced with severe budget cuts in the past, the College has continuously sought opportunities to identify savings and efficiencies. Over time, the College decreased spending, reduced services and was subject to various state spending freezes, including employee salary reductions.

More recently, in FY 2020, salary costs increased significantly as a result of a 3% salary COLA and an additional 5% King County premium increase as of July 1, 2019, as authorized by the Legislature. Positions that had been vacant in the past have been gradually filled.

Utility costs decreased slightly between 2019 and 2020. With campus closure at the end of March, supplies and materials were lower in FY 2020. Purchased services also decreased, primarily because of reduced spending related to capital projects as the building 26 renovation was completed. Certain capital project costs do not meet accounting criteria for capitalization as part of the cost of the building and are instead recognized as supplies and materials or purchased services costs. These fluctuations are to be expected. Depreciation expense is also primarily driven by capital activity, with the annual depreciation expense showing a significant increase in any year when a new building is placed in service. All other costs are reported as operating expenses.

Operating Expenses by Function

The chart below shows the percentage of each functional area of operating expenses for FY 2020.



Capital Assets and Long-Term Debt Activities

The community and technical college system submits a single prioritized request to the Office of Financial Management and the Legislature for appropriated capital funds, which includes major projects, minor projects, repairs, emergency funds, alternative financing and major leases. The primary funding source for college capital projects is state general obligation bonds. In recent years, declining state revenues significantly reduced the state's debt capacity and are expected to continue to impact the number of new projects that can be financed.

At June 30, 2020, the College had invested \$75,656,559 in capital assets, net of accumulated depreciation. This represents an increase of \$5,988,760 from last year, as shown in the following table.

Asset Type	June 30, 2020	June 30, 2019	Change
Land	\$48,289	\$48,289	\$0
Construction in Progress	\$0	\$19,398,056	-\$19,398,056
Buildings, net	\$73,364,577	\$48,602,046	\$24,762,531
Equipment, net	\$1,984,625	\$1,362,259	\$622,366
Library Resources, net	\$259,068	\$257,149	\$1,919
Total Capital Assets, Net	\$75,656,559	\$69,667,799	\$5,988,760

The major renovation of building 26 was completed in FY 2020, resulting in a corresponding increase in buildings and equipment. Additional information on capital assets can be found in note 6 of the notes to the financial statements.

At June 30, 2020, the College had \$3,228,395 in outstanding debt. The College has a Certificate of Participation (COP) for the Student Union Building and a COP that reimbursed the college for costs related to the renovation of building 24A.

	June 30, 2020	June 30, 2019	Change
Certificates of Participation	\$3,228,395	\$4,078,909	\$ (850,514.00)
Total	\$3,228,395	\$4,078,909	\$ (850,514.00)

Additional information of notes payable, long-term debt and debt service schedules can be found in Notes 12 and 13 of the Notes to the Financial Statements.

Economic Factors That May Affect the Future

In FY 2017, the State Board for Community and Technical Colleges elected to move to a new allocation model, changing how the state allocated funds are distributed to each college. The new model is based on performance in several key indicators, from general enrollments to enrollments in high cost programs, as well as student completion and achievement points. The model is based on a three-year rolling average of enrollments and completions, comparative to other institutions in the state. The new funding model has provided additional resources to Highline College.

During the 2018-19 year, state supported enrollments declined below target for the first time in recent history. That trend continued into early FY 2020, with an especially large drop in enrollments as all classes were pushed online as the campus was closed for spring quarter in response to COVID 19. Highline College is located in a community rich in cultural diversity and our student body is a reflection of that population. The College is active in providing service to adults seeking basic education and English as a second language classes, which do not lend themselves well to online education. Between the new format and the political unrest that continues to dominate the news, there has been a significant decline in our Basic Education for Adults (BEaA) enrollments. While these classes are waived so this population does not pay tuition, they factor heavily into the allocation model used to distribute funding to the College.

The executive leadership at Highline College has been undergoing transition within the last couple of years due to the retirement of several long-time leaders. During the FY2020, the College appointed a new Vice President for Student Services and a new Vice President for Academic Affairs. The college president also re-organized the Executive Staff to form a new Executive Cabinet to include all of the vice presidents and the executive directors of Human Resources and Information Technology.

In fiscal year 2020 we receive a significant increase in funding as a result of the Workforce Education Investment Act (E2SHB 2158). The bill created a new fund, the Workforce Education Investment Account. Appropriations from the account are supported by an increase in the Business and Occupation tax. These funds were allocated to the colleges as directed in the

legislation. Most of these appropriations are budgeted to continue in fiscal year 2021. There were no other significant changes to the method of allocating funds to college districts.

As the College continues to be affected by the results of the COVID-19 pandemic, a significant decrease in enrollments has been experienced. While historically colleges have seen an increase in enrollments in times of higher unemployment, that has not been the trend the College has experienced at this time. In anticipation of upcoming budget reductions at the state level, the College began looking closely at optimization of budget utilization and ways to innovate instruction to better serve and attract more students.

Highline College	
Statement of Net Position	
June 30, 2020	
Assets	
Current Assets	
Cash and cash equivalents	\$ 30,744,526
Restricted cash	273,393
Short-term investments	3,162,796
Accounts Receivable	7,730,396
Interest receivable	6,911
Inventories	357,717
Prepaid expenses	74,043
Total current assets	42,349,782
Non-Current Assets	
Long-term investments	7,938,671
Non-depreciable capital assets	48,289
Capital assets, net of depreciation	75,608,270
Total non-current assets	83,595,230
Total assets	125,945,012
Deferred Outflows of Resources	
Deferred outflows related to pensions	4,480,818
Deferred outflows related to OPEB	3,716,799
Total deferred outflows of resources	8,197,617
Liabilities	
Current Liabilities	
Accounts payable	504,488
Accrued liabilities	2,675,853
Compensated absences, current portion	2,152,511
Deposits payable	15,839
Unearned revenue	2,805,495
Certificates of participation payable, current portion	882,540
Total pension liability, current portion	90,404
OPEB liability, current portion	467,948
Total current liabilities	9,595,078
Non-Current Liabilities	
Compensated absences	3,099,675
Certificates of participation	2,345,855
Net pension liability	3,870,456
Total pension liability	6,145,770
OPEB liability	26,670,418
Total non-current liabilities	42,132,174
Total liabilities	51,727,252

Deferred Inflows of Resources	
Deferred inflows related to pensions	3,035,557
Deferred inflows related to OPEB	8,290,950
Total deferred inflows of resources	11,326,507
Net Position	
Net Investment in Capital Assets	72,428,164
Restricted for:	
Expendable	331,710
Unrestricted (deficit)	(1,671,004)
Total Net Position	71,088,870

The accompanying notes are an integral part of this statement

Highline College	
Statement of Revenues, Expenses and Changes in Net Position	
For the Year Ended June 30, 2020	
Operating Revenues	
Student tuition and fees, net of scholarship discounts and allowances	\$ 10,866,383
Auxiliary enterprise sales	2,166,667
State and local grants and contracts	24,308,330
Federal grants and contracts	1,841,500
Other Operating revenues	804,251
Interest on loans to students	2,263
Total operating revenue	39,989,394
Operating Expenses	
Salaries and wages	44,519,170
Benefits	13,948,993
Scholarships and fellowships	7,520,089
Supplies and materials	1,905,225
Depreciation	2,465,020
Purchased services	2,397,589
Utilities	1,135,918
Other operating expenses	6,427,515
Total operating expenses	80,319,519
Operating income (loss)	(40,330,125)
Non-Operating Revenues (Expenses)	
State appropriations	33,913,165
Federal non-operating revenue	1,483,779
Federal Pell grant revenue	7,151,985
investment income, gains and losses	550,262
Building fee remittance	(1,667,791)
Innovation fund remittance	(392,236)
Interest on indebtedness	(142,474)
Net non-operating revenue (expenses)	40,896,690
Income or (loss) before other revenues, expenses, gains or losses	566,565
Capital Contributions	
Capital appropriations	10,020,881
Increase (Decrease) in net position	10,587,446
Net position	
Net position beginning of year	60,501,424
Net position, end of year	\$ 71,088,870

