PRELIMINARY OFFICIAL STATEMENT dated May 21, 2015

DATE OF COMPETITIVE SALE: May 27, 2015 BIDS RECEIVED UNTIL: 8:30 A.M. (PT)

NEW ISSUE **BONDS ARE NOT BANK QUALIFIED**
BOOK-ENTRY ONLY **RATINGS: District's Underlying: Moody's: Applied for**
Standard & Poor's: Applied for

Washington State School District Credit Enhancement Program: Moody's: "Aa1"; Standard & Poor's: "AA+"
(See "RATINGS" and "APPENDIX C - WASHINGTON STATE SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM" herein.)

In the opinion of Foster Pepper PLLC, Seattle, Washington ("Bond Counsel"), under existing federal law and assuming compliance by the District with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. (See "TAX EXEMPTION" herein.)

$47,655,000*
HIGHLINE SCHOOL DISTRICT NO. 401
KING COUNTY, WASHINGTON
UNLIMITED TAX GENERAL OBLIGATION REFUNDING BONDS, 2015

DATED: Date of Delivery (Estimated to be June 10, 2015) **DUE: December 1, as shown on inside cover**

Highline School District No. 401, King County, Washington (the "District") provides this Official Statement in connection with the issuance of its Unlimited Tax General Obligation Refunding Bonds, 2015 (the "Bonds"). The Bonds mature on December 1, in each of the years and amounts set forth on the inside cover, and will bear interest from their Date of Delivery to their respective maturities or date of prior redemption at the rates per annum as shown on the inside cover.

The Bonds will be issued as fully registered bonds under a book-entry only system, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in the principal amount of $5,000, or integral multiples thereof within a single maturity. The owners of any beneficial interest in the Bonds (the "Beneficial Owners") will not receive certificates representing their interest in the Bonds as long as the Bonds are in book-entry only form. Interest will be payable semiannually on each December 1 and June 1, commencing December 1, 2015 to the maturity or date of prior redemption of the Bonds. The Washington State Fiscal Agent, currently U.S. Bank National Association, will serve as registrar, paying agent and transfer agent for the Bonds (the "Bond Registrar"). For so long as the Bonds are held by DTC in book-entry only form, principal and interest payments will be made as described herein, see "APPENDIX F - BOOK-ENTRY ONLY SYSTEM."

The Bonds are unlimited tax general obligations of the District. For as long as any of the Bonds are outstanding, the District has irrevocably pledged to levy taxes annually without limitation as to rate or amount on all of the taxable property within the District in an amount sufficient, together with other money legally available and to be used therefor, to pay when due the principal of and interest on the Bonds, and the full faith, credit and resources of the District have been pledged irrevocably for the annual levy and collection of those taxes and the prompt payment of that principal and interest. ***The Bonds do not constitute a debt or indebtedness of King County, the State of Washington or any political subdivision thereof other than the District.*** (See "SECURITY" herein.)

The proceeds of the Bonds will be used to advance refund the District's callable, outstanding Unlimited Tax General Obligation Bonds, 2007, maturing on December 1 in the years 2021, 2023, 2025 and 2026 and pay the administrative costs of the refunding and the costs of issuing, selling and delivering the Bonds. (See "PURPOSE AND USE OF PROCEEDS" herein.)

The Bonds are subject to redemption prior to their stated maturity dates. (See "THE BONDS – Redemption Provisions" herein.)

The District will NOT designate the Bonds as "Qualified Tax-Exempt Obligations" for banks, thrift institutions and other financial institutions. (See "TAX EXEMPTION - Certain Other Federal Tax Consequences" herein.)

Payment of principal of and interest on the Bonds when due is guaranteed by the full faith, credit, and taxing power of the

STATE OF WASHINGTON

under the provisions of the Washington State School District Credit Enhancement Program. See Appendix C attached hereto and titled "WASHINGTON STATE SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM."

The Bonds are offered when, as and if issued by the District, subject to the final approving legal opinion of Bond Counsel. The Form of Bond Counsel Opinion is attached hereto as Appendix E. It is expected that the Bonds will be available for delivery to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer on or about June 10, 2015 (the "Date of Delivery").

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire official statement to obtain information essential to making an informed investment decision.

* Preliminary, subject to change.

$47,655,000[1]
HIGHLINE SCHOOL DISTRICT NO. 401
KING COUNTY, WASHINGTON
UNLIMITED TAX GENERAL OBLIGATION REFUNDING BONDS, 2015

MATURITY SCHEDULE[1]

DATED: Date of Delivery (Estimated to be June 10, 2015)

DUE: December 1, as shown below

Year	Principal Amounts[1]	Interest Rate	Yield	Price (% of Par)	CUSIP No.[2]
2024	$ 2,635,000[3]				
2025	10,855,000[3]				
2026	34,165,000[3]				

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[1] Preliminary, subject to change. (See "Adjustment of Principal Amount and Bid Price" in the Official Notice of Bond Sale included in this Preliminary Official Statement.)

[2] The CUSIP numbers are included for convenience of the holders and potential holders of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by Standard & Poor's. No assurance can be given that the CUSIP numbers for the Bonds will remain the same after the date of issuance and delivery of the Bonds.

[3] These amounts will constitute serial principal maturities of the Bonds unless all or a portion of these Bonds are designated as Term Bonds by the Successful Bidder, as described in the Official Notice of Bond Sale, in which case these amounts will constitute mandatory sinking fund redemptions of such Term Bonds.

HIGHLINE SCHOOL DISTRICT NO. 401
KING COUNTY, WASHINGTON

15675 Ambaum Blvd. SW
Burien, Washington 98166
(206) 631-3000
http://www.highlineschools.org[1]

Officials of the District:

Board of Directors..Bernie Dorsey, President
Michael Spear, Vice President
Angelica Alvarez
Tyrone Curry Sr.
Joe Van

Superintendent ....Dr. Susan A. Enfield
Chief of Staff and Finance ....Duggan Harman
Director of Business Services ....Bang Parkinson

Certain King County Officials:

Assessor ....Lloyd Hara
Treasury Operations Section, Finance and Business Operations Division, Department of Executive Services of King County as *ex officio* Treasurer of the District..Ken Guy
Senior Debt Analyst...Nigel Lewis

Financial Advisor

D. A. DAVIDSON & CO.
Columbia Center
701 5th Avenue, Suite 4050
Seattle, Washington 98104
(206) 389-4043

Bond Counsel

FOSTER PEPPER PLLC
1111 3rd Avenue
Seattle, Washington 98101
(206) 447-4400

[1] Neither the information on the District's website nor any links from that website are a part of this Official Statement, and such information cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon to make investment decisions regarding the Bonds.

The information in this Official Statement has been compiled from official and other sources the District considers reliable and, while not guaranteed as to accuracy, which the District believes to be correct as of its date. The District, however, makes no representation regarding the accuracy or completeness of Bond Counsel's opinion, or the information in "DISTRICT FINANCIAL INFORMATION – King County Investment Pool," which has been provided by King County, in "APPENDIX F – BOOK-ENTRY ONLY SYSTEM," which has been obtained from DTC's website, in "APPENDIX C – WASHINGTON STATE SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM," which has been provided by the State, or regarding D.A. Davidson & Co., the District's financial advisor (the "Financial Advisor") or information provided by the purchaser of the Bonds (the "Underwriter") regarding reoffering prices and yields, or other information provided by third parties. Estimates and opinions should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions, and such summaries are qualified by references to the entire contents of the summarized documents. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

Information on website addresses set forth in this Official Statement, including the District's, is not incorporated into this Official Statement and cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon in making investment decisions regarding the Bonds.

No dealer, broker, salesperson, or other person has been authorized by the District to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued or recommenced at any time without prior notice to any person.

The Bonds have not been registered under the Securities Act of 1933, as amended, and the Bond Resolution (as defined herein) has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary may be a criminal offense.

The presentation of certain information, including tables of receipts from taxes and other revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. Information relating to debt and tax limitations is based on existing statutes and constitutional provisions. Changes in State law could also alter these provisions.

Certain statements contained in this Official Statement do not reflect historical facts, but rather are forecasts and "forward-looking statements." No assurance can be given that the future results shown herein will be achieved, and actual results may differ materially from the forecasts shown. In this respect, the words "estimate," "forecast," "project," "anticipate," "expect," "intend," "believe" and other similar expressions are intended to identify forward-looking statements. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. All estimates, projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. These forward-looking statements speak only as of the date they were prepared. The District specifically disclaims any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Official Statement, except as otherwise expressly provided in "Continuing Disclosure" herein.

The order and placement of materials in this Official Statement, including the appendices, are not to be deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the appendices, must be considered in its entirety. The offering of the Bonds is made only by means of this entire Official Statement.

This Preliminary Official Statement has been "deemed final" as of its date by the District pursuant to Rule 15c2-12 ("Rule 15c2-12") of the Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended, except for the omission of material permitted to be omitted by the Rule 15c2-12.

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OFFICIAL NOTICE OF BOND SALE
$47,655,000*
HIGHLINE SCHOOL DISTRICT NO. 401
KING COUNTY, WASHINGTON
UNLIMITED TAX GENERAL OBLIGATION REFUNDING BONDS, 2015

NOTICE IS HEREBY GIVEN that electronic bids will be received by the Highline School District No. 401, King County, Washington (the "District"), acting by and through the District's Chief of Staff and Finance (the "Designated Representative") for the purchase of the above-referenced bonds (the "Bonds") at

8:30 A.M., PACIFIC TIME ("PT"), ON MAY 27, 2015

The Bonds will be sold on an all-or-none-basis. Bids must be submitted electronically via BiDCOMP™/Parity®, which has been designated by the District as the "Qualified Electronic Bid Provider." (See "Bidding and Sale Procedures" in this Official Notice of Bond Sale.)

Bidders are referred to the Preliminary Official Statement, dated May 20, 2015 (the "Preliminary Official Statement"), for additional information regarding the District, the Bonds, the security therefor, and other matters.

MODIFICATION; CANCELLATION; POSTPONEMENT

Bidders are advised that the District may modify the terms of this Official Notice of Bond Sale prior to the time for receipt of bids, including to change the principal amount and principal payments of the Bonds. Any such modifications will be provided to the Qualified Electronic Bid Provider and i-Deal Prospectus prior to the sale. In addition, the District may cancel or postpone the date and time for the receipt of bids for the Bonds at any time prior to the receipt of the bids. The issuance of the Bonds is subject to market conditions. Notice of such cancellation or postponement will be communicated by the District through the Qualified Electronic Bid Provider and i-Deal Prospectus as soon as practicable following such cancellation or postponement. As an accommodation to bidders, telephonic or electronic notice of any amendment or modification of this Official Notice of Bond Sale will be given to any bidder requesting such notice from the District's financial advisor, D.A. Davidson & Co. (the "Financial Advisor") at the address and phone number listed in the last paragraph of this Official Notice of Bond Sale. Failure of any bidder to receive such notice from the Qualified Electronic Bid Provider or i-Deal Prospectus will not affect the legality of the sale.

Each bidder (and not the Designated Representative, the District or Financial Advisor) is responsible for the timely electronic delivery of its bid. The official time will be determined by the District acting by and through its Designated Representative and not by any bidder or Qualified Electronic Bid Provider.

DESCRIPTION OF THE BONDS

The Bonds will be dated the date of their initial delivery, estimated to be June 10, 2015 (the "Date of Delivery"), will be issued in denominations of $5,000 each or any integral multiple thereof within a single maturity and will bear interest at such rate or rates as the District, acting by and through the Designated Representative, shall approve at the time of sale, payable semiannually on each June 1 and December 1, beginning December 1, 2015, to their maturity or earlier redemption.

* Preliminary, subject to change.

The Bonds will mature as follows:

Year (December 1)	Principal Amounts[1]
2024	$ 2,635,000[2]
2025	10,855,000[2]
2026	34,165,000[2]

[1] Preliminary, subject to change. (See "Adjustment of Principal Amount and Bid Price" in this Official Notice of Bond Sale.)
[2] These amounts will constitute serial principal maturities of the Bonds unless all or a portion of these Bonds are designated as Term Bonds by the Successful Bidder, as described in this Official Notice of Bond Sale, in which case these amounts will constitute mandatory sinking fund redemptions of such Term Bonds.

Adjustment of Principal Amount and Bid Price. The District reserves the right to increase or decrease the preliminary principal amount of the 2024 maturity by an amount not to exceed 50% percent of the preliminary principal amount of that maturity and the preliminary principal amounts of the 2025 and 2026 maturities by an amount not to exceed 15% percent of the preliminary principal amount of those maturities. The District reserves the right to increase or decrease the preliminary aggregate principal amount of the Bonds by an amount necessary to effectuate the adjustments of the preliminary principal amounts of the maturities described in this paragraph. The price bid by the Successful Bidder will be adjusted by the District on a proportionate basis to reflect an increase or decrease in the principal amount and maturity schedule within 24 hours after the receipt of bids. In the event that the District elects to increase or decrease the principal amount of the Bonds after receiving bids, the underwriter's discount, expressed in dollars per thousand, will be held constant. The District will not be responsible in the event and to the extent that any adjustment affects (i) the net compensation to be realized by the Successful Bidder, or (ii) the true interest cost of the winning bid or its ranking relative to other bids. Notwithstanding the foregoing, the aggregate principal amount of the Bonds shall not exceed $58,000,000.

Election of Maturities. The Successful Bidder shall designate whether some or all of the principal amounts of the Bonds shall be retired as shown in the table above as serial bonds maturing in such year or as mandatory sinking fund redemptions of Term Bonds maturing in the years specified by the Successful Bidder. Term Bonds, if any, must consist of the total principal payments of two or more consecutive years and mature in the latest of those years.

Optional Redemption. The Bonds maturing on or before December 1, 2025, are not subject to optional redemption prior to maturity. The Bonds maturing on December 1, 2026 are subject to redemption at the option of the District, in whole or in part on any date on or after December 1, 2025, at a price equal to the stated principal amount to be redeemed plus accrued interest, if any, to the date of redemption. (See "THE BONDS – Redemption Provisions" in the Preliminary Official Statement.)

Mandatory Redemption. Bonds that are designated by the Successful Bidder as Term Bonds will be subject to mandatory redemption. (See "THE BONDS—Redemption Provisions" in the Preliminary Official Statement.)

Registration and Book-Entry Transfer System. The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. The Bonds will be held fully immobilized in book-entry form by DTC, which will act as the initial securities depository for the Bonds. Individual purchases and sales will be made in book-entry form only, and purchasers will not receive physical certificates representing their interests in the Bonds purchased. (See "APPENDIX F – BOOK-ENTRY ONLY SYSTEM" in the Preliminary Official Statement.)

Purpose. The proceeds of the Bonds will be used to advance refund the District's callable, outstanding Unlimited Tax General Obligation Bonds, 2007, maturing on December 1 in the years 2021, 2023, 2025 and

2026 (the "Refunded Bonds") and pay the administrative costs of the refunding and the costs of issuing, selling and delivering the Bonds. The Bonds are being issued so the District can obtain the benefit of savings in total debt service requirements. (See "PURPOSE AND USE OF PROCEEDS" in the Preliminary Official Statement.)

Pledge of Taxes and Full Faith, Credit and Resources

The Bonds are unlimited tax general obligations of the District. For as long as the Bonds are outstanding, the District has irrevocably pledged to levy taxes annually without limitation as to rate or amount on all of the taxable property within the District in an amount sufficient, together with other money legally available and to be used therefor, to pay when due the principal of and interest on the Bonds, and the full faith, credit and resources of the District have been pledged irrevocably for the annual levy and collection of those taxes and the prompt payment of that principal and interest. The taxes, when collected, are required to be applied solely for the purpose of payment of principal and interest on the Bonds and for no other purpose until the Bonds will have been fully paid, satisfied and discharged. ***The Bonds do not constitute a debt or indebtedness of King County, the State of Washington (the "State"), or any political subdivision thereof other than the District.*** (See "SECURITY" in the Preliminary Official Statement.)

Washington State School District Credit Enhancement Program

Payment of principal of and interest on the Bonds when due is guaranteed by the full faith, credit, and taxing power of the State under the provisions of the Washington State School District Credit Enhancement Program ("State Guarantee Program"). (See "APPENDIX C - WASHINGTON STATE SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM" in the Preliminary Official Statement.)