The accompanying notes are an integral part of this statement

Highline College	
Statement of Cash Flows	
For the Year Ended June 30, 2020	
Cash flows from operating activities	
Student tuition and fees	\$ 10,933,981
Grants and contracts	25,574,151
Payments to vendors	(6,567,164)
Payments for utilities	(1,455,491)
Payments to employees	(43,708,134)
Payments for benefits	(14,096,331)
Auxiliary enterprise sales	2,203,148
Payments for scholarships and fellowships	(7,520,089)
Loans issued to students and employees	2,263
Other receipts	2,205,984
Other payments	(6,427,515)
Net cash used by operating activities	(38,855,197)
Cash flows from noncapital financing activities	
State appropriations	34,034,928
Pell grants	7,151,985
Amounts for other than capital purposes	1,483,779
Building fee remittance	(1,664,094)
Innovation fund remittance	(391,500)
Net cash provided by noncapital financing activities	40,615,098
Cash flows from capital and related financing activities	
Capital appropriations	12,852,402
Purchases of capital assets	(11,411,497)
Principal paid on capital debt	(830,000)
Interest paid	(162,988)
Net cash used by capital and related financing activities	447,917
Cash flows from investing activities	
Purchase of investments	(7,915,950)
Proceeds from sales and maturities of investments	11,982,725
Income of investments	401,741
Net cash provided by investing activities	4,468,516
Increase in cash and cash equivalents	6,676,334
Cash and cash equivalents at the beginning of the year	24,341,585
Cash and cash equivalents at the end of the year	31,017,919

Reconciliation of Operating Loss to Net Cash used by Operating Activities	
Operating Loss	(40,330,125)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	2,465,020
Changes in assets and liabilities	
Receivables, net	917,884
Inventories	(51,390)
Other assets	(2,513)
Accounts payable	(2,707,767)
Accrued liabilities	397,096
Unearned revenue	12,136
Compensated absences	668,841
Pension liability adjustment	(227,005)
Deposits payable	2,626
Net cash used by operating activities	<u>\$ (38,855,197)</u>

The accompanying notes are an integral part of this statement

HIGHLINE COLLEGE FOUNDATION	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	
June 30, 2020	
ASSETS	2020
Current Assets	
Cash and cash equivalents	\$ 224,197
Investments	58,953
Promises to give	24,765
Due from Highline College	108,976
Tenant receivables	25,159
Prepaid expenses	2,476
Total current assets	444,526
Noncurrent Investments	3,816,134
Endowment cash and cash equivalents	950
Endowment Investments	2,273,301
Endowment Promises to Give	24,000
Deposits	81,375
Property and Equipment, net	275,154
Total assets	<u>\$ 6,915,440</u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	\$ 66,452
Unearned rent revenue	\$ 48,867
Security deposits	400
Total current liabilities	115,719
Deferred Rent Liability	527,373
Total liabilities	643,092
Net Assets	
Without donor restrictions	(28,979)
With donor restrictions	6,301,327
Total net assets	6,272,348
Total liabilities and net assets	<u>\$ 6,915,440</u>

The accompanying notes are an integral part of this statement

HIGHLINE COLLEGE FOUNDATION			
CONSOLIDATED STATEMENT OF ACTIVITIES			
For the Year Ended June 30, 2020			
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions	\$ 549,611	\$ 1,043,058	\$ 1,592,669
In-kind contributions	200,000		200,000
Rental income	722,891		722,891
Special events, net of direct expense of \$52,392	-		-
Investment return, net	(9,068)	52,945	43,877
Total Support and revenue	1,463,434	1,096,003	2,559,437
Net Assets Released from Restrictions	858,271	(858,271)	-
	2,321,705	237,732	2,559,437
Expenses			
Scholarships and other programs	884,715		884,715
College housing	1,672,923		1,672,923
Management and general	189,822		189,822
Fundraising	42,990		42,990
Total expenses	2,790,450	-	2,790,450
Change in net assets	(468,745)	237,732	(231,013)
Net Assets, beginning of year	439,766	6,063,595	6,503,361
Net Assets, end of year	\$ (28,979)	\$ 6,301,327	\$ 6,272,348

The accompanying notes are an integral part of this statement

Note 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

Highline College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College confers applied baccalaureate degrees, associates degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees appointed by the Governor and confirmed by the state Senate. The College is an agency of the State of Washington. The financial activity of the college is included in the State's Comprehensive Annual Financial Report. These notes form an integral part of the financial statements.

The Highline College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1972 and recognized as a tax-exempt 501(c) (3) charity. The Foundation's charitable purpose is to raise funds that help provide quality education at Highline College. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a discrete component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity that is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2020, the Foundation distributed approximately \$884,715 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at (206) 592-3774.

Basis of Presentation

The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities*. For financial reporting purposes, the College is considered a special-purpose government engaged only in Business Type Activities (BTA). In accordance with BTA reporting, the College presents a Management's Discussion and Analysis; a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The format provides a comprehensive, entity-wide perspective of the college's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, expenses, changes in net position and cash flows.

Basis of Accounting

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows. For the financial statements, intra-agency receivables and payables have generally been eliminated. However, revenues and expenses from the College's auxiliary enterprises are treated as though the College were dealing with private vendors. For all other funds, transactions that are reimbursements of expenses are recorded as reduction of expense.

Non-exchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes state and federal appropriations, and certain grants and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments include cash on hand, bank demand deposits, deposits with the Washington State Local Government Investment Pool (LGIP) and publicly traded bonds. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets along with operating funds invested in the LGIP.

The College combines unrestricted cash operating funds from all departments into an internal pool, the income from which is allocated for general operating needs of the College through the college's annual budget development process.

Investments consist of investments in US government securities. These investments are subject to loss of all 100% of the balance of investments and are reported at fair value.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, staff and the general public. This also includes amounts due from federal, state and local governments or private sources as allowed under the terms of grants and contracts. Accounts receivable are shown net of estimated uncollectible amounts.

Inventories

Inventories, consisting of merchandise for resale in the college bookstore, are valued at cost using the first-in, first-out method (FIFO).

Capital Assets

In accordance with state law, capital assets constructed with state funds are owned by the State of Washington. Property titles are shown accordingly. However, responsibility for managing the

assets rests with the College. As a result, the assets are included in the financial statements because excluding them would have been misleading.

Land, buildings and equipment are recorded at cost, or if acquired by gift, at acquisition value at the date of the gift. GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of \$1,000,000 or more, buildings and improvements with a unit cost of \$100,000 or more, library collections with a total cost of \$5,000 or more and all other assets with a unit cost of \$5,000 or more are capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives are generally 3 to 7 years for equipment; 15 to 50 years for buildings and 20 to 50 years for infrastructure and land improvements.

In accordance with GASB Statement 42, the college reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2020, no assets had been written down.

Unearned Revenues

Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. Unearned revenues also include tuition and fees paid with financial aid funds. The College has recorded summer and fall quarter tuition and fees and advanced grant proceeds as unearned revenue.

Tax Exemption

The College is a tax-exempt organization under the provisions of Section 115 (1) of the Internal Revenue Code and is exempt from federal income taxes on related income.

Pension Liability

For purposes of measuring the net pension liability in accordance with GASB Statement No 68, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, 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.

Beginning fiscal year 2017, the College also reports its share of the pension liability for the State Board Retirement Plan in accordance with GASB 73 Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68 (Accounting and Financial

Reporting for Pensions). The reporting requirements are similar to GASB 68 but use current fiscal year-end as the measurement date for reporting the pension liabilities.

OPEB Liability

In fiscal year 2018, the College implemented GASB Statement No. 75, Accounting and Financial Reporting for postemployment Benefits Other than Pensions (OPEB). This Statement requires the College to recognize its proportionate share of the state's actuarially determined OPEB liability with a one-year lag measurement date similar to GASB Statement No. 68.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent consumption of net position that is applicable to a future period. Deferred inflows of resources represent acquisition of net position that is applicable to a future period.

Deferred outflows related to pensions are recorded when projected earnings on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and rational method over a closed period of time. Deferred inflows related to pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized in the same manner as deferred outflows.

Deferred outflows and inflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the college's proportionate share of pension liabilities. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. Employer transactions to pension plans made subsequent to the measurement date are also deferred and reduce pension liabilities in the subsequent year.

The portion of differences between expected and actual experience with regard to economic or demographic factors, changes of assumptions about future economic or demographic factors, and changes in the college's proportionate share of OPEB liability that are not recognized in OPEB expense should be reported as deferred outflows of resources or deferred inflows of resources related to OPEB. Differences between projected and actual earning on OPEB plan investments that are not recognized in OPEB expense should be reported as deferred outflows of resources or deferred inflows of resources related to OPEB. Employer contributions to the OPEB plan subsequent to the measurement date of the collective OPEB liability should be recorded as deferred outflows of resources related to OPEB.

Net Position

The College's net position is classified as follows.

- *Net Investment in Capital Assets.* This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Restricted for Nonexpendable.* This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the

purpose of producing present and future income which may either be expended or added to the principle.

- *Restricted for Loans.* The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- *Restricted for Expendable.* These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
- *Unrestricted.* These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards unrestricted resources and then towards restricted resources.

Classification of Revenues and Expenses

The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating Revenues. This includes activities that are directly related to the principal operations of the College, such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) federal, state and local grants and contracts that primarily support the operational/educational activities of the College. Examples include a contract with OSPI to offer Running Start and/or Technical High School. The College also receives Adult Basic Education grants that support the primary educational mission of the College.

Operating Expenses. Operating expenses include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services and depreciation.

Non-operating Revenues. This includes activities that are not directly related to the ongoing operations of the College, such as gifts and contributions, state appropriations, investment income and Pell Grants received from the federal government. In FY 20, non-operating revenues also included funds received through the federal CARES act.

Non-operating Expenses. Non-operating expenses include state remittance related to the building fee and the innovation fee, along with interest incurred on the Certificate of Participation Loan.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition, fees, and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2020 are \$8,730,806.

State Appropriations

The state of Washington appropriates funds to the College on both an annual and biennial basis. These revenues are reported as non-operating revenues on the Statements of Revenues, Expenses, and Changes in Net Position, and recognized as such when the related expenses are incurred.

Building and Innovation Fee Remittance

Tuition collected includes amounts remitted to the Washington State Treasurer's office to be held and appropriated in future years. The Building Fee portion of tuition charged to students is an amount established by the Legislature and is subject to change annually. The fee provides funding for capital construction and projects on a system wide basis using a competitive biennial allocation process. On a monthly basis, the College remits the portion of tuition collected for the Building Fee. The Innovation Fee was established in order to fund the State Board of Community and Technical College's Strategic Technology Plan. The use of the fund is to implement a new ERP software across the entire system. On a monthly basis, the College remits the portion of tuition collected for the Innovation Fee to the State Treasurer for allocation to SBCTC. These remittances are non-exchange transactions reported as an expense in the non-operating revenues and expenses section of the statement of revenues, expenses and changes in net position.

Note 2 - Accounting and Reporting Changes

Accounting Standard Impacting the Future

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective dates of Statements and Implementation Guides that were effective for reporting periods beginning after June 15, 2018. The college is following the State's Office of Financial Management directives on these postponements.

In June 2017, the GASB issued Statement No. 87, *Leases*, which will be in effect beginning fiscal year 2021. GASB 95 postponed the effective date to fiscal year 2022. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The College is following the State's Office of Financial Management directives to prepare for the implementation of this Statement.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for the fiscal year ending June 30, 2021. GASB 95 has postponed the effective date to fiscal year 2022. This Statement requires that interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, these costs will no longer be included in the capitalized cost of capital assets reported by the College. The Statement will be applied on a prospective basis and the interest costs capitalized prior to implementation will continue to be recognized as those assets are depreciated.

Note 3 – Deposits and Investments

Deposits

Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Washington State Treasurer's Local Government Investment Pool (LGIP). The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. For reporting purposes, pooled investments are stated at amortized cost, which approximates fair value. For purposes of reporting cash flows, the state considers cash and pooled investments to be cash equivalents. Pooled investments include short-term, highly liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates. For purposes of the statement of cash flows, the College considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

Investments in Local Government Investment Pool (LGIP)

The College is a participant in the Local Government Investment Pool as authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

As of June 30, 2020, the carrying amount of the College's cash and equivalents was \$31,017,919 as represented in the table below.

Cash and Cash Equivalents	June 30, 2020
Petty Cash and Change Funds	\$10,750
Bank Demand and Time Deposits	\$8,622,028
Undeposited Cash	\$2,755
Local Government Investment Pool	\$22,382,386
Total Cash and Cash Equivalents	\$31,017,919

Custodial Credit Risks—Deposits

Custodial credit risk for bank demand deposits is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The majority of the College's demand deposits are with Wells Fargo. All cash and equivalents, except for change funds and petty cash held by the

College, are insured by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the Washington Public Deposit Protection Commission (PDPC).

Investments

Investments consist of investments in US government securities. These investments are subject to loss of all 100% of the balance of investments. The College reviewed the effects of Statement No. 72 on its investments in US government securities and has reported its investments in US government securities at fair value. Fair value is defined in the accounting standards as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation methods and take into account the assumptions that market participants use to make valuation decisions. Input may include price information, credit data, liquidity statistics and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instruments level within the fair value hierarch is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Level 1 investments include equity securities and other publicly traded securities.

Level 2 – Quoted prices in markets that are not considered to be active, dealer quotations, or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly, are classified as Level 2. Level 2 investments include fixed or variable-income securities, commingled funds, certain derivatives and other assets that are valued using market information.

Level 3 – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstances and may require significant management judgment. Level 3 investments include private equity investments, real estate and split interest agreements.

The following table summarizes the investment reported at fair value within the fair value hierarchy as of June 30, 2020.

Fixed or variable income securities	Total	Level 1	Level 2	Level 3
Bonds	\$ 11,101,467	\$ 11,101,467	\$ -	\$ -

The maturities of the College's investments in US government securities at June 30, 2020, are as follows:

Investment Maturities	Fair Value	One Year or Less	1 - 5 Years	6 - 10 Years	10 or More Years
Bonds	\$ 11,101,467	\$ 3,162,796	\$ 7,938,671	\$ -	\$ -
Total Investments	\$ 11,101,467	\$ 3,162,796	\$ 7,938,671	\$ -	\$ -

Interest Rate Risk—Investments

The College manages its exposure to interest rate changes by limiting the duration of investments' maturities and laddering its portfolio. The College has not invested in maturities longer than 5 years, to minimize interest rate risk.

Concentration of Credit Risk—Investments

State law limits College operating investments to the highest quality sectors of the domestic fixed income market and specifically excludes corporate stocks, corporate and foreign bonds, futures contracts, commodities, real estate, limited partnerships and negotiable certificates of deposit. College policy does not limit the amount the College may invest in any one issuer.

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2020, \$11,101,467 the College's operating fund investments, held by US Bank in the bank's name as agent for the College, are exposed to custodial credit risk.

Investments Exposed to Custodial Risk	Fair Value
FEDERAL HOME LOAN BANK	\$ 3,020,472
RFCSP STRIP PRINCIPAL	\$ 3,162,796
FEDERAL FARM CREDIT BANK	\$ 4,918,199
Total Investments Exposed to Custodial Risk	\$ 11,101,467

Investment Expenses

Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2020 were \$890.

Note 4 - Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenses made according to sponsored agreements. At June 30, 2020, accounts receivable were as follows:

Accounts Receivable	Amount
Student Tuition and Fees	\$ 1,001,676
Due from the Federal Government	\$ 99,968
Due from Other State Agencies	\$ 835,654
Due from Local Governmental Agencies	\$ 5,910,141
Auxiliary Enterprises	\$ 65,832
Subtotal	\$ 7,913,271
Less Allowance for Uncollectible Accounts	\$ (182,875)
Accounts Receivable, net	\$ 7,730,396

Note 5 - Inventories

All inventory is merchandise inventory owned by the college Bookstore. The college has no consumable, work in progress or raw materials inventories. Inventories, stated at cost using FIFO, consisted of the following as of June 30, 2020.