BIDDING AND SALE PROCEDURES

Electronic Bids. Electronic bids for the Bonds must be submitted via the Qualified Electronic Bid Provider only. The District has designated BiDCOMP™/Parity® as the Qualified Electronic Bid Provider for purposes of receiving electronic bids for the Bonds. By designating a bidding service as a Qualified Electronic Bid Provider, the District does not endorse the use of such bidding service.

A bidder submitting an electronic bid for the Bonds thereby agrees to the following terms and conditions:

(1) If any provision in this Official Notice of Bond Sale with respect to the Bonds conflicts with information or terms provided or required by the Qualified Electronic Bid Provider, this Official Notice of Bond Sale, including any amendments issued through the Qualified Electronic Bid Provider and i-Deal Prospectus, shall control.

(2) Each bidder shall be solely responsible for making necessary arrangements to access the Qualified Electronic Bid Provider for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Bond Sale.

(3) The District shall not have any duty or obligation to provide or assure access to the Qualified Electronic Bid Provider to any bidder, and the District shall not be responsible for proper operation of, or have any liability for, any delays, interruptions or damages caused by use of the Qualified Electronic Bid Provider or any incomplete, inaccurate or untimely bid submitted by any bidder through the Qualified Electronic Bid Provider.

(4) The District is permitting use of the Qualified Electronic Bid Provider as a communication mechanism, and not as the District's agent, to conduct the electronic bidding for the Bonds. The Qualified Electronic Bid Provider is acting as an independent contractor, and is not acting for or on behalf of the District.

(5) The District is not responsible for ensuring or verifying bidder compliance with any Qualified Electronic Bid Provider procedures.

(6) If the bidder's bid is accepted by the District, acting by and through the Designated Representative, this Official Notice of Bond Sale and the information that is transmitted electronically through the Qualified Electronic Bid Provider shall form a contract, and the bidder shall be bound by the terms of such contract.

(7) Information provided by the Qualified Electronic Bid Provider to bidders shall form no part of any bid or of any contract between the Successful Bidder and the District unless that information is included in this Official Notice of Bond Sale.

Further information about the Qualified Electronic Bid Provider, including any fees charged, may be obtained by calling Bidcomp/Parity® at (212) 849-5021.

Form of Bids. Bids for the Bonds must be unconditional, and for not less than all of the Bonds. By submitting a bid, each bidder agrees to all of the terms and conditions of this Official Notice of Bond Sale, as they may be modified in accordance herewith. Bids for the Bonds must be submitted electronically via the Qualified Electronic Bid Provider. Bids may not be withdrawn or revised after the time that bids are due.

Bid Constraints. All bids are subject to the following constraints:

- The aggregate principal amount of the Bonds shall not exceed $58,000,000.

- No bid will be considered if the Bonds do not effect a net present value savings to the District of at least 5.00% (as a percentage of the Refunded Bonds).

- No bid will be considered for the Bonds with an aggregate purchase price of less than 105 percent or more than 120 percent of the aggregate stated principal amount.

- Each individual maturity must be reoffered at a yield that will produce a price of not less than 100 percent or more than 120 percent of the principal amount of that maturity. For the purpose of the preceding sentence, "price" means the lesser of the price at the redemption date, if any, or the price at the maturity date.

- Bidders must bid on the entire offering of the Bonds and all bidders must state the lowest rate or rates of interest at which they will purchase the Bonds at a specified purchase price.

- One or more rates of interest may be fixed per maturity; provided that, no rate of interest for any maturity may exceed 5.00%, and the true interest cost the Bonds shall not exceed 5.00%.

- Additional bid constraints include: (i) rates shall be expressed in integral multiples of 1/8 or 1/20 of one percent (1%) per annum or both, computed on the basis of a 360-day year of twelve 30-day months, (ii) all bids shall specify the designation of each principal amount payable as with the maturity amount of a serial bond or a mandatory sinking fund redemption of a Term Bond, and (iii) each bid must be unconditional, must be for the entire amount and must specify the purchase price for the Bonds.

Selection of Winning Bid. The bids for the Bonds will be considered by the District, acting by and through the Designated Representative, commencing at approximately 8:30 a.m., Pacific Time, on May 27, 2014. The Designated Representative shall award the winning bid to the Successful Bidder pursuant to the delegated authority of Resolution No. 07-15, adopted by the Board of Directors of the District on May 6, 2015.

The Bonds will be sold to the bidder submitting a bid in conformance with this Official Notice of Bond Sale that produces the lowest true interest cost ("TIC") to the District (the "Successful Bidder"), based on the bid price, the interest rates specified in the electronic bid and the principal amounts identified in this Official Notice of Bond Sale. The TIC will be the rate necessary, when using a 360-day year and semiannual compounding, to discount the debt service payments from the payment dates to the Date of Delivery of the Bonds and to the price bid. The TIC calculations will be confirmed by the Financial Advisor.

The Successful Bidder for the Bonds will be bound to purchase the Bonds in the principal amount, at such price and with such interest rates as are specified in its bid, subject to adjustment of principal as described above.

Upon award of the Bonds, the Successful Bidder for the Bonds shall advise the District and Bond Counsel of the initial reoffering prices at which each maturity of the Bonds is reasonably expected on the sale date to be sold to the public (the "Initial Reoffering Prices"), for the District's inclusion in the final Official Statement for the Bonds.

Right of Rejection. The District, acting by and through the Designated Representative, reserves the right to reject any or all bids and to waive any irregularity in any bid. In the event that two or more bidders for the Bonds submit bids at the same lowest TIC, the District, acting by and through the Designated Representative, will determine which bidder is awarded those Bonds in its sole discretion.

Good Faith Deposit. The Successful Bidder shall deliver to the District a good faith deposit in the amount of $476,550 with respect to the Bonds. The good faith deposit may be paid in one of the following ways:

(1) By federal funds wire transfer delivered no later than 90 minutes following the Successful Bidder's receipt of the verbal award by the District, acting by and through the Designated Representative. Wiring instructions will be provided to the Successful Bidder at the time of the verbal award.

(2) By certified or bank cashier's check made payable to the order of the District and delivered to the District prior to the time of receipt of the bids.

Any good faith deposit submitted by a bidder whose bid is not accepted shall be returned promptly by the District, but the District shall not be liable for interest for any delay in such return.

The good faith deposit of the Successful Bidder for the Bonds will be retained by the District as security for the performance of such bid, and will be applied to the purchase price of such Bonds on the Date of Delivery. Pending delivery of the Bonds, the good faith deposit for the Bonds may be invested for the sole benefit of the District.

If the Bonds are ready for delivery and the Successful Bidder for the Bonds fails to complete the purchase of such Bonds by the Date of Delivery, such good faith deposit will be forfeited to the District, and, in that event, the District acting by and through the Designated Representative may accept the next best bid or call for additional bids. The good faith deposit will be retained as liquidated damages and not as a penalty. Each bidder waives the right to claim that actual damages arising from such default are less than such amount.

Bond Insurance. The purchase of any insurance policy for the Bonds or the issuance of any commitment therefor will be at the sole option and expense of the Successful Bidder for such Bonds. Bids may not be conditioned upon qualification for or the receipt of municipal bond insurance. Any increased costs of issuance of the Bonds resulting from such purchase of insurance will be paid by the Successful Bidder for the Bonds and will not, in any event, be paid by the District. Payment of any bond insurance premium and satisfaction of any conditions to the issuance of the municipal bond insurance policy will be the sole responsibility of the Successful Bidder. In particular, the District will not provide any opinions or enter into any agreements with respect to the provisions of any such policy.

Failure of any municipal bond insurer to issue or deliver its policy will not constitute cause for failure or refusal by the Successful Bidder to accept delivery of or to tender payment for the Bonds.

The Successful Bidder must provide the District with the municipal bond insurance commitment and information with respect to the municipal bond insurance policy and the insurance provider for inclusion in the final Official Statement within two business days following the award of the bid by the District acting by and through the Designated Representative. The District will require delivery, on or prior to the Date of Delivery, of:

(1) a certificate from the insurance provider regarding the accuracy and completeness of the information provided for inclusion in the Official Statement,

(2) an opinion of counsel to the insurance provider regarding the validity and enforceability of the municipal bond insurance policy, and

(3) a certificate with respect to certain tax matters, each in a form reasonably satisfactory to the District and its Bond Counsel.

Ratings. Moody's Investors Service ("Moody's") has assigned an underlying municipal bond rating of "___" and Standard & Poor's ("S&P") has assigned an underlying municipal bond rating of "___" to the Bonds. Moody's has also assigned its credit enhanced rating of "Aa1" and S&P has assigned it credit enhanced rating of "AA+" to the Bonds, based upon the District's participation in the State Guarantee Program. See "Ratings" and "APPENDIX C – WASHINGTON STATE SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM" in the Preliminary Official Statement. The District will pay the fees for these ratings. Any other ratings are the responsibility of the Successful Bidder.

DELIVERY OF BONDS

The Bonds will be delivered to DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, against payment of the purchase price to the District, in immediately available federal funds less the amount of the good faith deposit for the Bonds.

Simultaneously with or before delivery of the Bonds, the Successful Bidder for the Bonds shall furnish to the District and Foster Pepper PLLC, Seattle, Washington, ("Bond Counsel") a certificate in form and substance acceptable to Bond Counsel:

(1) confirming the Initial Reoffering Prices,

(2) certifying that a *bona fide* offering of the Bonds has been made to the public (excluding bond houses, brokers and other intermediaries),

(3) stating the first price at which a substantial amount (at least 10 percent) of each maturity of the Bonds was sold to the public (excluding bond houses, brokers and similar persons acting in the capacity of underwriters or wholesalers), and

(4) if the first price at which a substantial amount of any maturity of the Bonds does not conform to the Initial Reoffering Price of that maturity, providing an explanation of the facts and circumstances that resulted in that non-conformity.

The Successful Bidder for the Bonds must make a *bona fide* offer of all of the Bonds to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers).

A draft form of such certificate will be available prior to the sale date from the Financial Advisor.

The Bonds will be delivered in "book-entry only" form in accordance with the Blanket Issuer Letter of Representations from the District to DTC. As of the date of the award of the Bonds, the Successful Bidder must either participate in DTC or clear through or maintain a custodial relationship with an entity that participates in DTC.

The District will furnish to the Successful Bidder one CD-ROM transcript of proceedings; additional transcripts will be furnished at the Successful Bidder's cost.

If, prior to the delivery of the Bonds, the interest on the Bonds shall become includable in the gross income of the recipients thereof for federal income tax purposes, or if legislation which would have the same effect if adopted into law is passed by either house of Congress or proposed by a joint conference committee, the Successful Bidder, at its option, may be relieved of the obligation to purchase the Bonds, or the District, at its option, may be relieved of the obligation to deliver the Bonds.

CUSIP NUMBERS

It is anticipated that CUSIP identification numbers will be printed on the Bonds; however, neither the failure to print CUSIP numbers on any Bond nor any error with respect thereto will constitute cause for failure or refusal by the Successful Bidder to accept delivery of and pay for the Bonds.

The CUSIP Global Services charge for the assignment of CUSIP numbers for the Bonds is the responsibility of and shall be paid for by the Successful Bidder.

LEGAL OPINION

The District will furnish to the Successful Bidder and have delivered with the Bonds the legal opinion of Bond Counsel, in substantially the form included in the Preliminary Official Statement as Appendix E.

CONTINUING DISCLOSURE

In order to assist bidders in complying with paragraph (b)(5) of U.S. Securities and Exchange Commission ("SEC") Rule 15c2-12 ("Rule 15c2-12"), the District will undertake to provide certain annual financial information and notices of the occurrence of certain events. A description of this undertaking and the District's prior continuing disclosure undertakings is set forth in "APPENDIX B - CONTINUING DISCLOSURE" in the Preliminary Official Statement and also will be set forth in the final Official Statement.

NOT BANK QUALIFIED

The District will NOT designate the Bonds as "qualified tax-exempt obligations" for banks, thrift institutions and other financial institutions under Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "Code").

CLOSING DOCUMENTS

As a condition to the obligations of the Successful Bidder to accept delivery of and pay for the Bonds, the Successful Bidder will be furnished the following, dated as of the Date of Delivery:

(1) A certificate of an official or officials of the District certifying that to the best knowledge and belief of such officials, and after reasonable investigation, the Preliminary Official Statement relating to the Bonds did not as of its date, and the Official Statement relating to the Bonds did not as of its date or

as of the date of closing, contain any untrue statement of a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and no event affecting the Bonds has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which is necessary to be disclosed therein in order to make the statements and information therein not misleading in any material respect (except that in no event will any representation be made with respect to Bond Counsel's form of opinion, or information in "DISTRICT FINANCIAL INFORMATION – King County Investment Pool," which was provided by King County, in "APPENDIX F – BOOK-ENTRY ONLY SYSTEM," which was obtained from DTC's website, in "APPENDIX C – WASHINGTON STATE SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM," which was provided by the State, or regarding the Financial Advisor, any municipal bond insurer and its municipal bond insurance policy, and information provided by the Successful Bidder regarding reoffering prices and yields, or other information provided by third parties); and

(2) A certificate of an official or officials of the District, based on such inquiry and investigation deemed sufficient, to the effect that, except as otherwise disclosed in the Preliminary Official Statement or the Official Statement, no litigation of any nature is now pending or, to such official's knowledge, threatened, seeking to restrain or enjoin the issuance and delivery of the Bonds or the levy and collection of taxes pledged to pay the principal of and interest on the Bonds, or in any manner questioning the proceedings and authority under which the Bonds are issued or the validity of the Bonds thereunder; neither the corporate existence or boundaries of the District nor the title of the present officers to their respective offices is being contested; and no authority or proceeding for the issuance of the Bonds has been repealed, revoked or rescinded

OFFICIAL STATEMENT

The Preliminary Official Statement is in a form deemed final by the District for the purpose of Rule 15c2-12, but is subject to revision, amendment and completion in a final Official Statement, which the District will deliver to the Successful Bidder, at the District's expense, not later than seven business days after the District's acceptance of the Successful Bidder's proposal, in sufficient quantities to permit the Successful Bidder to comply with Rule 15c2-12.

The Successful Bidder shall file, or cause to be filed, the final Official Statement with the Municipal Securities Rulemaking Board ("MSRB") within one business day following the receipt of the Official Statement from the District.

The Successful Bidder also agrees:

(1) to provide to the District, in writing, within 24 hours of the acceptance of the bid, pricing and other related information, including Initial Reoffering Prices of the Bonds, necessary for completion of the final Official Statement;

(2) to disseminate to all members of the underwriting syndicate, if any, copies of the final Official Statement, including any amendments or supplements prepared by the District; and

(3) to take any and all actions necessary to comply with applicable SEC and MSRB rules governing the offering, sale and delivery of the Bonds to ultimate purchasers, including without limitation, the delivery of a final Official Statement to each investor who purchases Bonds.

ADDITIONAL INFORMATION

Copies of the Preliminary Official Statement, including the Official Notice of Bond Sale, may be obtained upon the request from the District's Financial Advisor: D.A. Davidson & Co., Attn. Jon Gores, Columbia Center, 701 5th Avenue, Suite 4050, Seattle, Washington 98104, telephone (206) 389-4043 or jgores@dadco.com. Copies of the Preliminary Official Statement will also be made available from i-Deal Prospectus, a service of i-Deal LLC, at *www.i-dealprospectus.com*; telephone (212) 849-5024.

Dated: May 21, 2015

Highline School District No. 401
King County, Washington

By: ___/s/ Duggan Harman_____
Chief of Staff and Finance

$47,655,000*
HIGHLINE SCHOOL DISTRICT NO. 401
KING COUNTY, WASHINGTON
UNLIMITED TAX GENERAL OBLIGATION REFUNDING BONDS, 2015

SUMMARY STATEMENT

The following summary is qualified in its entirety by reference to the detailed information appearing elsewhere in this Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without this entire Official Statement.

ISSUER	Highline School District No. 401, King County, Washington (the "District") is located in Western Washington, in King County (the "County"). An estimated 126,636 residents reside within the District as of September 2014. The District provides instruction to an estimated 18,446 students in grades kindergarten through twelve. (See "THE DISTRICT" herein.)
INTEREST AND REDEMPTION	Interest on the Bonds is payable semiannually on each December 1 and June 1, commencing December 1, 2015. The Bonds are subject to redemption prior to their stated maturity dates. (See "THE BONDS – Principal Amount, Date, Interest Rates and Maturities" and "Redemption Provisions" herein.)
AUTHORITY FOR ISSUANCE	The Bonds will be issued in accordance with the provisions of the Constitution and laws of the State of Washington (the "State"), particularly chapters 28A.530, 39.36, 39.46 and 39.53 of the Revised Code of Washington, and pursuant Resolution No. 07-15 of the District (the "Bond Resolution"), adopted on May 6, 2015, authorizing the issuance of the Bonds. (See "THE BONDS – Authorization for Issuance" herein.)
SOURCE OF REPAYMENT	The Bonds are unlimited tax general obligations of the District. For as long as any of the Bonds are outstanding, the District has irrevocably pledged to levy taxes annually without limitation as to rate or amount on all of the taxable property within the District in an amount sufficient, together with other money legally available and to be used therefor, to pay when due the principal of and interest on the Bonds, and the full faith, credit and resources of the District have been pledged irrevocably for the annual levy and collection of those taxes and the prompt payment of that principal and interest. Payment of principal of and interest on the Bonds when due is guaranteed by the full faith, credit and taxing power of the State under the provisions of the Washington State School District Credit Enhancement Program. (See "SECURITY" and "APPENDIX C - WASHINGTON STATE SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM" herein.) The Bonds do not constitute a debt or indebtedness of the County, the State or any political subdivision thereof other than the District. (See "SECURITY" herein.)
USE OF PROCEEDS	The proceeds of the Bonds will be used to advance refund the District's callable, outstanding Unlimited Tax General Obligation Bonds, 2007, maturing on December 1 in the years 2021, 2023, 2025 and 2026 and pay the administrative costs of the refunding and the costs of issuing, selling and delivering the Bonds. (See "PURPOSE AND USE OF PROCEEDS" herein.)

* Preliminary, subject to change.

OFFICIAL STATEMENT

$47,655,000*
HIGHLINE SCHOOL DISTRICT NO. 401
KING COUNTY, WASHINGTON
UNLIMITED TAX GENERAL OBLIGATION REFUNDING BONDS, 2015

Highline School District No. 401, King County, Washington (the "District"), a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington (the "State"), furnishes this Official Statement in connection with the offering of its Unlimited Tax General Obligation Refunding Bonds, 2015 (the "Bonds"). This Official Statement, which includes the cover page, inside cover page, the Official Notice of Bond Sale, Summary Statement and appendices, provides information concerning the District and the Bonds. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Bond Resolution (defined below).

Brief descriptions of the Bonds, the District, the Bond Resolution, and certain other documents are included in this Official Statement and the appendices hereto. Such descriptions do not purport to be comprehensive or definitive. All references herein to such documents and any other documents, statutes, reports, or other instruments described herein are qualified in their entirety by reference to each such document, statute, report, or other instrument. Information contained herein has been obtained from officers, employees and records of the District and from other sources believed to be reliable. The information herein is subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is not to be construed as a contract or agreement between the District's Board of Directors (the "Board") and purchasers or holders of any of the Bonds.

THE BONDS

Authorization for Issuance

The Bonds are issued pursuant to Resolution No. 07-15 (the "Bond Resolution"), adopted by the Board on May 6, 2015, and the authority of the Washington Constitution and chapters 28A.530, 39.36, 39.46 and 39.53 of the Revised Code of Washington ("RCW"). The Bonds are issued for refunding purposes and do not require a vote of the District's residents.

Principal Amount, Date, Interest Rates and Maturities

The Bonds will be issued in the aggregate principal amount of $47,655,000* in fully registered form, will be in the denomination of $5,000 each, or any integral multiple thereof within a single maturity ("Authorized Denomination") and will be dated the Date of Delivery. The Bonds will mature on December 1 in the years and amounts and will bear interest (payable semiannually on each December 1 and June 1, commencing December 1, 2015) until the stated date of maturity of the Bonds at the rates set forth on the inside cover. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. The Washington State Fiscal Agent, currently U.S. Bank National Association, will serve as registrar, paying agent and transfer agent (the "Bond Registrar") for the Bonds. Principal and interest on the Bonds will be payable by the Bond Registrar as described in "Bond Registrar and Registration Features" herein.

* Preliminary, subject to change.

Redemption Provisions

Optional Redemption. The Bonds maturing on or before December 1, 2025, are not subject to optional redemption prior to maturity. The Bonds maturing on December 1, 2026 are subject to redemption at the option of the District, in whole or in part on any date on or after December 1, 2025, at a price equal to the stated principal amount to be redeemed plus accrued interest, if any, to the date of redemption.

[Mandatory Redemption. The Bonds maturing on December 1 in the years ______ and ______ are Term Bonds and, if not redeemed under the optional redemption provisions set forth above, defeased or purchased in accordance with the Bond Resolution, will be called for redemption at a price equal to the stated principal amount to be redeemed, plus accrued interest on December 1 in the years and principal amounts set forth below:

_____Term Bonds		_____Term Bonds	
Year (Dec. 1)	Amount	Year (Dec. 1)	Amount
[1]			[1]

[1] Maturity

If a Term Bond is redeemed, defeased or purchased by the District and surrendered for cancellation, the principal amount of the Term Bond so redeemed, defeased or purchased (irrespective of its actual purchase price) will be credited against one or more scheduled mandatory redemption installments for that Term Bond. The District will determine the manner in which the credit is to be allocated and will notify the Bond Registrar in writing of its allocation prior to the earliest mandatory redemption date for that Term Bond for which notice of redemption has not already been given.]

Notice of Redemption (Book-Entry). While the Bonds are held by The Depository Trust Company ("DTC") in book-entry only form, any notice of redemption will be given as required by the operational arrangements of DTC in accordance with a Blanket Issuer Letter of Representations, dated April 30, 2002, between the District and DTC ("Letter of Representations"). The District reserves the right to rescind any notice of optional redemption as provided in the Bond Resolution.

Notice of Redemption (No Book-Entry). If the Bonds cease to be in book-entry only form, unless waived by any person in whose name such Bond to be redeemed is registered (the "Registered Owner"), the District will cause notice of any intended redemption of Bonds to be given by the Bond Registrar not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner of any Bond to be redeemed at the address appearing on the books or records maintained by the Bond Registrar for the purpose of identifying ownership of the Bonds (the "Bond Register") on the date the Bond Registrar sends the notice and such requirement will be satisfied when notice has been mailed as so provided, whether or not it is actually received by the Registered Owner or Beneficial Owner (as defined herein). The District reserves the right to rescind any notice of optional redemption as provided in the Bond Resolution.

Partial Redemption of Bonds. All or a portion of the principal amount of any Bond that is to be redeemed may be redeemed in any Authorized Denomination. If less than all of the outstanding principal amount of any Bond is redeemed, upon surrender of that Bond to the Bond Registrar, there will be issued to the Registered Owner, without charge therefor, a new Bond (or Bonds, at the option of the Registered Owner) of the same maturity and interest rate in any Authorized Denomination in the aggregate principal amount remaining unredeemed.

Selection of Bonds for Redemption. If fewer than all of the outstanding Bonds are to be redeemed at the option of the District, the District will select the maturities to be redeemed. For as long as the Bonds are in book-entry only form, if fewer that all of the Bonds of a maturity are called for redemption, the selection of Bonds within a maturity to be redeemed will be made by DTC in accordance with its operational procedures then in effect. (See "APPENDIX F BOOK-ENTRY ONLY SYSTEM" attached hereto.) If the Bonds are no longer held in book-entry only form, then the Bond Registrar would select Bonds for redemption randomly within a maturity in such manner as the Bond Registrar determines.

Purchase. The District reserves the right to purchase any or all of the Bonds offered to the District at any time at any price acceptable to the District, plus accrued interest to the date of purchase.

Effect of Redemption. Interest on each Bond called for redemption will cease to accrue on the date fixed for redemption, unless either the notice of optional redemption is rescinded, or money sufficient to effect such redemption is not on deposit in the District's Debt Service Fund or in a trust account established to refund or defease the Bond.

Failure to Pay Bonds. If the principal of any Bond is not paid when the Bond is properly presented at its maturity date or date fixed for redemption, as applicable, the District will be obligated to pay interest on that Bond at the same rate provided in the Bond from and after its maturity date or date fixed for redemption until that Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the District's Debt Service Fund, or in a trust account established to refund or defease the Bond, and the Bond has been called for payment by giving notice of that call to the Registered Owner.

Bond Registrar and Registration Features

Book-Entry Only System. The Bonds will be issued as fully-registered bonds and, when issued, will be initially registered in the name of Cede & Co., as the nominee of DTC. DTC will act as initial securities depository for the Bonds. Individual purchases and sales of the Bonds may be made in book-entry only form only in Authorized Denominations. So long as the Bonds are in book-entry only form, principal of and interest on the Bonds will be payable as required by the operational arrangements of DTC referenced in the Letter of Representations. The owners of any beneficial interest in the Bonds (the "Beneficial Owners") will not receive certificates representing their interest in the Bonds. (See "APPENDIX F BOOK - ENTRY ONLY SYSTEM" attached hereto.)

No Book-Entry Only System. During any period in which the Bonds are not in book-entry only form, principal of and interest on the Bonds will be payable by the Bond Registrar (or such other fiscal agency or agencies as the Treasury Operations Section, Finance and Business Operations Division, Department of Executive Services, King County, Washington, as *ex officio* treasurer of the District (the "Treasurer") may from time to time designate). Interest on the Bonds will be payable by check mailed to the Registered Owners, at the addresses appearing on the Bond Register on the 15th day of the month preceding an interest payment date or by electronic transfer on the interest payment date. The District is not required to make electronic transfers except to a Registered Owner of the Bonds pursuant to a request in writing (and at the sole expense of that Registered Owner) received at least 15 days before an interest payment date. Principal of the Bonds will be payable upon presentation and surrender of the Bond by the Registered Owner to the Bond Registrar.

Procedure in the Event of Revisions of Book-Entry Only System. If (i) DTC resigns as the securities depository and the District does not appoint a substitute securities depository, or (ii) the District terminates the services of DTC, the District will execute, authenticate and deliver at no cost to the Beneficial Owners of the Bonds or their nominees, Bonds in fully registered form, in Authorized Denominations.

Transfer and Exchange of Bonds. The Bonds will be subject to transfer and exchange as provided in the Bond Resolution.

Refunding or Defeasance

The District may issue refunding bonds pursuant to State law or use money available from any other lawful source to carry out a refunding or defeasance plan, which may include (a) paying when due the principal of and interest on any or all of the Bonds (the "defeased Bonds"); (b) redeeming the defeased Bonds prior to their maturity; and (c) paying the costs of the refunding or defeasance. If the District sets aside in a special trust fund or escrow account irrevocably pledged to that redemption or defeasance (the "trust account") money and/or "government obligations" (as defined by chapter 39.53 RCW, as now in effect or hereafter amended) maturing at a time or times and bearing interest in amounts sufficient to redeem, refund or defease the defeased Bonds in accordance with their terms, then all right and interest of the owners of the defeased Bonds in the covenants of the Bond Resolution and in the funds and accounts obligated to the payment of the defeased Bonds will cease and become void. Thereafter, the owners of defeased Bonds will have the right to receive payment of the principal of and interest on the defeased Bonds solely from the trust account and the defeased Bonds will be deemed no longer outstanding. In that event, the District may apply money remaining in any fund or account (other than the trust account) established for the payment or redemption of the defeased Bonds to any lawful purpose. Unless otherwise specified by the District in a refunding or defeasance plan, notice of refunding or defeasance will be given, and selection of Bonds for any partial refunding or defeasance will be conducted, in the manner prescribed in the Bond Resolution for the redemption of Bonds.

As currently defined in RCW 39.53.010(4), "government obligations" means (a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America and bank certificates of deposit secured by such obligations; (b) bonds, debentures, notes, participation certificates or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-Import Bank of the United States, federal land banks or the Federal National Mortgage Association; (c) public housing bonds and project notes fully secured by contracts with the United States; and (d) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or guaranteed as permitted under any other provision of State law ("Government Obligations").

PURPOSE AND USE OF PROCEEDS

Proceeds of the Bonds will be used to advance refund the District's callable, outstanding Unlimited Tax General Obligation Bonds, 2007 (the "2007 UTGO Bonds"), maturing on December 1 in the years 2021, 2023, 2025 and 2026 (the "Refunded Bonds") as further described below and pay the administrative costs of the refunding and the costs of issuing, selling and delivering the Bonds. The Bonds are being issued so the District can obtain the benefit of savings in total debt service requirements.

The proceeds of the Bonds, together with $6,000,000 on hand in the District's Debt Service Fund (the "DSF Contribution"), will be used to provide money to establish an irrevocable escrow to: (i) pay interest on the Refunded Bonds when due up to and including December 1, 2017; (ii) call, pay and redeem on December 1, 2017, all of the Refunded Bonds at a price of par; and (iii) pay the administrative costs of the refunding and the costs related to the issuance, sale and delivery of the Bonds (the "Refunding Plan").

From the proceeds of the Bonds, together with all or a portion of the DSF Contribution, if necessary, the District will purchase certain non-callable Government Obligations (referred to herein as "Acquired Obligations"). These Acquired Obligations, together with additional proceeds of the Bonds, if necessary, and the DSF Contribution, if necessary, will be deposited in the custody of U.S. Bank National Association, Seattle, Washington (the "Refunding Trustee"). The maturing principal of the Acquired Obligations, interest earned thereon, and necessary cash balance (which may include all or a portion of the DSF Contribution), if any, will be used to accomplish the Refunding Plan.

The Acquired Obligations, interest earned thereon, and necessary cash balance, if any, will be irrevocably pledged to and held in trust for the benefit of the owners of the Refunded Bonds by the Refunding Trustee, pursuant to a refunding trust agreement to be executed by the District and the Refunding Trustee.

Information on the Refunded Bonds (subject to change) is as follows:

Issue	Amount Outstanding	Refunded Maturities	Amount Refunded	Redemption Date	Redemption (Call) Price[1]
2007 UTGO Bonds	$52,000,000	2021[2], 2023[2], 2025[2,3] & 2026	$52,000,000	12/01/17	100%

2007 Refunded Bonds			
Payment Date (Dec. 1)	Principal Amount	Interest Rates	CUSIP No.
2021[2]	$1,080,000	5.000%	495033AF9
2023[2]	1,170,000	5.000	495033AH5
2025[2,3]	13,705,000	5.000	495033AK8
2025[3]	1,045,000	4.500	495033AC6
2026	35,000,000	5.000	495033AL6
Total	$52,000,000		

[1] Redemption price is expressed as a percentage of the principal amount.
[2] Term Bonds.
[3] Bifurcated maturity.

Verification of Mathematical Calculations. *Grant Thornton LLP,* independent certified public accountants, will verify the accuracy of the mathematical computations concerning the adequacy of the maturing principal amounts of and interest earned on the Acquired Obligations, to be placed together with other escrowed money in the escrow account to pay when due, pursuant to the call for redemption, the principal of and interest on the Refunded Bonds. The verification will also confirm the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" as defined by Section 148 of the Code.

Sources and Uses. The estimated sources and uses of Bond proceeds are shown in the table that follows.

Sources of Funds:[1]	
Principal Amount of the Bonds	$
Net Original Issue Premium/(Discount)	
DSF Contribution	
Total Sources of Funds	$
Uses of Funds:[1]	
Deposit to the Refunding Escrow	$
Costs of Issuance of the Bonds[2]	
Underwriter's Discount	
Deposit to Debt Service Fund	
Total Uses of Funds	$

[1] Amounts will be included in the final Official Statement.

[2] Includes Bond Counsel fee, rating agency fee, Refunding Trustee fee, escrow verification fee, and other related fees and expenses.

SECURITY

General

The Bonds are unlimited tax general obligations of the District. For as long as any of the Bonds are outstanding, the District has irrevocably pledged to levy taxes annually without limitation as to rate or amount on all of the taxable property within the District in an amount sufficient, together with other money legally available and to be used therefor, to pay when due the principal of and interest on the Bonds, and the full faith, credit and resources of the District have been pledged irrevocably for the annual levy and collection of those taxes and the prompt payment of that principal and interest. The foregoing excess taxes, when collected, are required to be applied solely for the purpose of payment of principal of and interest on the Bonds and for no other purpose until the Bonds have been fully paid, satisfied and discharged.