Inventories	Amount
Merchandise Inventories	\$ 357,717
Inventories	\$ 357,717

Note 6 - Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2020 is presented as follows. The current year depreciation expense was \$2,465,020.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Capital assets, non-depreciable				
Land	\$ 48,289	\$ -	\$ -	\$ 48,289
Construction in progress	19,398,056	(19,398,056)	-	-
Total capital assets, non-depreciable	19,446,345	(19,398,056)	-	48,289
Capital assets, depreciable				
Buildings	87,161,189	26,667,468	-	113,828,657
Equipment	8,898,961	1,111,347	-	10,010,308
Library resources	4,078,945	72,821	(224,198)	3,927,568
Total capital assets, depreciable	100,139,095	27,851,636	(224,198)	127,766,533
Less accumulated depreciation				
Buildings	38,559,143	1,904,937	-	40,464,080
Equipment	7,536,702	488,981	-	8,025,683
Library resources	3,821,796	70,902	(224,198)	3,668,500
Total accumulated depreciation	49,917,641	2,464,820	(224,198)	52,158,263
Total capital assets, depreciable, net	50,221,454	25,386,816	-	75,608,270
Capital assets, net	\$ 69,667,799	\$ 5,988,760	\$ -	\$ 75,656,559

Note 7 - Accounts Payable and Accrued Liabilities

Accrued liabilities as of June 30, 2020, were as follows:

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	\$ 1,286,494
Accounts Payable	\$ 504,488
Agency Funds and Other Accrued Liabilities	\$ 1,372,706
Amounts Held for Others and Retainage	\$ 32,492
Total	\$ 3,196,180

Note 8 - Unearned Revenue

Unearned revenue is comprised of receipts which have not yet met revenue recognition criteria, as follows:

Unearned Revenue	Amount
Summer and Fall Quarter Tuition & Fees	\$ 2,645,966
CARES Act	159,529
Total Unearned Revenue	\$ 2,805,495

Note 9 - Risk Management

The College is exposed to various risk of loss related to tort liability, injuries to employees, errors and omissions, theft of, damage to, and destruction of assets, and natural disasters. The college purchases insurance to mitigate these risks. Management believes that such coverage is sufficient to preclude any significant uninsured losses for the covered risks.

The College purchases commercial property insurance through the master property program administered by the Department of Enterprise Services for buildings that were acquired with COP proceeds. The policy has a deductible of \$250,000 per occurrence and the policy limit is \$100,000,000 per occurrence. The college has had no claims in excess of the coverage amount within the past three years. The College assumes its potential property losses for most other buildings and contents.

The College participates in a State of Washington risk management self-insurance program, which covers its exposure to tort, general damage and vehicle claims. Premiums paid to the State are based on actuarially determined projections and include allowances for payments of both outstanding and current liabilities. Coverage is provided up to \$10,000,000 for each claim with no deductible. The college has had no claims in excess of the coverage amount within the past three years.

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2019 through June 30, 2020, were \$106,371.

Note 10 - Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated

sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled \$2,903,406 and accrued sick leave totaled \$2,348,243 at June 30, 2020.

An estimated amount, based on a three-year average payout, is accrued as a current liability. The remaining amount of accrued annual vacation and sick leave are categorized as non-current liabilities. Compensatory time is categorized as a current liability since it must be used before other leave.

Note 11 - Leases Payable

The college has no capital leases and one operating leases. The College leases an office building housing classrooms and multiple departments including the President's Office, Financial Services and other administrative offices. This lease is classified as an operating lease and runs through August 2020.

As of June 30, 2020, the minimum lease payments under operating leases consist of the following:

Leases Payable	
Fiscal year	Operating Leases
2021	\$ 135,328
Total minimum lease payments	135,328

Note 12 - Notes Payable

In June 2003, the College obtained financing in order to build the Student Union Building through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$12,455,000. The bonds were refinanced in March 2013 in the amount of \$6,555,000. The interest rate charged is approximately 1.83%. Starting in 1999, students assess themselves, on a quarterly basis, a mandatory fee to service the debt. Student fees related to the COP are accounted for in a dedicated fund, which is used to pay principal and interest.

In September 2015, the College obtained financing for the renovations of maintenance building 24A through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$1,487,672. The interest rate charged is approximately 2.35%. The rental income from the childcare center located in building 1 is used to pay the principal and interest for this obligation.

The College's debt service requirements for these note agreements for the next five years and thereafter are as follows in note 13.

Note 13 - Annual Debt Service Requirements

Future debt service requirements at June 30, 2020 are as follows:

Annual Debt Service Requirements			
	Certificates of Participation		
Fiscal year	Principal	Interest	Total
2021	882,540	110,872	\$ 993,412
2022	909,526	77,862	\$ 987,388
2023	951,421	43,567	\$ 994,988
2024	158,228	9,553	\$ 167,781
2025	159,998	7,127	\$ 167,125
2026	166,682	2,443	\$ 169,125
Total	\$ 3,228,395	\$ 251,424	\$ 3,479,819

Note 14 - Schedule of Long Term Liabilities

	Balance outstanding 6/30/19	Additions	Reductions	Balance outstanding 6/30/20	Current portion
Certificates of Participation	\$ 4,078,909	\$ -	\$ 850,514	\$ 3,228,395	\$ 882,540
Compensated absences	4,583,345	2,758,900	2,090,059	\$ 5,252,186	2,152,511
Net pension liability	4,989,157		1,118,701	\$ 3,870,456	-
Total pension liability	4,573,707	1,662,467		\$ 6,236,174	90,404
Total OPEB liability	23,873,148	3,265,218	-	\$ 27,138,366	467,948
Total	\$ 42,098,266	\$ 7,686,585	\$ 4,059,274	\$ 45,725,577	\$ 3,593,403

Note 15 - Retirement Plans**A. General**

The College offers three contributory pension plans: the Washington State Public Employees Retirement System (PERS), the Washington State Teachers Retirement System (TRS), and the State Board Retirement Plan (SBRP). PERS and TRS are cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Systems (DRS). The State Board Retirement Plan (SBRP) is a defined contribution single employer pension plan with a supplemental payment when required. The SBRP is administered by the State Board for Community and Technical Colleges (SBCTC) and available to faculty, exempt administrative and professional staff of the state's public community and technical colleges. The College reports its proportionate share of the total pension liability as it is a part of the college system.

Basis of Accounting

Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all plans and additions to/deductions from all plan

fiduciary net position have been determined in all material respects on the same basis as they are reported by the plans.

In accordance with Statement No. 68, the College has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities. The College has elected to use the current fiscal year end as the measurement date for reporting pension liabilities for the Higher Education Supplemental Retirement Plan.

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 and No. 73 for Highline College, for fiscal year 2020:

Aggregate Pension Amounts - All Plans		
Pension Liabilities	\$	10,106,630
Deferred outflows of resources related to pensions	\$	4,480,818
Deferred inflows of resources related to pensions	\$	3,035,557
Pension Expense	\$	827,303

Department of Retirement Systems

As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement Systems (DRS) administers eight retirement systems covering eligible employees of the state and local governments. The Governor appoints the director of the DRS.

The DRS administered systems are comprised of 12 defined benefit pension plans and 3 defined benefit/ defined contribution plans. Below are the DRS plans that the College participates in:

- Public Employees' Retirement System (PERS)
 - Plan 1 - defined benefit
 - Plan 2 - defined benefit
 - Plan 3 - defined benefit/defined contribution
- Teachers' Retirement System (TRS)
 - Plan 1 - defined benefit
 - Plan 2 - defined benefit
 - Plan 3 - defined benefit/defined contribution

Although some assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan.

Administration of the PERS and TRS plans is funded by an employer rate of 0.18 percent of employee salaries.

Pursuant to RCW 41.50.770, the College offers its employees that elect to participate a deferred compensation program in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, disability, death, or unforeseeable financial emergency. This deferred compensation plan is administered by the DRS.

The DRS prepares a stand-alone financial report that is compliant with the requirements of GASB Statement No. 67. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, PO Box 48380, Olympia, WA 98504-8380 or online at <http://www.drs.wa.gov/administration/annual-report>.

Higher Education

As established in chapter 28B.10 RCW, eligible higher education state employees may participate in higher education retirement plans. These plans include a defined contribution plan administered by a third party with a supplemental defined benefit component (funded on a pay-as-you-go basis) which is administered by the state.

B. College Participation in Plans Administered by the Department of Retirement Systems PERS

Plan Description. The Legislature established the Public Employees' Retirement System (PERS) in 1947. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature. Membership in the system includes: elected officials; state employees; employees of the Supreme Court, Court of Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. 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 a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to PERS Plan 3.

PERS participants joining the system on or after March 1, 2002 have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 3.