The rights and remedies of anyone seeking enforcement of the Bonds are subject to laws of bankruptcy and insolvency and to other laws affecting the rights and remedies of creditors and to the exercise of judicial discretion. (See "CERTAIN INVESTMENT CONSIDERATIONS - Limitations on Remedies; Financial Insolvency and Bankruptcy" herein.)

The District may, subject to applicable laws, apply other money legally available to make payments with respect to the Bonds and thereby reduce the amount of future tax levies for such purposes.

The Bonds do not constitute a debt or indebtedness of King County (the "County"), the State or any political subdivision thereof other than the District. For a description of the manner in which taxes are levied and collected, see "PROPERTY TAX LIMITATION AND PROCEDURES - Property Tax Levy Procedures" herein.

Washington State School District Credit Enhancement Program

The payment of principal of and interest on the Bonds when due is guaranteed by the full faith, credit and taxing power of the State under the provisions of the Washington State School District Credit

Enhancement Program. (See “APPENDIX C - WASHINGTON STATE SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM” for more information.)

DEBT LIMITATIONS

The power of the District to contract debt of any kind is controlled and limited by State law. All debt must be set forth in accordance with detailed budget procedures and paid for out of identifiable receipts and revenues. The budget must be balanced for each fiscal year. It is unlawful for an officer or employee of the District to incur liabilities in excess of budgetary appropriations.

The District may issue total indebtedness, including non-voted and voter-approved debt, in an amount not to exceed 5% of the assessed value of all taxable property (the “Bond Assessed Value”), which includes all real and personal property (as described within “PROPERTY TAX LIMITATION AND PROCEDURES – Property Tax Levy Procedures” herein), within the District. Following issuance of the Bonds, the District will have $257,870,000* of voter-approved debt outstanding which represents 1.93% of the District’s 2015 tax collection year Bond Assessed Value of $13,343,281,425.

Unlimited tax general obligation bonds require voter approval. Any election to authorize such bonds must have a voter turnout of at least 40% of those who voted in the last State general election, and, of those voting, 60% must vote in the affirmative. Refunding bonds, such as the Bonds, are not subject to such voter approval criteria. (See “THE BONDS - Authorization” herein.)

Washington municipal corporations, including the District, are authorized under State law to borrow money and issue short-term obligations, the proceeds of which may be used for any lawful purpose. Short-term obligations may be issued in anticipation of the receipt of revenues, taxes, or grants or the sale of bonds. These short-term obligations will be repaid out of money derived from the source or sources in anticipation of which they were issued or from any money legally available for this purpose.

RCW 28A.530.080 authorizes school districts, including the District, to incur long-term indebtedness without a vote of the people through the issuance of bonds, payable out of the District’s ordinary revenues. Such bonds may be issued to acquire real or personal property or make structural changes and additions to school facilities, including energy conservation improvements.

School districts also are authorized to incur debt by purchasing real or personal property pursuant to a conditional sales (installment purchase) contract and financing leases.

In an emergency, school districts may authorize indebtedness outside the current budget. All expenditures for emergency purposes will be paid by warrants from any available money in the fund properly chargeable with such expenditures. If there is insufficient money on hand in the fund, the warrants become registered interest-bearing warrants. In adopting the budget for any fiscal year, the school district’s board of directors will appropriate funds to retire any outstanding registered warrants issued since the adoption of the last preceding budget.

The amount of all non-voted debt (including limited general obligation bonds, short-term obligations, conditional sales contracts, financing leases and warrants) may not exceed 3/8 of 1.0% (0.375%) of the District’s Bond Assessed Value. As of March 31, 2015, the District had $994,391 of outstanding non-voted debt. (See “DISTRICT FINANCIAL INFORMATION – Calculation of Debt Capacity”).

* Preliminary, subject to change.

WASHINGTON SCHOOL DISTRICT BUDGETING AND FINANCING

General Information

School districts in the State are municipal corporations empowered to provide elementary and secondary educational services. Their operations are supported primarily by State funds, property taxes and federal grants. The District is governed by a board of five directors elected by voters of the District for four-year terms. The chief administrative officer is a superintendent chosen by the Board.

School districts in the State receive revenue from three primary sources including (1) Federal funding, (2) State funding, and (3) local funding through tax receipts. Of these sources, State funding comprises 63.4% of the District's total operating revenue, local sources comprise 25.5%, and federal sources comprise 10.1% as reported in the District's 2014-15 General Fund Budget. In addition, the District may receive income from local non-tax sources including tuition, sales of goods and supplies, food service, investment earnings, fines and damages, rentals and other miscellaneous sources. These additional revenues, if received, generally comprise less than 1% of total funding, exclusive of excess property taxes collected to pay outstanding voter approved general obligation bonds.

Federal Funding

The District receives federal money from the following sources: Federal Revenue for Federal Forests, Supplemental Handicapped Assistance, Remedial Education, Free and Reduced Lunch Program, Federal Stimulus and various other special purpose programs. In the Fiscal Year ended August 31, 2014, federal money comprised 9.5% of total General Fund revenues.

State Funding

The Washington Basic Education Act, codified in Title 28A RCW (the "Act") provides for funding with respect to what the Act refers to as the "basic education" program, vocational education, operational costs for transportation, the purchase of transportation equipment and special education programs for students with disabilities, according to State formulas. Legislation passed in 1979 (chapters 28A.165 and 28A.180 RCW) recognized State responsibility concerning funding of bilingual and remediation programs. The Legislature may also appropriate money to school districts for population factors such as urban costs, enrollment fluctuations and for special programs, including but not limited to, certain vocational-technical institutes, compensatory programs, bilingual education, urban, rural, racial and disadvantaged programs, programs for gifted students and other special programs. State funding to school districts is provided primarily through the general apportionment formula (a/k/a the Basic Education Allocation formula) and funds basic education as well as a number of non-basic education adjustments. The amount received by each school district varies based on certain characteristics.

At each regular session in an odd-numbered year, the Legislature is required to appropriate money to the Office of the Superintendent of Public Instruction ("OSPI") (i) from the State General Fund for the current use of the common schools during the ensuing biennium and (ii) from the Education Construction Fund for the support of capital improvements.

Basic Education Allocation. An objective of the Basic Education Allocation formula is to equalize educational opportunities among the State's public school districts. The Basic Education Allocation distribution formula is reviewed biennially by OSPI and the governor of the State (the "Governor"). The Governor will and OSPI may, pursuant to RCW 28A.150.260, recommend to the Legislature a formula based on the ratio of students to staff. Once the Legislature adopts a formula, it is used for the distribution of basic education allocation for each annual average full time equivalent student enrolled in a common school. In the event the Legislature rejects the distribution formula recommended without adopting a new distribution formula, the distribution formula utilized for the previous school year will remain in effect. In the event of an unforeseen emergency, in the nature of either unavoidable costs to a district or unexpected variations in anticipated revenue of a district, OSPI is authorized to make an adjustment, not to exceed two years, in the allocation of funds.

In the 2009-11 biennium, the Legislature enacted two significant bills to redefine basic education and restructure K-12 funding formulas. The first was ESHB 2261 (Chapter 548, Laws of 2009) which added programs to the definition of basic education — including the program for highly capable students and phasing in all-day kindergarten. ESHB 2261 increased the number of instructional hours, increased the minimum number of credits for high school graduation, and changed the system for funding student transportation. ESHB 2261 also created the framework for a new K-12 funding allocation formula based on prototypical schools. Changes took effect September 1, 2011 and most enhancements are to be phased in by 2018 on a schedule set by the Legislature.

The second bill, SHB 2776 (Chapter 236, Laws of 2010), enacted the funding formulas for the new prototypical schools format at levels that represented what the state was spending on basic education at the time. SHB 2776 set targets for class-size reduction in the lower grades and established a timeline for phasing in certain enhancements to basic education and the new funding levels.

Under this new funding structure, effective September 1, 2011, the general apportionment formula follows the prototypical school model. Prototypes illustrate a level of resources to operate a school of a particular size with particular types and grade levels of students. Allocations to school districts are based on actual full-time equivalent (FTE) student enrollment in each grade in the district, adjusted for small schools and reflecting other factors in the state's biennial budget. Under SHB 2776, the Legislature designed a funding formula that allocates funding in three primary groups: schools, district-wide support, and central administration.

In addition to the Basic Education Allocation, eligible school districts have received money from the State under the Local Effort Assistance Program ("LEA"). LEA was originally implemented in 1989 and seeks to equalize the tax burden by providing matching state funds to districts with low property values and high levy rates. Eligible school districts are those school districts with an assessed value (for excess levy purposes) per pupil lower than the State average. For fiscal year 2014-15, the District is potentially eligible to receive $5,222,617 in LEA money.

Passed by voters in November 2000, Initiative 732 ("I-732") required the State to provide annual cost-of-living increases for Washington's public school employees. In 2003 and again in 2009 through 2013, lawmakers suspended the inflation increases in I-732.

Beginning in 2001, portions of the state property tax and state lottery revenues were dedicated to the Student Achievement Fund ("SAF"), per Initiative 728 ("I-728"). I-728 directed that, beginning in 2004, school districts receive SAF allocations in the amount of $450 per full-time-equivalent (FTE) student, with the amount to increase by designated amounts in proceeding years. The 2003 Legislature revised the per-pupil payments to a lower amount, to increase in subsequent years. In 2009-11 payments were again reduced – from planned per-pupil allocations of $458.10 and $463.58 in school years 2009-10 and 2010-11, respectively, to $131.20 and $99.32. The I-728 payments were eliminated for the 2010-11 school year. I-728 (including the SAF) was repealed by the Legislature in 2012.

The Legislature also provides some funding for staffing in K-4 classrooms beyond basic education. All districts receive this enhanced allocation, except in the 2009-13 biennia.

McCleary et al. v State Ruling. In 2007, a coalition of parents, students, school districts, teachers' unions and other nonprofit organizations, filed a lawsuit alleging that the State's approach to funding the local school districts does not satisfy the State's obligation under Article IX of the Washington State Constitution, which provides that it is the "paramount duty" of the State to make "ample provision" for the education of all children residing within the State's borders. On February 24, 2010, the King County Superior Court entered its Final Judgment in *McCleary et al. v. State* (Cause No. 07-2-02323-2 SEA), ruling that the State was failing to fulfill this constitutional duty and ordering the Legislature to address the issue. The State appealed to the Washington State Supreme Court ("Supreme Court"), and on January 5, 2012, the Supreme Court agreed with the King County Superior Court and held that the State was failing to fulfill this constitutional duty to fully fund education. The Supreme Court, however, deferred to the Legislature's chosen means to discharge that constitutional duty under the 2017/2018 time schedule under recent legislation. The Supreme Court reserved jurisdiction to enforce its constitutional ruling and ordered the State to provide periodic reports on its progress. Following the 2013 legislative session, the Joint Select Committee on Article IX Litigation (the "Committee") issued a report on the State's progress and the Supreme Court found the State was not making sufficient progress to fully fund education reforms by the 2017/2018 school year. The Supreme Court reiterated in a January 2014 ruling that the State must show real and measurable progress and that the State must submit by April 30, 2014 a report that included "a phase-in schedule for fully funding each of the components of basic education." Following the 2014 legislative session, the Committee issued another report in which it admitted the "Legislature did not enact additional timelines in 2014 to implement the program of basic education." On June 12, 2014, the Supreme Court directed the State to appear before the Supreme Court and show cause why the Supreme Court should not find the State in contempt. On September 3, 2014, the State appeared before the Supreme Court and urged that the Supreme Court not find the State in contempt and to allow until the completion of the 2015 legislative session to develop and enact a plan. On September 11, 2014, the Supreme Court held the State in contempt for not complying with the Supreme Court's prior order. The Supreme Court order stated, "Sanctions and other remedial measures are held in abeyance to allow the State the opportunity to comply with the Supreme Court's order during the 2015 legislative session. If by adjournment of the 2015 legislatives session the State has not purged the contempt by complying with the Supreme Court's order, the Supreme Court will reconvene to impose sanctions and other remedial measures as necessary. On the date following adjournment of the 2015 session, if the State has not complied with the Supreme Court's order, the State shall file in the Supreme Court a memorandum explaining why sanctions or other remedial measures should not be imposed." The District cannot predict what the Legislature will do in response to this case, or what effect (if any) this case or subsequent events may have on the District's finances.

The State's largest General Fund expenditures are for education, social and health services and corrections. Approximately 45.2 percent of the State's General Fund budget for 2013-2015 is for supporting public schools. The State's General Fund has experienced revenue shortfalls, resulting in reduced funding for public schools during the 2009-2011 and 2011-2013 bienniums. The State's 2011-2013 biennial budget for public schools was reduced by approximately 11.6 percent from the maintenance level budget (estimated cost of providing currently authorized services). In response to the Supreme Court's *McCleary* decision, the Legislature increased funding in the 2013-2015 State operating budget, adopted on June 28, 2013, for K-12 public schools by $1.6 billion as compared to the 2011-2013 biennium funding. This represented an increase of 11.4 percent. The Legislature focused enhancements on (1) fully funding the State's new formula for school districts' costs for pupil transportation; (2) enhancing full-day kindergarten; (3) reducing K-1 class size; (4) increasing allocations for maintenance, supplies, and operating costs; and (5) increasing Learning Assistance Program funding for under-achieving students by 63 percent. The District cannot predict what the Legislature will continue to do in response to the *McCleary* decision, or what effect (if any) the *McCleary* decision or subsequent events may have on the District's finances.

Local Funding

Local property taxes, the most significant local revenue source, provides money that enhances the State-funded Basic Education Allocation. Pursuant to Article VII, Section 2(a) of the State Constitution and RCW 84.52.053, school districts may, upon voter approval, impose excess property tax levies for various purposes, including maintenance and operation ("M&O Levies"), capital projects ("Capital Projects Levies"), repayment of bonds issued to finance capital projects ("Bond Levies") and acquisition of transportation vehicles ("Transportation Vehicle Levies"). Historically, each of these excess property tax levies were required to be approved by 60% of those voting and the number of yes votes must equal or exceed 40% of those voting in the last State general election. Commencing in 2008, the voter approval requirement for M&O, Capital Projects and Transportation Vehicle Levies became a simple majority. For Bond Levies, the voter approval requirement did not change. Bond Levies are dedicated exclusively to the repayment of the bonds for which the taxes were approved and those tax proceeds cannot be diverted to other purposes. Therefore, a change in M&O, Capital Projects and Transportation Vehicle Levies will not affect the District's levy of excess property taxes for the repayment of the Bonds.

M&O Levies. The State Constitution allows school districts to submit M&O Levies for up to four years. In 1977, when the State assumed additional responsibility for funding schools, the Legislature limited school district M&O Levy authority by passing the levy lid law. This law establishes the maximum amount of a school district's M&O Levy for a calendar year. In 1979, the levy lid law took effect, limiting excess General Fund revenue to 10 percent of the school district's basic education allocation for the school year. The law allowed districts that historically relied on M&O Levies to be grandfathered in and exceed the 10 percent limit. In 1987 the levy lid limit was increased to 20 percent. In 1994, the levy base increased to 24 percent. RCW 84.52.0531 outlines the process for deriving a district's levy limit.

The Legislature previously provided funding for additional staffing in K-4 classrooms beyond basic education. All school districts received this enhanced allocation, which was eliminated in the 2009-11 and 2011-13 biennia. The Legislature, in 2010, approved Laws of 2010, Chapter 237 ("2010 Supplemental Levy Act"), enhancing the levy authority of school districts. For levy collections through calendar year 2017, a district's levy base will include the amounts the districts would have received from state funding for I-728 and I-732. Districts are allowed to include in their levy bases any cuts to the K-4 class-size funding. Additional levies to provide for subsequently-enacted increases affecting the districts' levy base or maximum levy percentages may be authorized by voters during the term of the levy collection period.

The requirement that OSPI must offset the amount added to a district's levy base has been removed. The levy lid is increased by four percent, including districts which are currently grandfathered above 24 percent. For non-grandfathered districts, a district's maximum levy percentage is increased from 24 percent to 28 percent in 2011 through 2017 and returns to 24 percent every year thereafter. The District's levy base is grandfathered at 24.95%, which, when added to the 4.0 percent increase described above, brings the District's total levy base to 28.95% beginning in fiscal year 2010-11. The LEA percentage is increased to 14 percent for calendar years 2011 through 2017 and returns to 12 percent in calendar year 2018.

In February 2015, the qualified electors of the District approved a three-year M&O levy in the amount of $55,454,000 for collection in 2016 $60,788,000 for collection in 2017 and $64,681,000 for collection in 2018. The District does not expect to seek an additional increase of its levy amounts during the term of collection of its current levy pursuant to the 2010 Supplemental Levy Act.

By law, taxes levied to pay principal of and interest on unlimited tax general obligation bonds, such as the Bonds, are not available for any other use. Thus, any possible decline in the District's M&O levy would not impair the security of the Bonds.

Capital Projects and Transportation Vehicle Levies. One to six-year Capital Projects Levies and one to two-year Transportation Vehicle Levies may also be authorized by a school district's voters (RCW 84.52.053). These types of levies also require a simple majority vote of approval by the District's voters. The levy lid described previously does not apply to Capital Projects or Transportation Vehicle Levies. The District does not have any authorized Capital Projects or Transportation Vehicle Levies at this time.

PROPERTY TAX LIMITATION AND PROCEDURES

Regular Property Tax Limitations

Generally, Washington municipalities (or taxing districts) have the authority to impose both regular property tax levies and excess property tax levies. Regular property tax levies are imposed without a vote of the people and may be used for the payment of the principal of and interest on non-voted general obligations, for costs of maintenance and operation, or for any other lawful purpose. *Washington school districts, however, do not have the authority to impose regular property tax levies.* School districts may only impose *excess* property tax levies upon voter approval. These excess property tax levies may be used to pay principal of and interest on voter-approved debt and/or pay the costs of maintenance and operation, capital improvements and the acquisition of transportation vehicles. **The Bonds refund voter-approved bonds, and therefore, the principal of and interest on the Bonds are payable from excess property tax levies. Consequently, the following limitations are inapplicable to the excess property tax levies pledged to repay the Bonds.**

Regular property tax levies are subject to rate limitations and amount limitations, as described below, and to the uniformity requirement of Article VII, Section 1 of the Washington Constitution, which specifies that a taxing district must levy the same rate on similarly classified property throughout the district. Aggregate property taxes vary within the County because of their different overlapping taxing districts. In the event that the maximum permissible levy varies within a district, the lowest permissible rate for any part of such district would be applied to the entire district.

Regular Property Tax Increase Limitation. Chapter 84.55 RCW limits the total dollar amount of regular property taxes levied by an individual taxing district to the amount of such taxes levied in the highest of the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction at the previous year's rate. The limit factor is defined as the lesser of inflation or 101 percent of the highest levy in the three previous years (excluding new construction, improvements, and State-assessed property). Chapter 84.55 RCW permits a taxing district to exceed the amount limitations upon receiving simple majority voter approval of a proposition describing the proposed increase. Such voter approval does not permit the taxing district to exceed the limitations described below.

The One Percent Aggregate Regular Levy Limitation. Article VII, Section 2 of the Washington Constitution limits aggregate regular property tax levies by the State and all taxing districts, except port districts and public utility districts, to one percent (1.00%) of the true and fair value of property. RCW 84.52.050 provides the same limitation by statute.

$5.90/$1,000 Aggregate Non-Voted Levy Limitation. RCW 84.52.043(2) imposes an aggregate limitation on non-voted tax levies by all taxing districts, except the State, ports and public utility districts, of $5.90/$1,000 of assessed value. RCW 84.52.010 provides, in general, that if aggregate levies certified by all taxing districts exceed the aggregate levy limitation or the one percent aggregate regular levy limitation described above, levies certified by junior taxing districts are reduced or eliminated according to priority established by statute.

Whenever any individual levy code reaches the $5.90/$1,000 limit or the one percent aggregate regular levy limitation, and a junior taxing district is forced to reduce its levy, it must be reduced uniformly throughout that junior taxing district, because of the uniformity of taxation requirement.

Property Tax Levy Procedures

Valuations and Assessments of Property for Taxation Purposes. The King County Department of Assessments (the "Assessor") determines the value of all real and personal property throughout the County that is subject to *ad valorem* taxation, except certain utility properties which are valued by the State Department of Revenue. The Assessor is an elected official whose duties and methods of determining value are prescribed and controlled by statute and by detailed regulations promulgated by the State Department of Revenue. For tax purposes, the goal for assessed value of property is 100% of its true and fair market value as of January 1 of each year.

In accordance with State law, the Assessor conducts an annual revaluation of all real and personal property based on market sales. In addition, at least one-sixth of the real property parcels are visited for an on-site inspection every year. Three approaches may be used to determine real property value: market data, replacement costs and income generating capacity. The property characteristics and assessed values are listed by the Assessor, on the property tax rolls, which are maintained in the Assessor's office. The Assessor's determination of value is subject to revision by the County's Board of Equalization and/or by the State Board of Tax Appeals. After all administrative procedures are completed, the values are certified and passed on to the Treasurer and the County's Board of Equalization.

Property Tax Collection Procedures. Property taxes are levied in specific amounts, and the rate for all taxes levied for all taxing districts in each county are determined, calculated, and fixed by the Assessor based upon the assessed valuation of the property within the various taxing districts. The Assessor extends the taxes to be levied within each taxing district upon a property tax roll, which contains the total amount of taxes to be so levied and collected. The property tax roll is delivered to the Treasurer by January 15, who bills and collects the taxes as certified. All such taxes are due and payable on the 30th of April of each year; but if the amount due from a taxpayer exceeds fifty dollars, one-half may be paid then and the balance no later than October 31 of that year. Delinquent taxes are subject to interest at the rate of 12 percent per year computed on a monthly basis from the date of delinquency until paid. In addition, a penalty of three percent will be assessed on June 1st of the year in which the tax was due; and eight percent on December 1st of the year the tax was due.

The method of giving notice of payment of taxes due, the Treasurer's accounting for the money collected, the distribution of the taxes among the various taxing districts, notices of delinquency, and collection procedures are all covered by detailed statutes.

Tax Liens and Foreclosure. By law, the Treasurer may commence foreclosure of a tax lien on real property after three years have passed since the first delinquency. Property taxes and all charges and expenses relating to taxes constitute a statutory lien on the property taxed. The lien attaches to the property from and including January 1 in the year in which the tax is levied, and is discharged only when taxes are paid.

The lien for *ad valorem* property taxes on personal property, which have been levied prior to the filing of federal tax liens, is prior to such federal tax liens. In addition, a federal civil judgment lien (but not a federal tax lien) is senior to real property taxes that are incurred after the judgment lien has been recorded. In other respects and subject to the "Homestead Exemption," the lien for delinquent property taxes is prior to all other liens or encumbrances of any kind on real or personal property subject to taxation. The State's courts have not decided whether the Homestead Law (Chapter 6.13 RCW) may give the occupying homeowner a right to retain the first $125,000 of proceeds of the forced sale of the family residence or other "homestead" property for delinquent general property taxes. (See *Algona vs. Sharp*, 30 Wn. App. 837, 638 P.2d 627 (1982), holding the homestead right superior to the improvement district assessment). The United States Bankruptcy Court for the Western District of Washington has held that the Homestead Exemption applies to the lien for property taxes, while the State Attorney General has taken the position that it does not.

DISTRICT FINANCIAL INFORMATION

Debt Summary

The following table presents a summary of certain District debt factors including the Bonds and excluding the Refunded Bonds.

2014 Population Estimate	126,636
2015 Bond Assessed Value	$13,343,281,425
Direct Debt Outstanding (Including the Bonds)[1]	$258,864,391
Estimated Overlapping Debt Outstanding[2]	$117,699,283
Direct and Estimated Overlapping Debt Outstanding[1]	$376,563,674
Remaining Non-Voted General Obligation Debt Capacity	$49,042,914
Remaining Total General Obligation Debt Capacity[1]	$408,299,680

[1] Preliminary, subject to change. Includes the District's outstanding unlimited tax general obligation bonds (including the Bonds and excluding the Refunded Bonds). (See "DISTRICT FINANCIAL INFORMATION - Direct Debt and Estimated Overlapping General Obligation Debt" and "- Schedule of Unlimited Tax General Obligation Bond Debt Service" herein.)

[2] Overlapping debt is as of March 31, 2015.

Source: Washington State Office of Financial Management population estimate and the King County Department of Assessments and King County Finance and Business Operations Division for other data.

Future Financing

The District is considering placing a bond proposition before voters in late 2016 or early 2017, the size of which has not yet been determined. The District anticipates that it may from time to time issue additional general obligation bonds to finance capital improvements.

Debt Repayment Record

The District has never defaulted on a payment of principal or interest on any of its bonds or obligations. Furthermore, the District has never issued refunding bonds for the purpose of avoiding an impending default.

General Obligation Debt Ratios[1]

Bond Assessed Value Per Capita	$105,367
Direct Debt Per Capita	$2,044
Direct and Estimated Overlapping Debt Per Capita	$2,974
Direct Debt to Bond Assessed Value	1.94%
Direct and Estimated Overlapping Debt to Bond Assessed Value	2.82%

[1] Preliminary, subject to change. (See "DISTRICT FINANCIAL INFORMATION - Direct Debt and Estimated Overlapping General Obligation Debt" and "- Schedule of Unlimited Tax General Obligation Bond Debt Service" herein.)

Source: King County Department of Assessments and King County Finance and Business Operations Division.

Direct Debt and Estimated Overlapping General Obligation Debt

The following information sets forth the general obligation indebtedness of the District, including the Bonds and excluding the Refunded Bonds, and of taxing entities with boundaries that overlap with the District.

Direct General Obligation Debt as of March 31, 2015:

Voted General Obligation Debt Outstanding	Maturity	Amount Outstanding	
2004 UTGO Bonds	12/01/15	$ 410,000	
2006 UTGO Bonds	12/01/18	11,270,000	
2009 UTGO Bonds	12/01/21	80,260,000	
2011 UTGO Refunding Bonds	12/01/23	37,740,000	
2012 UTGO Refunding Bonds	06/01/24	11,520,000	
2012B UTGO Refunding Bonds	12/01/25	69,015,000	
The Bonds[1]	12/01/26	47,655,000	
Total Voted Debt			$257,870,000
Non-Voted General Obligation Debt Outstanding			
2003 Qualified Zone Academy Bonds	12/01/16	$ 994,391	
Total Non-Voted Debt			$ 994,391
Total Outstanding Long-Term Direct Debt of the District			$258,864,391

Estimated Overlapping General Obligation Debt as of March 31, 2015:

Taxing Entity	Percent Overlapping	G.O. Debt Outstanding	Amount Overlapping	
King County[2]	3.50%	$796,669,841	$27,912,377	
Library District	19.82	118,264,183	23,444,877	
Port of Seattle	3.50	225,420,000	7,897,886	
City of Burien	100.00	28,063,762	28,063,762	
City of Des Moines	75.02	3,079,190	2,310,062	
City of Kent	1.43	64,503,670	923,840	
City of Normandy Park[3]	100.00	1,387,320	1,387,320	
City of SeaTac[3]	99.22	3,666,400	3,600,977	
City of Seattle[3]	0.001	887,109,719	5,042	
City of Tukwila	3.18	23,288,621	739,693	
Fire District No. 2	100.00	19,724,614	19,724,614	
Fire District No. 11	83.05	953,137	791,554	
Fire District No. 39	10.88	7,322,816	796,822	
Hospital District No. 1[3]	0.57	17,510,000	100,457	
Total Estimated Overlapping Debt				$117,699,283
Total Direct and Estimated Overlapping General Obligation Debt				$376,563,674

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[1] Preliminary; subject to change. (See "PURPOSE AND USE OF PROCEEDS" and "DISTRICT FINANCIAL INFORMATION - Schedule of Unlimited Tax General Obligation Bond Debt Service" herein.)

[2] Excludes proprietary-type debt, component unit's debt, public facilities district debt financed from special taxes and hotel/motel tax financed debt.

[3] Estimated

Source: King County Department of Assessments and King County Finance and Business Operations Division and certain taxing districts.

Calculation of Debt Capacity

Washington municipalities, including the District, are limited by Constitution and statute as to the amount of bonded, or other, indebtedness they may incur. (See “DEBT LIMITATIONS” herein.) The following chart sets forth the remaining debt capacity for voted and non-voted general obligation debt as of March 31, 2015, including the Bonds and excluding the Refunded Bonds. The Bond Assessed Value for the District for the 2015 tax collection year is $13,343,281,425.

I. Non-Voted General Obligation Debt Capacity (3/8 of 1.0% of Assessed Valuation)	$50,037,305
Less: Non-Voted G.O. Debt Outstanding	(994,391)
Remaining Non-Voted General Obligation Debt Capacity	$49,042,914
Percent of Non-Voted Debt Capacity Remaining	98.01%
II. Total General Obligation Debt Capacity (5.0% of Assessed Valuation)	$667,164,071
Less: Voted G.O. Bonds Outstanding (Including the Bonds)[1]	(257,870,000)
Less: Non-Voted G.O. Debt Outstanding	(994,391)
Remaining General Obligation Debt Capacity	$408,299,680
Percent of Total Debt Capacity Remaining	61.20%

[1] Preliminary, subject to change; includes the Bonds and excludes the Refunded Bonds. (See “DISTRICT FINANCIAL INFORMATION - Direct Debt and Estimated Overlapping General Obligation Debt” and “- Schedule of Unlimited Tax General Obligation Bond Debt Service” herein.)

Source: King County Department of Assessments and King County Finance and Business Operations Division.

Schedule of Unlimited Tax General Obligation Bond Debt Service

In addition to the Bonds, the District has other outstanding unlimited tax general obligation bonds, as shown under "DISTRICT FINANCIAL INFORMATION – Direct Debt and Estimated Overlapping General Obligation Debt," which will be collectively referenced, with the exception of the Bonds, as the "Outstanding UTGO Bonds." Set forth in the following table is the aggregate debt service schedule for the District's Outstanding UTGO Bonds and an estimated schedule for the Bonds. (See the subheadings "- Direct Debt and Estimated Overlapping General Obligation Debt" and "- Calculation of Debt Capacity" above). (Interest figures may have been rounded.)

	Outstanding Bonds[1]		The Bonds		
Year	Principal[1]	Interest[1]	Principal[2]	Interest[2]	Total UTGO Debt Service[1,2]
2015	$ 10,575,000	$10,969,543	--	$ 892,181	$ 22,436,724
2016	12,645,000	9,225,600	--	1,878,275	23,748,875
2017	15,285,000	8,640,950	--	1,878,275	25,804,225
2018	16,475,000	8,004,325	--	1,878,275	26,357,600
2019	17,975,000	7,212,325	--	1,878,275	27,065,600
2020	19,765,000	6,410,100	--	1,878,275	28,053,375
2021	21,415,000	5,502,350	--	1,878,275	28,795,625
2022	24,245,000	4,265,850	--	1,878,275	30,389,125
2023	26,265,000	3,128,269	--	1,878,275	31,271,544
2024	25,320,000	1,984,000	$ 2,635,000	1,878,275	31,817,275
2025	20,250,000	1,012,500	10,855,000	1,746,525	33,864,025
2026	--	--	34,165,000	1,366,600	35,531,600
Total	$210,215,000	$66,355,812	$47,655,000	$20,909,781	$345,135,593

[1] Excludes the Refunded Bonds.
[2] Preliminary, subject to change. Interest rates are estimated.
Source: The District.

Trends in Assessed Valuation

Set forth in the following table are the District's historical and current Bond Assessed Values. The District's Bond Assessed Value is based upon 100% of estimated actual valuation, excluding senior citizens' tax base and includes Timber Assessed Value of $536, which totals $13,343,281,425 for tax collection year 2015.

Tax Year	Total District Bond Assessed Valuation	Percent Change
2015	$13,343,281,425	11.7%
2014	11,949,405,142	1.4
2013	11,779,188,350	-8.1
2012	12,815,203,808	-3.5
2011	13,284,529,430	-2.8

Source: King County Department of Assessments.