Benefits Provided. PERS plans provide retirement, disability, and death benefits to eligible members.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement 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. The monthly benefit is 2 percent of the

average final compensation (AFC) per year of service, capped at 60 percent. The AFC is the average of the member's 24 highest consecutive service months.

PERS Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Plan 1 members may elect to receive an optional cost of living allowance (COLA) that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. There is no cap on years of service credit and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually. The AFC is the average of the member's 60 highest paid consecutive months. PERS Plan 2 members have the option to retire early with reduced benefits.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. There is no cap on years of service credit. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months.

PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44. PERS Plan 3 members have the option to retire early with reduced benefits. PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

Contributions. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. The methods used to determine contribution requirements are established under state statute.

Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS covered employment.

TRS

Plan Description. The Legislature established the Teachers' Retirement System (TRS) in 1938. TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the Legislature. Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative, or supervisory capacity. TRS is comprised principally of non-state agency employees.

TRS is a cost-sharing, multiple-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. 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 a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

TRS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS members joining the system on or after July 1, 1996, are members of TRS Plan 3. Legislation passed in 2007 gives TRS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of TRS Plan 2 or Plan 3. At the end of 90 days, any member who has not made a choice becomes a member of Plan 3.

Benefits Provided. TRS plans provide retirement, disability, and death benefits to eligible members.

TRS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 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. The monthly benefit is 2 percent of the average final compensation (AFC) for each year of service credit, up to a maximum of 60 percent. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two.

TRS Plan 1 members may elect to receive an optional cost of living allowance (COLA) amount based on the Consumer Price Index, capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

TRS Plan 2 members are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually. The AFC is the average of the member's 60 highest paid consecutive months. TRS Plan 2 members have the option to retire early with reduced benefits.

The defined benefit portion of TRS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months. TRS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44. TRS Plan 3 members have the option to retire early with reduced benefits.

TRS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

Contributions

PERS and TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution

rates, and Plan 3 employer contribution rates. The methods used to determine contribution requirements are established under state statute.

Members in PERS or TRS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS or TRS-covered employment.

The employer contribution rates (expressed as a percentage of covered payroll) and actual contributions for the year ended June 30, 2020 were as follows:

	PERS 1	PERS 2/3*	TRS 1	TRS 2/3*
Contribution Rate	12.86%	12.86%	15.51%	15.51%
Actual Contributions	\$ 527,049	\$ 853,882	\$ 170,891	\$ 191,349

* Plan 2/3 employer rate includes a component to address the Plan 1 unfunded actuarial accrued liability

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2018, with the results rolled forward to the June 30, 2019, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50%
Investment rate of return	7.40%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary (OSA) applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of the 2007-2012 Experience Study Report and the 2017 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report.

The Office of the State Actuary (OSA) selected a 7.40 percent long-term expected rate of return on pension plan investments using a building-block method. In selecting this assumption, 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 provided by the WSIB.

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

- Expected annual return.

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

The WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	2.2%
Tangible Assets	7%	5.1%
Real Estate	18%	5.8%
Global Equity	32%	6.3%
Private Equity	23%	9.3%
Total	100%	

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

There were no material changes in assumptions, benefit terms, or methods for the reporting period.

Discount Rate

The discount rate used to measure the total pension liability was 7.40 percent, the same as the prior measurement date. 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. Consistent with current law, the completed asset sufficiency test included an assumed 7.50 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.40 percent future investment rate of return on invested assets was assumed for the test.

Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including PERS Plan 2/3 and TRS Plan 2/3 employers whose rates include a component for the PERS Plan 1 liability). Based on those assumptions, 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 net pension liability of the College calculated using the discount rate of 7.40 percent, as well as what the College's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.40 percent) or 1-percentage-point higher (8.40 percent) than the current rate.

	1% Decrease	Rate	1% Increase
Pension Plan	(6.40%)	(7.40%)	(8.40%)
PERS Plan 1	\$ 3,066,580	\$ 2,448,722	\$ 1,912,649
PERS Plan 2/3	\$ 5,982,481	\$ 780,023	\$ (3,488,934)
TRS Plan 1	\$ 658,503	\$ 515,215	\$ 390,922
TRS Plan 2/3	\$ 689,390	\$ 126,496	\$ (331,175)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liabilities. At June 30, 2020, the College reported a net pension liability of \$3,870,456 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$ 2,448,722
PERS 2/3	780,023
TRS 1	515,215
TRS 2/3	126,496

The College's proportionate share of pension liabilities for fiscal years ending June 30, 2019 and June 30, 2020 for each retirement plan are listed below:

	2018	2019	Change
PERS 1	0.063504%	0.063680%	0.000176%
PERS 2/3	0.077738%	0.080304%	0.002566%
TRS 1	0.024442%	0.020810%	-0.003632%
TRS 2/3	0.024858%	0.020994%	-0.003864%

The College's proportion of the net pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating state agencies, actuarially determined.

Pension Expense. For the year ended June 30, 2020 the College recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 122,305
PERS 2/3	254,750
TRS 1	(85,364)
TRS 2/3	101,839
Total	\$ 393,530

Deferred Outflows of Resources and Deferred Inflows of Resources. The following represent the components of the College's deferred outflows and inflows of resources as reflected on the Statement of Net Position, for the year ended June 30, 2020:

	PERS 1	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	-	-
Difference between expected and actual earnings of pension plan investments	-	163,595
Changes of assumptions	-	-
Changes in College's proportionate share of pension liabilities	-	-
Contributions subsequent to the measurement date	527,049	-
Totals	\$ 527,049	\$ 163,595

	PERS 2/3	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	223,479	167,701
Difference between expected and actual earnings of pension plan investments	-	1,135,399
Changes of assumptions	19,974	327,272
Changes in College's proportionate share of pension liabilities	199,214	25,996
Contributions subsequent to the measurement date	853,882	-
Totals	\$ 1,296,549	\$ 1,656,368

	TRS 1	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	-	-
Difference between expected and actual earnings of pension plan investments	-	39,513
Changes of assumptions	-	-
Changes in College's proportionate share of pension liabilities	-	-
Contributions subsequent to the measurement date	170,891	-
Totals	\$ 170,891	\$ 39,513

	TRS 2/3	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	87,955	4,070
Difference between expected and actual earnings of pension plan investments	-	109,210
Changes of assumptions	47,688	33,610
Changes in College's proportionate share of pension liabilities	101,521	28,583
Contributions subsequent to the measurement date	191,349	-
Totals	\$ 428,513	\$ 175,473

The \$1,743,171 reported as deferred outflows of resources represent contributions the College made subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2021.

Other amounts reported as deferred outflows and inflows of resources will be recognized in pension expense as follows:

Year ended June 30	PERS 1	PERS 2/3	TRS 1	TRS 2/3
2021	\$ (36,115)	\$ (314,388)	\$ (8,111)	\$ 4,199
2022	\$ (85,545)	\$ (553,473)	\$ (21,213)	\$ (27,977)
2023	\$ (30,527)	\$ (229,179)	\$ (7,459)	\$ (102)
2024	\$ (11,408)	\$ (109,057)	\$ (2,730)	\$ 11,146
2025	\$ -	\$ (30,703)	\$ -	\$ 20,354
Thereafter	\$ -	\$ 23,099	\$ -	\$ 54,070
Total	\$ (163,595)	\$ (1,213,701)	\$ (39,513)	\$ 61,690

C. College Participation in Plan Administered by the State Board for Community and Technical Colleges

State Board Retirement Plan (SBRP) – Supplemental Defined Benefits Plans

Plan Description.

The State Board Retirement Plan is a privately administered single-employer defined contribution plan with a supplemental defined benefit plan component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The supplemental component is financed on a pay-as-you-go basis. Highline College participates in this plan as authorized by chapter 28B.10 RCW and reports its proportionate share of the total pension liability. The State Board makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals, no assets are accumulated in trusts or equivalent arrangements.

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2020 were each \$2,255,083.

Benefits Provided. The State Board Supplemental Retirement Plans (SRP) provide retirement, disability, and death benefits to eligible members.

As of July 1, 2011, all the Supplemental Retirement Plans were closed to new entrants.

Members are eligible to receive benefits under this plan at age 62 with 10 years of credited service. The supplemental benefit is a lifetime benefit equal to the amount a member's goal income exceeds their assumed income. The monthly goal income is the one-twelfth of 2 percent of the member's average annual salary multiplied by the number of years of service (such product not to exceed one-twelfth of fifty percent of the member's average annual salary). The member's assumed income is an annuity benefit the retired member would receive from their defined contribution Retirement Plan benefit in the first month of retirement had they invested all employer and member contributions equally between a fixed income and variable income annuity investment.

Plan members have the option to retire early with reduced benefits.

The SRP pension benefits are unfunded. For the year ended June 30, 2020, supplemental benefits were paid by the SBCTC on behalf of the system in the amount of \$1,785,000. The College's share of this amount was \$75,907. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Higher Education Retirement Plan (HERP) Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2020, the College paid into this fund at a rate of 0.5% of covered salaries, totaling \$128,368. This amount was not used as a part of GASB 73 calculations as its status as an asset has not been determined by the Legislature. As of June 30, 2020, the Community and Technical College system accounted for \$23,208,875 of the fund balance.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2018, with the results rolled forward to the June 30, 2020, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases 3.50%-4.25%

Fixed Income and Variable Income Investment Returns* 4.25%-6.50%

**Measurement reflects actual investment returns through June 30, 2018*

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Most actuarial assumptions used in the June 30, 2018 valuation were based on the results of the April 2016 Supplemental Plan Experience Study. Additional assumptions related to the fixed income and variable income investments were based on feedback from financial administrators of the Higher Education Supplemental Retirement Plans.

Material assumption changes during the measurement period include the discount rate decrease from 3.50 percent to 2.21 percent.

Discount Rate. For the purposes of determining the discount rate, the Bond Buyer 20-Bond general obligation index was used. Also reflected was the fiscal year 2020 returns for the Teachers Insurance and Annuity Association of America (TIAA) and CREF investments which are used to determine a member's assumed income.

Pension Expense. Pension expense for the fiscal year ending June 30, 2020 was \$433,773.

Proportionate Share (%)	4.25%
Service Cost	\$ 149,507
Interest Cost	168,178
Amortization of Difference Between Expected and Actual Experience	(107,550)
Amortization of Changes of Assumptions	157,337
Changes of Benefit Terms	-
Administrative Expenses	-
Other Changes in Fiduciary Net Position	-
Proportionate Share of Collective Pension Expense	\$ 367,472
Amortization of the Change in Proportionate Share of TPL	66,301
Total Pension Expense	\$ 433,773

Proportionate Shares of Pension Liabilities

The College's proportionate share of pension liabilities for fiscal year ending June 30, 2020 was 4.25%. The College's proportion of the total pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating Colleges. The College's change in proportionate share of the total pension liability and deferred inflows and deferred outflows of resources are represented in the following table:

Proportionate Share (%) 2019	4.14%
Proportionate Share (%) 2020	4.25%
Total Pension Liability - Ending 2019	\$ 4,573,707
Total Pension Liability - Beginning 2020	4,693,214
Total Pension Liability - Change in Proportion	119,507
Total Deferred Inflow/Outflows - 2019	546,776
Total Deferred Inflow/Outflows - 2020	561,063
Total Deferred Inflows/Outflows - Change in Proportion	14,287
Total Change in Proportion	\$ 133,794

Plan Membership

Membership in the State Board Supplemental Retirement Plans consisted of the following at June 30, 2018, the most recent actuarial valuation date:

Number of Participating Members				
Plan	Inactive Members (Or Beneficiaries) Currently Receiving Benefits	Inactive Members Entitled To But Not Yet Receiving Benefits	Active Members	Total Members
Highline College	11	15	237	263

Change in Total Pension Liability

The following table presents the change in total pension liability of State Board Supplemental Retirement Plan at June 30, 2020, the latest measurement date for the plan:

Schedule of Changes in Total Pension Liability	
	Amount
Service Cost	\$ 149,507
Interest	168,178
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	354,355
Changes in Assumptions	946,829
Benefit Payments	(75,907)
Change in Proportionate Share of TPL	119,505
Other	-
Net Change in Total Pension Liability	1,662,467
Total Pension Liability - Beginning	4,573,707
Total Pension Liability - Ending	\$ 6,236,174

Sensitivity of the Total Pension Liability to Changes in the Discount Rate

The following table presents the total pension liability, calculated using the discount rate of 3.5 percent, as well as what the employers' total pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.5 percent) or 1 percentage point higher (4.5 percent) than the current rate:

1% Decrease	Current Discount Rate	1% Increase
(2.50%)	(3.50%)	(4.50%)
\$ 7,171,056	\$ 6,236,174	\$ 5,465,917

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions

At June 30, 2019, the State Board Supplemental Retirement Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 503,998	\$ 786,673
Changes of Assumptions	1,186,941	\$ 213,935
Changes in College's proportionate share of pension liability	366,877	\$ -
Transactions Subsequent to the Measurement Date	-	-
Total	\$ 2,057,816	\$ 1,000,608

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30:

State Board Supplemental Retirement Plan	
2021	116,088
2022	116,088
2023	116,088
2024	186,156
2025	291,300
Thereafter	231,501

Note 16 - Other Post-Employment Benefits

Plan Description. In addition to pension benefits as described in Note 15, the College, through the Health Care Authority (HCA), administers a single employer defined benefit other

postemployment benefit (OPEB) plan. Per RCW 41.05.065, 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. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life, and long-term disability.

The relationship between the PEBB OPEB plan and its member employers, their employees, and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan in effect at the time of each valuation. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB OPEB plan is administered by the state and is funded on a pay-as-you-go basis. In the state CAFR the plan is reported in governmental funds using the modified accrual basis and the current financial resources measurement focus. For all proprietary and fiduciary funds, the OPEB plan is reported using the economic resources measurement focus and the accrual basis of accounting. It has no assets. The PEBB OPEB plan does not issue a publicly available financial report.

Employees Covered by Benefit Terms. Employers participating in the PEBB plan for the state include general government agencies, higher education institutions, and component units. Additionally, there are 76 of the state's K-12 schools and educational service districts (ESDs), and 249 political subdivisions and tribal governments not included in the state's financial reporting who participate in the PEBB plan. The plan is also available to the retirees of the remaining 227 K-12 schools, charter schools, and ESDs. Membership in the PEBB plan for the state consisted of the following:

**Summary of Plan Participants
As of June 30, 2019**

Active Employees*	570
Retirees Receiving Benefits**	173
Retirees Not Receiving Benefits***	2
Total Active Employees and Retirees	745

*Reflects active employees eligible for PEBB program participation as of June 30, 2018.

**Headcounts exclude spouses of retirees that are participating in a PEBB program as a dependent.

***This is an estimate of the number of retirees that may be eligible to join a post-retirement PEBB program in the future. No benefits are allowed to them unless they choose to join in the future. In order to do so, they must show proof of continuous medical coverage since their separation of employment with the State of Washington that meets the requirements set forth in Washington Administrative Code 182-12-205.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the

retirement system to which they belong. Retirees' access to the PEBB plan depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, Higher Education, Judicial, and LEOFF 2. However, not all employers who participate in these plans offer PEBB to retirees.

Benefits Provided. Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In calendar year 2018, the average weighted implicit subsidy was valued at \$347 per adult unit per month. In calendar year 2019, the average weighted implicit subsidy is projected to be \$367 per adult unit per month. In calendar year 2020, the average weighted implicit subsidy is projected to be \$373 per adult unit per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. The final amount is approved by the state Legislature. In calendar year 2019 the explicit subsidy was \$168 per member per month. It is projected to increase to \$183 per member per month in calendar year 2020.

Contribution Information. Administrative costs as well as implicit and explicit subsidies are funded by required contributions (RCW 41.05.050) from participating employers. The subsidies provide monetary assistance for medical benefits.

Contributions are set each biennium as part of the budget process. The benefits are funded on a pay-as-you-go basis.

The estimated monthly cost for PEBB benefits for the reporting period for each active employee (average across all plans and tiers) is as follows (expressed in dollars):

Required Premium*	
Medical	\$ 1,100
Dental	81
Life	4
Long-term Disability	2
Total	<u>1,187</u>
Employer contribution	1,024
Employee contribution	162
Total	<u>\$ 1,186</u>

*Per 2020 PEBB Financial Projection Model 3.3. Per capita cost based on subscribers; includes non-Medicare risk pool only. Figures based on CY2020 which includes projected claims cost at the time of this

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to:

<http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>

Total OPEB Liability

As of June 30, 2020, the state reported a total OPEB liability of \$5.804 billion. The College's proportionate share of the total OPEB liability is \$27,138,366. This liability was determined based on a measurement date of June 30, 2019.