Tax Levies

The following table shows the representative consolidated *ad valorem* tax levy rates in dollars per $1,000 of assessed valuation for property located in the District in County levy code area 2231 in the City of SeaTac for tax collection year 2015. The overlapping taxing districts within the District have the statutory power to levy regular property taxes at the following rates, subject to limitation and levy excess voter approved property taxes. The levy rates shown below do not apply to all property within the District; therefore, additional taxing districts levy taxes within the District, but are not shown below. Consolidated levy rates vary throughout the District. (See "PROPERTY TAX LIMITATION AND PROCEDURES" herein.)

Taxing Entity	Levy Rate per $1,000 of Assessed Value	Statutory Maximum Regular Levy Authority
State of Washington School Levy	$ 2.2851	$3.600[1]
King County	1.3452	1.800[2]
Port of Seattle	0.1889	0.450[3]
The District	5.3877	---[4]
King Co. Library District	0.5028	0.500
County Emergency Medical Services	0.3021	0.500
City of SeaTac	3.1575	3.600[5]
King County Flood Zone	0.1386	---
Total	$13.3079	

[1] The levy by the State shall not exceed $3.60 per $1,000 assessed valuation adjusted to the State equalized value in accordance with the indicated ratio fixed by the State Department of Revenue to be used exclusively for the support of the common schools.

[2] A county may increase its levy from $1.80 per $1,000 to a rate not to exceed $2.475 per $1,000 for general county purposes if (a) the total levies for both the county and any road district within the county do not exceed $4.05 per $1,000 and (b) no other taxing district has its levy reduced as a result of the increased county levy.

[3] Port districts are authorized to impose independent $0.45/$1,000 levies under RCW 53.36.020, 53.36.070, 53.36.100, and 53.47.040, after complying with various voter approval, notice, public hearing or other requirements that differ depending on the statute. Port district levies are outside of the aggregate rate limitations.

[4] School districts are not authorized to impose regular levies. School district levies are voter-approved excess levies and, as such, are not subject to the rate and amount limitations applicable to regular levies.

[5] The regular levy is limited to $3.375/1,000 plus an additional $0.225/$1,000 for any city with firefighter pension obligations, less the levy rates imposed by any library district or fire protection district into which the city is annexed.

Source: King County Department of Assessments.

The District's Excess Property Tax Levies

The following table shows the District's excess levy rates for M&O and Bond since 2010.

	Levy Rates (Dollars per $1,000 of Assessed Value)		
Tax Collection Year	M&O	Bond	Total
2015	$3.68	$1.71	$5.39
2014	3.80	1.86	5.66
2013	3.81	1.90	5.71
2012	3.40	1.75	5.15
2011	2.85	1.79	4.64
2010	2.64	1.73	4.37

Source: King County Department of Assessments.

Property Tax Collections

Set forth in the following table are the total excess property tax levies and collections for the District for tax collection years 2010 through 2015. The following is provided to show recent trends in the collection of property taxes within the District. Property taxes are due and payable on April 30 of each year succeeding the levy. The entire tax or first half must be paid on or before April 30, and if not paid on a timely basis, the total amount becomes delinquent on May 1. The second half of the tax, if the total tax due for the taxpayer is more than $50.00, is payable on or before October 31, becoming delinquent November 1.

Tax Coll. Year	M&O Levy	Bond Levy	Total Levy	Percent Collected in Tax Year	Percent Collected as of 3/31/15
2015	$49,095,637	$22,803,194	$71,898,830	N/A[1]	N/A[1]
2014	45,215,592	22,120,587	67,336,179	98.35%	98.90%
2013	44,946,428	22,402,226	67,348,654	97.92	99.51
2012	43,524,671	22,339,144	65,863,815	97.85	99.75
2011	37,608,669	23,684,444	61,293,113	97.84	99.95
2010	35,964,818	23,545,009	59,509,827	97.39	99.98

[1] Full year of tax collections not yet available.

Source: King County Finance and Business Operations Division.

Major Taxpayers

The following table lists the ten largest taxpayers within the District on the basis of their 2015 tax collection year assessed valuation.

	Taxpayer	Business	2015 Assessed Valuation	% of District's 2015 Bond Assessed Valuation ($13,343,281,425)
1.	Alaska Airlines	Airline	$ 765,043,049	5.7%
2.	Delta Airlines	Airline	225,614,758	1.7
3.	United Continental Airlines	Airline	90,963,395	0.7
4.	Puget Sound Energy/Gas-Electric	Gas & Electric Utility	82,754,900	0.6
5.	Southwest Airlines	Airline	75,174,413	0.6
6.	Boeing	Aerospace	65,007,738	0.5
7.	Doubletree Hotel Seattle	Hotel	64,526,200	0.5
8.	Hawaiian Airlines	Airline	60,151,792	0.5
9.	Seatac Venture 2010 LLC	Property Management	55,511,020	0.4
10.	American Airlines	Airline	48,579,804	0.4
	Total		$1,533,327,069	11.5%

Source: King County Department of Assessments.

Accounting Policies

The District's accounting policies conform to the *Accounting Manual for Public School Districts in the State of Washington*, issued jointly by the State Auditor and the Superintendent of Public Instruction, by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1) and RCW 28A.505.020. School districts either utilize Generally Accepted Accounting Principles ("GAAP") or an Other Comprehensive Basis of Accounting ("OCBOA") that differs from GAAP. Financial statements for school districts in the State fall into one of three categories: (i) Unqualified GAAP-districts that issue GAAP financial statements that include the General Fixed Asset Account group; (ii) Qualified GAAP-districts that issue GAAP financial statements except that the General Fixed Asset Group is not presented; and (iii) Districts with less than 1,000 FTE students for the preceding fiscal year may issue cash basis financial statements. The District prepares its financial report utilizing OCBOA, which differs from GAAP, as the District elects to not present district-wide financial statements, not present management's discussion and analysis, and long-term debt is reported on a required supplementary schedule. All governmental and expendable trust funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are included on their balance sheets.

The modified accrual basis of accounting is used for all governmental and expendable trust funds. Revenues are recognized when they become measurable and available. Property taxes receivable are measurable but not available and are, therefore, not accrued. However, categorical program claims and inter-district billings are measurable and available and are, therefore, accrued. Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred. The fund liability is incurred when the goods or services have been received. The one exception is the recognition of principal of and interest on long-term debt which is recognized when due.

Fund Accounting

The accounts of the District are organized on the basis of funds and account groups, each of which is a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The various funds are grouped into governmental funds as follows:

(i) *General Fund.* This fund is used to account for all expendable financial resources, except those required to be accounted for in another fund.

(ii) *Debt Service Fund.* This fund is used to account for revenue sources that are legally restricted for the payment of general long-term debt principal, interest and related expenditures.

(iii) *Capital Projects Fund.* This fund is used to account for resources set aside for the acquisition and construction of capital assets. It includes net rental income and net proceeds from the sale of real property and State grants for construction of school facilities. Nonrefunding bond proceeds to finance the acquisition and construction of capital assets are deposited into this fund and disbursed during construction periods.

(iv) *Transportation Vehicle Fund.* This fund is used to account for expenditures related to student transportation expenses.

(v) *Special Revenue Funds.* These funds account for the proceeds of specific revenue sources that are legally restricted for specific purposes. The Associated Student Body Program Fund ("ASB Fund") is the only fund of this type. This fund is accounted for as a special revenue fund since the financial resources legally belong to the district.

Financial Reporting

The financial statements of the District is prepared in accordance with OCBOA, which differs from GAAP, as the District elects to not present district wide financial statements, not present management's discussion and analysis, and long-term debt is reported on a required supplementary schedule. (See "DISTRICT FINANCIAL INFORMATION - Accounting Policies" above).

Auditing

The State Auditor is required to examine the financial affairs of school districts. School districts are audited annually or biennially depending on their size and whether or not they receive certain federal funding. Additionally, annual audits may be conducted at the request of a school district or the State. The District is audited annually. The examination must include, among other things, the financial conditions and resources of the school district, compliance with the State constitution and laws, and the methods and accuracy of the accounts and reports of the school district. Reports of the auditor's examinations are required to be filed in the office of the State Auditor and in the auditing department of the school district. The audited financial statements of the District for the fiscal year ended August 31, 2014, are incorporated by reference and are attached as Appendix D.

The Budgetary Process

General Budgetary Policies. Chapter 28A.505 RCW and Chapter 392-123 Washington Administrative Code mandate school district budget policies and procedures. The budget is adopted by the board of directors after a public hearing. An appropriation is a prerequisite to expenditure. Appropriations lapse at the end of the fiscal period.

Budgetary Basis of Accounting. For budget and accounting purposes, revenues and expenditures are accounted for on the modified accrual basis as prescribed by law for all governmental funds. Fund balance is budgeted as available resources and, pursuant to law, the budgeted ending fund balance cannot be negative.

Encumbrances. Encumbrance accounting is employed in governmental funds. Purchase orders, contracts and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances are closed at the end of the fiscal year and reopened the following year.

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Historical and Budgeted General Fund and Debt Service Fund Operating Results

The following summaries of financial information were extracted from the District's annual audited financial statements for the fiscal years ending August 31, 2010 through 2014 and the 2014-15 Budget. Additional information which may interpret, clarify or modify the data presented below may be contained in the complete financial audits, including the accompanying footnotes, which may be obtained by contacting the District.

Statement of Revenues, Expenditures and Changes in General Fund Balance

	Fiscal Year Ending August 31					
	Audited 2009-10	Audited 2010-11	Audited 2011-12	Audited 2012-13	Audited 2013-14	Budget 2014-15
Revenues:						
Local Funds	$ 42,501,902	$ 44,706,426	$ 47,501,852	$ 49,228,840	$ 50,968,229	$ 58,067,031
State Funds	111,875,473	108,934,385	114,421,597	118,094,584	135,241,299	144,190,029
Federal Funds	23,789,801	25,468,155	21,388,435	20,538,766	19,693,031	23,045,004
Other	1,002,115	738,904	729,859	1,486,119	934,043	2,179,000
Total Revenues	$179,169,291	$179,847,870	$184,041,743	$189,348,309	$206,836,602	$227,481,064
Expenditures:						
Regular Instruction	$ 88,162,967	$ 87,489,524	$ 94,978,883	$ 97,865,655	$106,446,433	$122,537,393
Federal Stimulus	6,130,294	8,128,591	1,580,361	1,302,186	1,151,269	1,380,000
Special Education Instruction	19,196,878	20,579,900	21,828,769	23,118,212	26,199,169	24,861,997
Vocational Education	4,483,467	5,142,830	5,153,587	5,250,082	4,815,803	4,709,473
Skills Center	3,528,404	3,525,191	3,449,402	3,527,799	3,693,876	3,133,104
Compensatory Education	14,189,975	14,111,730	15,859,209	15,609,956	17,119,180	21,160,823
Other Instructional Programs	2,617,616	2,590,443	2,158,049	1,705,570	1,065,033	709,311
Community Services	900,962	817,991	916,897	881,025	1,230,213	1,083,674
Support Services	37,935,328	39,005,095	39,283,857	40,132,641	44,308,716	47,071,124
Capital Outlay	326,584	238,043	476,076	347,707	291,207	0[1]
Debt Service	2,068	0	0	0	0	0
Total Expenditures	$177,474,543	$181,631,450	$185,685,090	$189,740,833	$206,320,899	$226,646,899
Revenues Over/(Under) Expend.	$ 1,694,748	$ (1,783,580)	$ (1,643,347)	$ (392,524)	$ 515,703	$ 834,165
Other Sources (Uses)	315,535	926,931	1,486,986	1,537,486	1,180,000	(120,000)
Prior Year Corrections	0	0	0	(1,084,319)	(1,593,346)	0
Beginning Fund Balance	$ 5,855,068	$ 7,865,351	$ 7,008,702	$ 6,852,341	$ 8,506,330	$ 7,500,000
Reserved/Restricted/Nonspendable[2]	1,179,000	1,407,874	846,500	1,150,941	1,941,534	795,000
Committed/Assigned[2]	3,021,000	1,805,772	1,600,436	1,174,796	781,110	950,000
Unreserved/Unassigned[2]	3,665,351	3,795,056	4,405,405	4,587,247	5,886,043	6,469,165
Ending Fund Balance	$ 7,865,351	$ 7,008,702	$ 6,852,341	$ 6,912,984	$ 8,608,687	$ 8,214,165[3]

[1] Expenditures for capital outlay are included in the budgeted figures for the appropriate program or service.

[2] Beginning in budget year 2010-11, the State modified General Fund balance categories: "Reserved" became "Nonspendable" or "Restricted"; and "Unreserved" became "Committed", "Assigned" or "Unassigned."

[3] As of March 31, 2015, the District's projected ending fund balance is $7,850,000.

Source: The District's Audited Financial Statements for years 2009-10 through 2013-14 and State Form F-195 for 2014-15 figures.

Statement of Revenues, Expenditures and Changes in Debt Service Fund Balance

	Fiscal Year Ending August 31					
	Audited 2009-10	Audited 2010-11	Audited 2011-12	Audited 2012-13	Audited 2013-14	Budget 2014-15
Revenues:						
Local Funds	$25,325,481	$23,720,183	$23,262,144	$22,655,105	$22,416,546	$22,554,700
Other Funds	0	0	0	0	0	240,000
Total Revenues	$25,325,481	$23,720,183	$23,262,144	$22,655,105	$22,416,546	$22,794,700
Expenditures:						
Principal	$10,615,000	$ 9,075,000	$ 9,169,982	$ 8,350,000	$10,434,000	$ 9,640,000
Interest and Other	15,303,493	14,700,862	14,428,404	13,788,960	12,732,968	12,435,530
Total Expenditures	$25,918,493	$23,775,862	$23,598,386	$22,138,960	$23,166,968	$22,075,530
Revenues Over/(Under) Expenditures	$ (593,012)	$ (55,679)	$ (336,242)	$ 516,145	$ (750,422)	$ 719,170
Other Sources/(Uses)	838,757	146,138	537,991	590,976	240,000	0
Beginning Fund Balance	$14,069,428	$14,315,172	$14,405,631	$14,607,380	$15,714,501	$15,349,909
Ending Fund Balance	$14,315,173	$14,405,631	$14,607,380	$15,714,501	$15,204,079	$16,069,079

Source: The District's Audited Financial Statements for years 2009-10 through 2013-14 and State Form F-195 for 2014-15 figures.

Authorized Investments

The Treasurer is the *ex officio* treasurer for the District. In this capacity, the Treasurer receives deposits and makes investments on the District's behalf. All temporary investments are stated at cost plus accrued interest, which approximates market. Investments are shown on the combined balance sheet at cost, net of amortized premium or discount. Reductions in market value are not reflected on the financial statements. Gains or losses on investments sold or exchanged are recognized at the time of sale or exchange.

Chapter 39.59 RCW limits the investment of public funds to the following authorized investments: bonds of the State and any local government in the State, which bonds are rated at the time of investment in one of the three highest credit ratings by a nationally recognized rating agency; general obligation bonds of other states and subdivisions thereof so long as those bonds are rated in one of the three highest categories; registered warrants of a local government within the same county as the entity making the investment; and any investment authorized by law for the treasurer of the State or any local government exclusive of certificates of deposit of banks or bank branches not located in the State. Under chapter 43.84 RCW, the State Treasurer may invest in non-negotiable certificates of deposit in designated qualified public depositories; in obligations of the U.S. government, its agencies and wholly owned corporations; in bankers' acceptances; in commercial paper; in repurchase agreements; in the obligations of the federal home loan bank, federal national mortgage association and other government corporations subject to statutory provisions. Utility revenue bonds and warrants of any city and bonds or warrants of a local improvement district are also eligible investments (RCW 35.39.030).

Any municipal corporation, including the District, may authorize the investment of funds not required for immediate expenditure by the Treasurer. Such funds of the District, including debt service funds, have been invested by the Treasurer. The Treasurer may, upon the request of one or more units of local government that invest their money with the County, combine that money for the purposes of investment (RCW 36.29.022). The Treasurer may reimburse its office for any expenses incurred in the establishment and maintenance of such a County investment pool (RCW 36.29.024). The Treasurer makes investments on behalf of the District.

King County Investment Pool

The following information was obtained from the County for use in this Official Statement, and the District, the Financial Advisor and the Underwriter makes no representations as to the accuracy or completeness thereof.

The following information was provided by the County in March 2015.

> The King County Investment Pool (the "Investment Pool") invests cash reserves for all County agencies and approximately 100 special purpose districts and other public entities such as fire, school, sewer, and water districts, and other public authorities. It is one of the largest investment pools in the State, with a typical recent asset balance in excess of $5 billion. On average, assets of County agencies comprise between 40% and 45% of the Investment Pool.
>
> The Committee establishes the County's investment policy and oversees the portfolio to ensure that specific holdings comply with both the investment policy and State law. The Investment Pool is allowed to invest only in certain types of highly-rated securities, including certificates of deposit, U.S. Treasury obligations, federal agency obligations, municipal obligations, repurchase agreements, and commercial paper. A summary of the current investment policy is presented below.
>
> The County has commissioned an outside financial consultant, Public Financial Management ("PFM"), to conduct quarterly reviews of all assets in the Investment Pool. In its most recent assessment, as of December 31, 2014, PFM concluded that "the County's Investment Pool appears to provide ample liquidity, is well diversified, and is of sound credit quality." The most recent portfolio review can be obtained at the following website, which is not incorporated into this Official Statement by reference:
>
> *http://www.kingcounty.gov/operations/Finance/Treasury/InvestmentPool.aspx*
>
> SUMMARY OF KING COUNTY'S INVESTMENT POLICY
>
> The Treasury Operations Section of the King County Finance and Business Operations Division (the "Finance Division") administers the County's investments. Under Section 4.10 of the County Code, the Executive Finance Committee (the "Committee") oversees the County's investment practices. The Committee consists of the Chair of the County Council or his or her designee, the County Executive or his or her designee, the County Director of the Office of Performance, Strategy and Budget, and the County Director of the Finance and Business Operations Division.
>
> The County's own funds are invested in the Investment Pool. All investments of County funds are subject to written policies and procedures adopted by the Committee. The Committee reviews the performance of the Investment Pool on a monthly basis.

In addition to investing the County's own funds, the Treasury Operations Section also invests the funds of approximately 100 special purpose districts within the County for which the Treasury Operations Section serves as treasurer, including all school districts, fire protection districts, water districts, sewer districts, and hospital districts. Each district has the option either to invest in the Investment Pool or to direct the term and amount of each of its investments. To participate in the Investment Pool, a district must sign an inter-local agreement that governs its participation in the Investment Pool, and to exit the Investment Pool, a district must provide the required notice prior to its anniversary date. The Treasury Operations Section selects the particular investment instruments.

The Investment Pool must maintain an effective duration of less than 1.5 years and at least 40% of its total value must be held in securities that mature in 12 months or less. As of March 31, 2015, the Investment Pool had a balance of $5.1 billion and an effective duration of 1.13 years, and 48% of the portfolio had a maturity of 12 months or less.

Under State law and the County's current investment policy, the County may invest in the following instruments:

(i) Up to 100% of the portfolio in U.S. Treasury or Agency securities with maturities of five years or less;

(ii) Up to 25% of the portfolio in certificates of deposit ("CDs") with institutions that are public depositaries in the State. 2.5% of the portfolio can be held with a single CD issuer, provided that deposit limitations established by the State are not exceeded. In addition, all CDs must be purchased from institutions on the County's approved credit list and have a maturity of one year or less;

(iii) Up to 25% of the portfolio in bankers' acceptances. 2.5% of the portfolio can be held in a single issuer, provided the issuer has the highest ratings from two nationally recognized rating agencies, and further that the issuer is also on the County's approved credit list. Maturity is also limited to 180 days;

(iv) Up to 40% of the portfolio in repurchase agreements, subject to the following limitations:

  (a) the repurchase agreement may not exceed a period of 60 days,

  (b) the underlying security must be a U.S. Treasury or U.S. Agency;

  (c) all underlying securities used in repurchase agreements are held by a third party; and

  (d) counterparties must come from the County's approved credit list, have a minimum rating of at least A-1/P-1/F1 by at least two rating agencies, and have at least $25 billion in assets and $350 million in capital;

(v) Up to 25% in commercial paper with the highest short-term rating from at least two nationally recognized credit rating agencies. Maturity is limited to 180 days, and no more than 2.5% of the County's portfolio may be invested in commercial paper of a single issuer;

(vi) Up to 20% in general obligation municipal bonds, subject to the following limitations: bonds must be:

  (a) rated in one of the three highest credit rating categories by a nationally recognized credit rating agency, and the issuer must be on the County's approved issuer list; and

  (b) Maturity of five years or less and no more than 2.5% with any one issuer.

In addition, bonds must have one of the three highest credit ratings of a nationally recognized credit rating agency (“A” or better);

(vii) Up to 25% in mortgage-backed securities, subject to the following limitations:

(a) must be issued by agencies of the U.S. government;

(b) must pass the Federal Financial Institutions Examination Council (“FFIEC”) suitability test which banks use to determine lowest risk securities; and

(c) average life must be limited to five years at time of purchase;

(viii) Up to 20% in bank notes, subject to the following limitations:

(a) must be a note, bond, or debenture of a savings and loan association, bank, mutual savings bank, or savings and loan service corporation operating with the approval of the Federal Home Loan Bank with a maturity of five years or less; and

(b) 2.5% maximum per issuer and the issuer must be on the County’s approved credit list and, at the time of purchase, must be rated “A” or better by two nationally recognized credit rating agencies or insured or guaranteed by the federal government or one of its agencies; and

(ix) Up to 25% in the State’s Local Government Investment Pool.

The combined total of repurchase agreements greater than seven days, bankers’ acceptances, CDs, commercial paper, and bank notes must not exceed 50% of Investment Pool assets. In addition, there is a 5% limitation on issuer exposure applied across investment types.

The County currently does not purchase structured notes or inverse floating rate notes, and has no intention of doing so in the near future.

Reverse Repurchase Agreements. The County enters into reverse repurchase agreements with respect to securities held in the Investment Pool in accordance with a policy adopted by the Committee. A reverse repurchase agreement involves the sale of a security to a provider for a specified price with a simultaneous agreement to repurchase such security from the provider at a specified future date at the same price plus a stated rate of interest. Under the County’s current policy:

(i) the County does not spend the proceeds received under its reverse repurchase agreements, but rather invests the proceeds in other securities;

(ii) the County does not enter into reverse repurchase agreements with a term of more than 180 days;

(iii) the County invests the proceeds of such reverse repurchase agreements only in securities which have the same maturity date as the end date of the reverse repurchase agreement; and

(iv) the County does not enter into reverse repurchase agreements in an aggregate amount in excess of 20% of the total balance in the Investment Pool at any one time.

All of the County’s reverse repurchase agreements are with dealers that meet the credit standards established by the County and that have signed a master repurchase agreement with the County. There have been no reverse repurchase agreements in effect since 2007.

The County’s entire investment policy is located on the County’s website at the following link, which is not incorporated into this Official Statement by reference:

http://www.kingcounty.gov/operations/Finance/Treasury/InvestmentPool.aspx

All of the investments of the District are insured or registered and held by the Treasurer or its agent in the District's name. As of March 31, 2015, the District's investments for all District funds had a market value of $40,925,962.05.

Local Government Investment Pool

The Treasurer may also invest in the State's Local Government Investment Pool ("LGIP"), which was authorized by the Legislature in 1986 and managed by the Office of the State Treasurer, is a voluntary pool that provides its participants the opportunity to take advantage of the economies of scale inherent in pooling. The LGIP also is intended to offer participants safety of principal and the ability to achieve a higher investment yield than otherwise would be available to them. The more than 540 local governments that participate in the LGIP are allowed 100 percent liquidity on a daily basis. As of February 28, 2015, the LGIP had a balance of approximately $8.6 billion. Although not regulated by the U.S. Securities and Exchange Commission (the "SEC"), the LGIP is invested in a manner generally consistent with the SEC guidelines for Rule 2a-7 money market funds; for example, currently it has a maximum weighted average maturity ("WAM") of 60 days and a maximum weighted average life of 120 days. The maximum final maturity is 397 days except for floating- and variable-rate securities and securities that are used for repurchase agreements. The WAM of the LGIP generally ranges from 30 to 60 days. Typical investment holdings of the LGIP are repurchase agreements, U.S. Treasury bills and notes, U.S. agency discount notes, coupons, floating- and variable-rate notes, reverse repurchase agreements and bank deposits. The benchmarks utilized for the LGIP are the Government and Agency money market net and gross yields reported by iMoneyNet. The net yield is utilized for external comparisons while the gross yield is used internally to assess portfolio manager performance. For a full description of the LGIP and its interest structure visit the State Treasurer's website at http://tre.wa.gov/LGIP (which website is not incorporated into this official statement by reference).

Authorized Investments for Bond Proceeds

The proceeds from the Bonds may only be invested in Acquired Obligations, as described herein.

THE DISTRICT

General Information

The District is located in Western Washington, in King County (the "County"). The District encompasses the cities of Burien and Normandy Park. It also encompasses a majority of the cities of SeaTac and Des Moines. A small portion of the cities of Kent, Seattle, Tukwila and portions of the unincorporated County are located within the District. An estimated 126,636 residents live within the District as of September, 2014. Instruction is provided by the District to an estimated 18,446 students in grades preschool through twelve. (See "APPENDIX A – ECONOMIC AND DEMOGRAPHIC INFORMATION" herein for a description of the area's economy.)

Form of Local Government and Governing Officials

The District's executive, legislative, and policy-making body is the Board of Directors (the "Board") which is composed of five members who are elected at large by the voters of the District to serve overlapping four-year terms. Shown below are the names of the individuals who comprise the present Board as well as the dates when their respective terms of office expire.

Name	Position	Number of Years Served	Expiration of Term (December)
Bernie Dorsey	President	8	2015
Michael Spear	Vice President	8	2015
Angelica Alvarez	Member	6	2017
Tyrone Curry Sr.	Member	4	2015
Joe Van	Member	<1	2015

Superintendent. The Superintendent is Dr. Susan A. Enfield, who has held the position since July 2012. Prior to employment with the District, Dr. Enfield was employed as Interim Superintendent for Seattle Public Schools and as Chief Academic Officer, also for Seattle Public Schools. Dr. Enfield is a graduate of the University of California at Berkeley and earned Master's degrees in Education from Stanford University and Harvard University. She holds a doctoral degree in Administration, Planning and Social Policy from Harvard University with a concentration in the Urban Superintendents Program.

Chief of Staff and Finance. The Chief of Staff and Finance of the District is Mr. Duggan Harman. He has held that position since September 2013. Prior to employment with the District, Mr. Harman was employed as Assistant Superintendent for Business & Finance for Seattle Public Schools. Mr. Harman earned a Bachelor's degree in Political Science from the University of Idaho and a Master's degree in International Relations from Washington State University.

Director of Business Services. The Director of Business Services of the District is Ms. Bang Parkinson. She has held that position since 2007. Prior to employment with the District, Ms. Parkinson was employed as the Budget Coordinator and the Finance Analyst Manager for the City of Renton and Renton School District. Ms. Parkinson obtained her CPA license in 2007 and earned a Bachelor's degree and a Master's degree in Business Administration from the University of Washington.

Facilities

The District operates 18 elementary schools, four middle schools, twelve high schools one skills center, one early childhood center, one homeschool center, one charter school and five other instructional programs.

Enrollment Trends

The District provides education for students in preschool and grades kindergarten through twelve. The enrollment figures in the following table are based on historical and projected October 1 full-time equivalent students in the District.

October 1	Historical Enrollment	October 1	Projected Enrollment
2014	18,446	2015	18,927
2013	17,782	2016	19,254
2012	17,587	2017	19,492
2011	17,458	2018	19,678
2010	17,449		

Source: The District.

Employment and Labor Relations

The District has an estimated 2,588 full-time and part-time employees, which includes 1,393 certificated and 1,195 classified employees. The majority of the employees who are eligible under State law to be represented by a labor organization are employed under provision of negotiated contracts with the formally recognized collective bargaining units. Expiration dates of negotiated agreements with the unions and the respective employees they represent are as follows:

Bargaining Unit or Employee Group	No. of Employees	Expiration Date of Contract
Highline Education Association	1,333	8/31/2015[1]
Highline Principals Association	59	6/30/2015
Central Office Administrators	44	N/A
Teamsters I (Security Officers)	16	8/31/2016
Teamsters II	344	8/31/2016
Teamsters III	675	8/31/2015[1]
Administrative/Executive Assistant Group	9	N/A
Management/Professional Group 1	0	N/A
Management/Professional Group 2	71	N/A
Management/Professional Group 3	37	N/A
Total	2,588	

[1] Currently under negotiation.

Source: The District.

Risk Management

The District is a member of the Schools Insurance Association of Washington ("SIAW"). An agreement to form a pooling arrangement (the "Pool") was made pursuant to the provisions of Chapter 39.34 RCW, the Inter-local Cooperation Act. The Pool was formed on September 1, 1995 when seven mid-size school districts in the State joined together by signing an Inter-local Agreement to pool their self-insured losses and jointly purchase insurance administrative services.

The Pool allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Public Officials Liability is on a "claims made basis." All other coverages are on an "occurrence basis." The Pool provides the following forms of group-purchased insurance coverage for its members: property, liability, vehicle liability, other mobile equipment, boiler and machinery, bonds of various types, excess liability and public official liability.

The Pool allows members to jointly purchase insurance coverage and also provides related administrative, risk management, claims handling, etc. services. The Pool provides the following forms of group insurance for its members: property, boiler and machinery, general liability, vehicle and mobile equipment liability, bonds of various types, public officials liability and excess liability coverage. Public Officials Liability and Employee Benefits Liability coverages are "claims made" while all other coverages are occurrence based.

The SIAW provides insurance to its members through a Memorandum of Coverage (MOC) which is currently reinsured through Munich Re America. The Pool self-insures up to $250,000 for property claims and $100,000 for liability claims and the district pays deductibles of $10,000 for property and $2500 for liability claims. Pool members share liability for the payment of these self-insured retentions and purchases a Stop Loss policy to cap that aggregate liability. For the current policy year of 2014-2015, that stop loss policy is for $3,105,342. The District's contribution to the Pool in 2013-14 was $1,697,677.

Pension Plans

Pensions for District employees are provided through the State Department of Retirement Systems (the "DRS"). Substantially all District full-time and qualifying part-time employees participate in one of the following three state-wide retirement systems: (i) the State Teachers' Retirement System ("TRS") for certificated employees, (ii) the Public Employees' Retirement System ("PERS") for non-certificated employees and (iii) the School Employees' Retirement System ("SERS") for classified employees. TRS includes three plans (Plans 1, 2 and 3), PERS includes three plans (Plans 1, 2 and 3), and SERS includes two plans (Plans 2 and 3). Participants who joined the retirement system by September 30, 1977 are eligible to be either TRS or PERS Plan 1 members. Those who joined thereafter are enrolled in TRS Plans 2 or 3, PERS Plans 2 or 3 or SERS Plans 2 or 3. All Plans 1 and 2 are defined benefit plans. New TRS, PERS and SERS participants have the irrevocable option of choosing membership in either of their respective Plan 2 or Plan 3. This option must be exercised within 90 days, and if not exercised the participant will be placed in their respective Plan 3. Each of the PERS Plan 3, the SERS Plan 3 and the TRS Plan 3 consists of a defined benefit and a defined contribution portion. Once a member chooses to enter a Plan 3, they may not revert back to a Plan 2.

Retirement benefits under all Plans 1 and 2 are vested after completion of five years of eligible service. PERS Plan 3 members are vested after ten years of eligible service; or after five years of eligible service if one service credit year is earned after the age of 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. TRS Plan 3 members are vested after ten years of eligible service; or after five years of eligible service if one service credit year is earned after the age of 44; or after five service credit years earned in TRS Plan 2 by July 1, 1996. Plan 3 members are immediately vested in the defined contribution portion of their plan. SERS Plan 3 members are vested after ten years of eligible service; or after five years of eligible service if one service credit year is earned after the age of 44; or after five service credit years earned in PERS Plan 2 by September 1, 2000.

The District contributed $8,876,603 in 2013 and $12,096,034 in 2014 to these pension plans. District employees also are eligible to participate in the federal social security program.