Actuarial Assumptions. Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members (active employees and retirees) to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation Rate	2.75%
Projected Salary Changes	3.50% Plus Service-Based Salary Increases
Health Care Trend Rates*	Trend rate assumptions vary slightly by medical plan. Initial rate is approximately 8%, reaching an ultimate rate of approximately 4.5% in 2080
Post-Retirement Participation Percentage	65%
Percentage with Spouse Coverage	45%

In projecting the growth of the explicit subsidy, after 2020 when the cap is \$183, it is assumed to grow at the health care trend rates. The Legislature determines the value of the cap and no future increases are guaranteed; however, based on historical growth patterns, future increases to the cap are assumed.

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Most demographic actuarial assumptions, including mortality and when members are expected to terminate and retire, were based on the results of the 2007-2012 Experience Study Report. The post-retirement participation percentage and percentage with spouse coverage, were reviewed in 2017. Economic assumptions, including inflation and salary increases, were based on the results of the 2017 Economic Experience Study.

Actuarial Methodology. The total OPEB liability was determined using the following methodologies:

Actuarial Valuation Date	6/30/2018
Actuarial Measurement Date	6/30/2019
Actuarial Cost Method	Entry Age
Amortization Method	The recognition period for the experience and assumption changes is 9 years. This is equal to the average expected remaining service lives of all active and inactive members.
Asset Valuation Method	N/A - No Assets

Discount Rate. Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.87 percent for the June 30, 2018 measurement date and 3.5 percent for the June 30, 2019 measurement date.

Additional detail on assumptions and methods can be found on OSA's website:

<http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>

Changes in Total OPEB Liability

As of June 30, 2020, components of the calculation of total OPEB liability determined in accordance with GASB Statement No. 75 for the College are represented in the following table:

Highline College	
Proportionate Share (%)	0.4675917429%
Service Cost	\$ 1,098,848
Interest Cost	953,188
Differences Between Expected and Actual Experience	-
Changes in Assumptions*	1,775,086
Changes of Benefit Terms	-
Benefit Payments	(436,026)
Changes in Proportionate Share	(125,878)
Other	-
Net Change in Total OPEB Liability	3,265,218
Total OPEB Liability - Beginning	23,873,148
Total OPEB Liability - Ending	\$ 27,138,366

*The recognition period for these changes is nine years. This is equal to the average expected remaining service lives of all active and inactive members.

Sensitivity of the Total Liability to Changes in the Discount Rate. The following represents the total OPEB liability of the College, calculated using the discount rate of 3.5 percent as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1

percentage point lower (2.5 percent) or 1 percentage point higher (4.5 percent) than the current rate:

Discount Rate Sensitivity		
	Current	
1% Decrease	Discount Rate	1% Increase
\$ 32,863,653	\$ 27,138,366	\$ 22,691,514

Sensitivity of Total OPEB Liability to Changes in the Health Care Cost Trend Rates. The following represents the total OPEB liability of the College, calculated using the health care trend rates of 8.00 percent decreasing to 4.50 percent, as well as what the total OPEB liability would be if it were calculated using health care trend rates that are 1 percentage point lower (7.00 percent decreasing to 3.50 percent) or 1 percentage point higher (9.0 percent decreasing to 5.50 percent) than the current rate:

Health Care Cost Trend Rate Sensitivity		
	Current	
1% Decrease	Discount Rate	1% Increase
\$ 21,964,387	\$ 27,138,366	\$ 34,101,757

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ending June 30, 2020, the College will recognize OPEB expense of \$1,232,716. OPEB expense consists of the following elements:

Highline College	
Proportionate Share (%)	0.467591742
Service Cost	\$ 1,098,848
Interest Cost	953,188
Amortization of Differences Between Expected and Actual Experience	103,526
Amortization of Changes in Assumptions	(993,831)
Changes of Benefit Terms	-
Amortization of Changes in Proportion	70,985
Administrative Expenses	-
Total OPEB Expense	\$ 1,232,716

As of June 30, 2020, the deferred inflows and deferred outflows of resources for the College are as follows:

Highline College		
Proportionate Share (%)	0.4675917429%	
Deferred Inflows/Outflows of Resources	Deferred Inflows	Deferred Outflows
Difference between expected and actual experience	\$ -	\$ 724,680
Changes in assumptions	7,868,581	1,577,855
Transactions subsequent to the measurement date	-	467,948
Changes in proportion	422,369	946,316
Total Deferred Inflows/Outflows	\$ 8,290,950	\$ 3,716,799

Amounts reported as deferred outflow of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of total OPEB liability in the year ended June 30, 2021. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense in subsequent years for the College as follows:

Proportionate Share (%)	0.4675917429%
2021	\$ (819,320)
2022	\$ (819,320)
2023	\$ (819,320)
2024	\$ (819,320)
2025	\$ (819,320)
Thereafter	\$ (945,499)

The change in the College's proportionate share of OPEB liability and deferred inflows and deferred outflows of resources based on measurement date are representing in the following table:

Proportionate Share (%) 2018	0.4700703090%
Proportionate Share (%) 2019	0.4675917429%
Total OPEB Liability - Ending 2018	\$ 23,873,148
Total OPEB Liability - Beginning 2019	23,747,270
Total OPEB Liability Change in Proportion	(125,878)
Total Deferred Inflows/Outflows - 2018	(7,836,733)
Total Deferred Inflows/Outflows - 2019	(7,795,411)
Total Deferred Inflows/Outflows Change in Proportion	41,322
Total Change in Proportion	\$ (167,200)

Note 17 - Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below

summarizes operating expenses by program or function such as instruction, research, and academic support. The following table lists operating expenses by program for the year ending June 30, 2020.

Expenses by Functional Classification	
Instruction	\$ 33,220,123
Academic Support Services	11,420,542
Student Services	8,838,093
Institutional Support	7,927,869
Operations and Maintenance of Plant	5,994,275
Scholarships and Other Student Financial Aid	6,546,330
Auxiliary enterprises	3,960,970
Depreciation	2,411,317
Total operating expenses	\$ 80,319,519

Note 18 - Commitments and Contingencies

The College is engaged in various legal actions in the ordinary course of business. Management does not believe the ultimate outcome of these actions will have a material adverse effect on the financial statements.

Note 19 - Subsequent Event

At the time of financial statement issuance, the College was negotiating two leases that have subsequently been signed. The first lease is a continuation of the Building 99 office building housing classrooms and administrative offices. This lease is classified as an operating lease and runs through September 30, 2022. The second lease is for office space on the ground floor of the student housing building, Highline Place. This lease is classified as an operating lease and runs through September 2025.

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Highline College's Proportionate Share of the Net Pension Liability

Schedule of Highline College's Share of the Net Pension Liability						
Public Employees' Retirement System (PERS) Plan 1						
Measurement Date of June 30						
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability	
2014	0.054450%	\$ 2,742,944	\$ 5,668,499	48.39%	61.19%	
2015	0.062011%	\$ 3,243,752	\$ 6,783,466	47.82%	59.10%	
2016	0.061421%	\$ 3,298,595	\$ 7,144,148	46.17%	57.03%	
2017	0.060248%	\$ 2,858,823	\$ 7,500,895	38.11%	61.24%	
2018	0.063504%	\$ 2,815,834	\$ 8,142,641	34.58%	63.22%	
2019	0.063680%	\$ 2,448,722	\$ 8,849,355	27.67%	67.12%	

Schedule of Highline College's Share of the Net Pension Liability						
Public Employees' Retirement System (PERS) Plan 2/3						
Measurement Date of June 30						
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability	
2014	0.062994%	\$ 1,273,336	\$ 5,394,910	23.60%	93.29%	
2015	0.072363%	\$ 2,585,572	\$ 6,514,928	39.69%	89.20%	
2016	0.074691%	\$ 3,760,634	\$ 6,982,367	53.86%	85.82%	
2017	0.073656%	\$ 2,559,200	\$ 7,337,559	34.88%	90.97%	
2018	0.077738%	\$ 1,327,306	\$ 7,989,041	16.61%	95.77%	
2019	0.080304%	\$ 780,023	\$ 8,762,098	8.90%	97.77%	

*These schedules are to be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans

Schedules of Highline College's Proportionate Share of the Net Pension Liability

Schedule of Highline College's Share of the Net Pension Liability						
Teachers' Retirement System (TRS) Plan 1						
Measurement Date of June 30						
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability	
2014	0.009103%	\$ 268,489	\$ 340,296	78.90%	68.77%	
2015	0.012191%	\$ 386,228	\$ 524,241	73.67%	65.70%	
2016	0.016208%	\$ 553,380	\$ 749,991	73.78%	62.07%	
2017	0.018750%	\$ 566,870	\$ 1,173,280	48.31%	65.58%	
2018	0.024442%	\$ 713,852	\$ 1,348,270	52.95%	66.52%	
2019	0.020810%	\$ 515,215	\$ 1,412,995	36.46%	70.37%	

Schedule of Highline College's Share of the Net Pension Liability						
Teachers' Retirement System (TRS) Plan 2/3						
Measurement Date of June 30						
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability	
2014	0.006325%	\$ 20,429	\$ 75,769	26.96%	96.81%	
2015	0.009714%	\$ 81,967	\$ 462,260	17.73%	92.48%	
2016	0.014112%	\$ 193,779	\$ 695,481	27.86%	88.72%	
2017	0.091920%	\$ 177,129	\$ 1,173,280	15.10%	93.14%	
2018	0.024858%	\$ 111,890	\$ 1,348,270	8.30%	96.88%	
2019	0.020994%	\$ 126,496	\$ 1,412,995	8.95%	96.36%	

*These schedules are to be built prospectively until they contain 10 years of data.

Pension Plan Information
Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 1 Fiscal Year Ended June 30						
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll	
2014	\$ 243,279	\$ 243,279	\$ -	\$ 5,668,499	4.29%	
2015	\$ 287,031	\$ 287,031	\$ -	\$ 6,783,466	4.23%	
2016	\$ 350,322	\$ 350,322	\$ -	\$ 7,144,148	4.90%	
2017	\$ 367,981	\$ 367,981	\$ -	\$ 7,500,895	4.91%	
2018	\$ 421,173	\$ 421,173	\$ -	\$ 8,142,641	5.17%	
2019	\$ 458,804	\$ 458,804	\$ -	\$ 8,849,355	5.18%	
2020	\$ 527,049	\$ 527,049	\$ -	\$10,891,153	4.84%	

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 2/3 Fiscal Year Ended June 30						
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll	
2014	\$ 487,151	\$ 487,151	\$ -	\$ 5,394,910	9.03%	
2015	\$ 588,342	\$ 588,342	\$ -	\$ 6,514,928	9.03%	
2016	\$ 766,698	\$ 766,698	\$ -	\$ 6,982,367	10.98%	
2017	\$ 807,201	\$ 807,201	\$ -	\$ 7,337,559	11.00%	
2018	\$ 1,000,761	\$ 1,000,761	\$ -	\$ 7,989,041	12.53%	
2019	\$ 1,106,533	\$ 1,106,533	\$ -	\$ 8,762,098	12.63%	
2020	\$ 1,368,400	\$ 1,368,400	\$ -	\$10,792,332	12.68%	

Notes: These schedules will be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 1 Fiscal Year Ended June 30						
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll	
2014	\$ 11,731	\$ 11,731	\$ -	\$ 340,296	3.45%	
2015	\$ 27,525	\$ 27,525	\$ -	\$ 524,241	5.25%	
2016	\$ 49,232	\$ 49,232	\$ -	\$ 749,991	6.56%	
2017	\$ 73,095	\$ 73,095	\$ -	\$ 1,173,280	6.23%	
2018	\$ 95,464	\$ 95,464	\$ -	\$ 1,348,270	7.08%	
2019	\$ 104,287	\$ 104,287	\$ -	\$ 1,412,995	7.38%	
2020	\$ 170,891	\$ 170,891		\$ 2,368,925	7.21%	

Schedule of Contributions Teachers' Retirement System (TRS) Plan 2/3 Fiscal Year Ended June 30						
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll	
2014	\$ 27,430	\$ 27,430	\$ -	\$ 275,769	9.95%	
2015	\$ 47,197	\$ 47,197	\$ -	\$ 462,260	10.21%	
2016	\$ 88,584	\$ 88,584	\$ -	\$ 695,481	12.74%	
2017	\$ 151,940	\$ 151,940	\$ -	\$ 1,173,280	12.95%	
2018	\$ 199,326	\$ 199,326	\$ -	\$ 1,348,270	14.78%	
2019	\$ 214,946	\$ 214,946	\$ -	\$ 1,412,995	15.21%	
2020	\$ 362,240	\$ 362,240	\$ -	\$ 2,368,925	15.29%	

Notes: These schedules will be built prospectively until they contain 10 years of data.

Required Supplementary Information
State Board Supplemental Defined Benefit Plans

Schedule of Changes in the Total Pension Liability and Related Ratios Highline College Fiscal Year Ended June 30 <i>(expressed in thousands)</i>				
	2017	2018	2019	2020
Total Pension Liability				
Service Cost	\$ 208,036	\$ 152,751	\$ 118,147	\$ 149,507
Interest	134,961	140,378	142,910	168,178
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(973,048)	(415,187)	269,437	354,355
Changes of assumptions	(229,641)	(140,457)	506,618	946,829
Benefit Payments	(34,631)	(51,888)	(75,342)	(75,907)
Change in proportionate share of TPL		143,513	132,512	119,505
Other	-	-	-	-
Net Change in Total Pension Liability	(894,323)	(170,890)	1,094,282	1,662,467
Total Pension Liability - Beginning	4,544,643	3,650,315	3,479,425	4,573,707
Total Pension Liability - Ending	\$ 3,650,320	\$ 3,479,425	\$ 4,573,707	\$ 6,236,174
College's Proportion of the Pension Liability	3.84%	3.99%	4.14%	4.25%
Covered-employee payroll	\$ 21,047,424	\$ 22,563,590	\$ 24,170,873	\$ 26,267,681
percentage of covered-employee payroll	17.343310%	15.420529%	18.922391%	23.740862%

Notes: These schedules will be built prospectively until they contain 10 years of data.

State Board Supplemental Defined Benefit Plans
Notes to Required Supplementary Information

The State Board Supplemental Retirement Plans are financed on a pay-as-you-go basis. State Board makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals, no assets are accumulated in trusts or equivalent arrangements. Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, salary growth and the variable income investment return

Required Supplementary Information
Other Postemployment Benefits Information

Schedule of Changes in Total OPEB Liability and Related Ratios Fiscal Year Ended June 30			
Total OPEB Liability	2018	2019	2020
Service cost	\$ 1,783,043	\$ 1,492,586	\$ 1,098,848
Interest cost	835,188	1,026,145	953,188
Difference between expected and actual experience	-	936,671	-
Changes in assumptions	(4,074,063)	(6,534,324)	1,775,086
Changes in benefit terms	-	-	-
Benefit payments	(425,625)	(433,392)	(436,026)
Changes in proportionate share	(416,919)	1,084,526	(125,878)
Other	-	-	-
Net Changes in Total OPEB Liability	\$ (2,298,376)	\$ (2,427,788)	\$ 3,265,218
Total OPEB Liability - Beginning	\$ 28,599,312	\$ 26,300,936	\$ 23,873,148
Total OPEB Liability - Ending	\$ 26,300,936	\$ 23,873,148	\$ 27,138,366
College's proportion of the Total OPEB Liability (%)	0.451454%	0.470070%	0.467592%
Covered-employee payroll	\$ 28,897,509	\$ 34,603,653	\$ 39,013,678
Total OPEB Liability as a percentage of covered-employee payroll	91.014544%	68.990254%	69.561157%

This schedule is to be built prospectively until it contains ten years of data.

Notes to Required Supplementary Information

The Public Employee's Benefits Board (PEBB) OPEB plan does not have assets in trusts or equivalent arrangements and is funded on a pay-as-you-go basis. Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, health care trend rates, salary projections, and participation percentages.

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. 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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