The Legislature establishes all employer and employee contribution rates for all plans during even numbered years according to a statutory rate-setting process. The following table lists current contribution rates for employers and employees:

Contribution Rates
(in percentage)

	Current Rates for 2013-2015	
	Employer Rate[1]	Employee Rate
PERS Plan 1	9.21%	6.00%
PERS Plan 2/3[2]	9.21	4.92
TRS Plan 1	10.39	6.00
TRS Plan 2/3[2]	10.39	4.96
SERS Plan 2/3[2]	9.82	4.64

[1] Includes a 0.18 percent Department of Retirement Systems administrative expense rate.
[2] Plan 3 members do not contribute to the defined benefit plan.
Source: Department of Retirement Systems.

While the District's prior contributions represent its full current liability under the retirement systems, any unfunded pension benefit obligations could be reflected in future years as higher contribution rates. It is expected that the contribution rates for employees and employers in the TRS Plans 2 and 3 and PERS Plans 2 and 3 will increase in the coming years. The Office of the State Actuary ("OSA") website (which is not incorporated into this Official Statement by reference) includes information regarding the values, funding levels and investments of these retirement plans. For additional information, see Audited Financial Statements for the Year-Ended August 31, 2014 - Note 5, attached hereto as Appendix D.

The Actuarial Valuation Report – Washington 2013, produced by OSA, states that as of June 30, 2013, PERS Plans 2 and 3 and TRS Plans 2 and 3 had no unfunded actuarial accrued liability. However, during the years 2001 through 2010 the rates adopted by the Legislature were lower than those that would have been required to produce actuarially required contributions to PERS Plan 1 and TRS Plan 1, closed plans with a large proportion of the retirees. The following table shows the funded status of the PERS, TRS and SERS for 2004-2013. The assumptions used by the State Actuary in calculating the unfunded liability are a 7.8 percent annual rate of investment return, 3.75 percent general salary increases, 3.0 percent consumer price index increase and 0.95 percent growth in membership (0.80 percent for TRS). The long-term investment return assumption is used as the discount rate for determining the liabilities for a plan.

The OSA uses two funded status measures. The first funded status measure compares the Actuarial Value of Assets ("AVA") to the "Projected Unit Credit ("PUC") liabilities. The PUC cost method projects future benefits using salary growth and other assumptions and applies the service that has been earned as of the valuation date to determine accrued liabilities. The asset valuation method smoothes the inherent volatility in the Market Value of Assets ("MVA") by deferring a portion of the annual investment gains or losses over a period of up to eight years. This method is consistent with governmental accounting standards. The OSA also uses a second measure, comparing the MVA to the PUC liabilities calculated using a short-term interest rate assumption. This measure is used for the closed plans, PERS 1 and TRS 1. Additional information on this measure is provided in the 2013 Actuarial Valuation Report.

In 2011, the Legislature enacted legislation that ended the future automatic annual increase, which is a fixed dollar amount multiplied by the member's total years of service, for most retirees in the PERS Plan 1 and TRS Plan 1 plans, which is forecast to reduce the unfunded accrued actuarial liability in PERS Plan 1 and TRS Plan 1. A lawsuit was filed challenging this legislation. In August, 2014, the Washington State Supreme Court upheld the constitutionality of this legislation.

Funded Status On An Actuarial Value Basis[1]

	PERS		TRS		SERS
	Plan 1	Plan 2/3	Plan 1	Plan 2/3	Plan 2/3
PUC Liability[2]	$12,884	$23,798	$9,449	$8,016	$3,273
Valuation Assets[2]	8,053	24,335	6,717	8,406	3,335
Unfunded Liability[2]	$ 4,831	$ (537)	$2,732	$ (390)	$ (62)
Funded Ratio (%)					
2013[3]	63	102	71	105	102
2012	69	111	79	114	110
2011[3]	71	112	81	113	110
2010	74	113	84	116	113
2009[3]	70	116	75	118	116
2008[3]	71	119	77	125	121
2007[3]	71	120	76	130	126
2006[3]	74	121	80	133	125
2005[3]	74	127	80	134	122
2004	81	134	88	153	137

[1] Liabilities valued using the Projected Unit Credit ("PUC") cost method at an interest rate of 7.8 percent while assets have been valued under the actuarial value of assets.

[2] Dollars in millions. Based on actuarial valuation as of June 30, 2013.

[3] Actuarial assumptions changed.

Office of the State Actuary, 2013 Actuarial Valuation Report September 2014.

In July 2014, the PFC adopted contribution rate increases to be phased in over three biennia, beginning with the 2015-17 biennium. For the 2015-17 biennium: (1) employer rates (net of DRS administrative fees) will be 11 percent for PERS Plans 1, 2 and 3 and employee rates will be 6.12 percent for PERS Plan 2; (2) employer rates will be 11.4 percent for SERS Plans 2 and 3 and employee rates will be 5.63 percent for SERS Plan 2; and (3) employer rates will be 12.95 percent for TRS Plans 1, 2 and 3 and employee rates will be 5.95 percent for TRS Plan 2. PERS Plan 1 and 3 contribution rates remain unchanged. The rates adopted by the PFC are subject to revision by the Legislature.

The information in this section has been obtained from the District's financial statements and information on OSA and DRS's websites (which are not incorporated into this Official Statement by reference).

Other Post-Employment Benefits

PEBB Overview. The Public Employee Benefits Board ("PEBB"), created within the State Health Care Authority ("HCA"), administers medical, dental and life insurance plans for State public employees and retirees. Employers who participate in the PEBB plan include the State, K-12 school districts, numerous political subdivisions of the State and tribal governments. The relationship between the PEBB Other Post-Employment Benefits ("OPEB") plan and its member employers and 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 which the plan terms are understood by the employers and plan members.

PEBB Membership. Retirees' access to PEBB depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the PERS, TRS and SERS retirement systems. The following table shows PEBB plan membership.

Membership in PEBB Plan
(As of June 30, 2014)

	Active Employees	Retirees[1]	Total
State	108,291	29,674	137,965
K-12 Schools and ESDs[2]	2,138	31,642	33,780
Political Subdivision	12,079	1,547	13,626
Total	122,508	62,863	185,371

[1] Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.

[2] In Fiscal Year 2014, there were 101,445 full-time equivalent active employees in the 237 K-12 schools and Educational Service Districts which elected to limit participation in PEBB only to their retirees.

Source: Washington State Comprehensive Annual Financial Report ("CAFR") for Fiscal Year Ended June 30, 2014.

According to State law, the State Treasurer collects a fee from all school district entities which have employees who are not current active members of the HCA but participate in the State retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the HCA. For the fiscal year 2013-14, the District was required to pay the HCA $64.40 per month per full-time equivalent employee to support the program, for a total payment of $1,725,543.09. This assessment to the District is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

The District has no control over the benefits offered to retirees, the rates charge to retirees, nor the fee paid to the HCA. The District does not determine its annual required contribution nor the net OPEB obligation associated with this plan. Accordingly, these amounts are not shown on the District's financial statements. This is a departure from GAAP.

GASB 45. The Governmental Accounting Standards Board's ("GASB") standard concerning Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions ("OPEB") is known as "GASB 45." OPEB includes post-employment healthcare, as well as other forms of post-employment benefits when provided separately from a pension plan. GASB 45 provides for the measurement, recognition and display of OPEB expenses/expenditures, related liabilities (assets), note disclosures, and if applicable, required supplementary information in the financial reports.

District OPEB Reporting. The District does not provide any current or retired employees OPEB that are required to be disclosed under GASB's standard concerning Accounting and Financial Reporting by Employers for OPEB. The District prepares its financial reports utilizing OCBOA (see "- Accounting Policies" above) and therefore does not anticipate it will incorporate the reporting standards into its basis of accounting.

APPROVAL OF BOND COUNSEL

Legal matters incident to the authorization, issuance and sale of the Bonds by the District are subject to the approving legal opinion of Bond Counsel. A form of the opinion of Bond Counsel is attached hereto as Appendix E. The opinion of Bond Counsel with respect to the Bonds is given based on factual representations made to Bond Counsel, and under existing law, as of the date of initial delivery of the Bonds, and Bond Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

TAX EXEMPTION

General

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance by the District with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The District is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirements to the extent applicable to the Bonds. The District has covenanted in the Bond Resolution to comply with those requirements, but if the District fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. Bond Counsel has not undertaken and does not undertake to monitor the District's compliance with such requirements.

Corporate Alternative Minimum Tax. While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computations of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75% of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of $40,000, which exemption will be reduced (but not below zero) by 25% of the amount by which the corporation's alternative minimum taxable income exceeds $150,000, is then subject to a 20% minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three taxable year period beginning after December 31, 1993, did not exceed $5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed $7,500,000.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25% of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Original Issue Premium. The initial public offering price of the Bonds of certain maturities may be greater than the amount payable on such Bonds at maturity ("Premium Bonds"). All prospective purchasers of Premium Bonds should consult their tax advisors with respect to the federal, state and local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Bonds.

Original Issue Discount. The initial public offering price of the Bonds of certain maturities may be less than the amount payable on such Bonds at maturity ("Discount Bonds"). All prospective purchasers of Discount Bonds should consult their tax advisors with respect to the federal, state and local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Discount Bonds.

Possible Consequences of Tax Compliance Audit. The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Bonds could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of its ultimate outcome.

Certain Other Federal Tax Consequences

Bonds <u>not</u> "Qualified Tax-Exempt Obligations" for Financial Institutions. Section 265 of the Code generally provides that 100 percent of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than $10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the calendar year in which such obligations are issued, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20 percent of any interest expense deduction allocable to those obligations will be disallowed.

The District is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than $10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the calendar year in which the Bonds are issued, and will **not** designate the Bonds as "qualified tax-exempt obligations" for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense deduction of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15% of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds may wish to consult their own tax advisors.

Potential Future Federal Tax Law Changes. Current and future legislative proposals, if enacted into law, may directly or indirectly cause interest on the Bonds to be subject in whole or in part to federal income taxation, prevent the beneficial owners of the Bonds from realizing the full benefits of the current federal tax status of interest on the Bonds, or affect, perhaps significantly, the market value or marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors regarding the potential impact of any pending or proposed legislation or regulations.

LITIGATION

There is no controversy or litigation of any nature now pending or, to the knowledge of the District, threatened, restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the District taken with respect to the issuance or sale thereof, or the validity of the levy of taxes for the payment thereof.

UNDERWRITING

The Bonds are being purchased by __________________ (the "Underwriter") at the aggregate purchase price of ______ percent of the aggregate stated principal amount of the Bonds, and will be reoffered at an average price of ______ percent of the aggregate stated principal amount of the Bonds, as reflected by the prices and yields set forth on the inside cover of this Official Statement. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on the inside cover page of this Official Statement, and such initial offering prices may be changed from time to time, by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

RATINGS

As noted on the cover page of this Official Statement, Moody's Investors Service, New York, New York ("Moody's") has assigned its municipal bond rating of "____" to the Bonds and Standard & Poor's, a Division on the McGraw Hill Companies ("S&P") has assigned its municipal bond rating of "____" to the Bonds. Moody's has also assigned its credit enhanced rating of "Aa1" and S&P has assigned an enhanced rating of "AA+" to the Bonds, based upon the District's participation in the Washington State

School District Credit Enhancement Program. See Appendix C for a further description of this program. No application was made to any other rating agency for the purpose of obtaining additional ratings on the Bonds. The ratings reflect only the view of the rating agencies and an interpretation of such ratings may be obtained only from the rating agency furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agency, if, in the judgment of such agency, circumstances so warrant. Any such revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

FINANCIAL ADVISOR

In connection with the authorization and issuance of the Bonds, the District has retained D.A. Davidson & Co. as Financial Advisor (the "Financial Advisor") to the District in the offering of the Bonds.

CERTAIN INVESTMENT CONSIDERATIONS

Limitations on Remedies; Financial Insolvency and Bankruptcy

Limitations on Remedies. Any remedies available to the owners of the Bonds are in many respects dependent upon judicial actions, which are in turn often subject to discretion and delay and could be both expensive and time consuming to obtain. If the District fails to comply with its covenants under the Bond Resolution or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the Bonds. In addition to the limitations on remedies contained in State law, the rights and obligations under the Bonds and the Bond Resolution may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. The legal opinion of Bond Counsel regarding the validity of the Bonds will be qualified by reference to bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium and other similar laws affecting the rights of creditors generally, and by general principles of equity.

Financial Insolvency. A school district may be dissolved due to financial insolvency. State law (chapter 28A.315 RCW) outlines the process for dissolution. A financially insolvent school district is defined as one that has been on binding conditions for two consecutive years or is reasonably foreseeable and likely to have a deficit general fund balance within three years, and is unable to prepare a satisfactory financial plan. A satisfactory financial plan is a plan approved by OSPI and the Educational Service District within which the financially insolvent school district is located ("ESD") demonstrating that the district will have an adequate fund balance by the end of the plan period that relies on currently available revenue streams or revenue streams that the ESD determines are reasonably reliable.

OSPI is directed to convene a financial oversight committee ("Oversight Committee") if a district is found to be financially insolvent or at the request of a financially insolvent district. The purpose of the Oversight Committee is to review the financial condition of a financially insolvent school district, hold a public hearing, and make a recommendation to OSPI as to whether the district should be dissolved or placed under enhanced financial monitoring.

OSPI may file a petition with the appropriate regional committee to dissolve a financially insolvent school district if recommended by the Oversight Committee. The petition must specify the proposed annexation of the financially insolvent school district by one or more contiguous school districts and the disposition of assets and liabilities of the financially insolvent school district. The ESD negotiates with the identified contiguous school districts and attempts to seek agreement regarding annexation of the financially insolvent school district. The agreement must be approved by the Oversight Committee. If the school districts cannot agree, the matter is forwarded to the regional committee for a decision.

The order filed by the OSPI that implements either the agreement among school districts or the decision of the regional committee must also specify that any excess tax levy approved by an annexing school district is imposed on the newly annexed territory. Before the effective date of dissolution, a school district that annexes part or all of a financially insolvent school district may submit to the voters either a levy to replace existing levies and provide for an increase due to the dissolution, or an additional levy to provide for an increase due to the dissolution. If these elections do not occur or fail, the transferred territory is relieved of any previous levy associated with the dissolved district, but subject to any previous levy associated with the annexing district. In the case of voted bonded indebtedness by a dissolved school district, the receiving or annexing school district must certify and collect a tax levy sufficient to pay the principal of and interest on such outstanding voted bonded indebtedness. The receiving or annexing school may also determine to refund all or a part of the outstanding voted bonded indebtedness. *A financially insolvent school district may file for bankruptcy only if recommended by the Oversight Committee.*

Bankruptcy. A municipality, such as the District, must be specifically authorized under state law in order to seek relief under Chapter 9 of the U.S. Bankruptcy Code (the "Bankruptcy Code"). Chapter 39.64 RCW, entitled the "Taxing Relief Bankruptcy Act," appears to permit any "taxing district" (defined to include any municipality or political subdivision) to voluntarily petition for relief under the Bankruptcy Code. A creditor cannot bring an involuntarily bankruptcy proceeding against a municipality, including the District. Under Chapter 9, a federal bankruptcy court may not appoint a receiver for a municipality or order the dissolution or liquidation of the municipality. If a municipality filed for bankruptcy, the bankruptcy court would have some discretion with respect to how to treat past and future obligations of such municipality under a plan for adjustment of debt under Chapter 9 of the Bankruptcy Code.

Initiatives and Referenda

Under the Constitution, the voters of the State have the ability to initiate legislation and to modify existing statutes through the powers of initiative and referendum, respectively. The initiative power in the State may not be used to amend the Constitution. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least 8% (initiatives) and 4% (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws.

Initiative petitions affecting tax collections and levy rates for State and local governments (not including the excess property taxes pledged to the repayment of the Bonds) and other matters may be filed in the future. The District cannot predict whether any such initiatives will qualify to be submitted to the voters or, if submitted, will be approved. Likewise, the District cannot predict what actions the Legislature might take, if any, regarding future initiatives approved by voters.

NO CONFLICTS OF INTEREST

All or a portion of the fees of the Financial Advisor, Underwriter and Bond Counsel are contingent upon the issuance and sale of the Bonds. In addition, Bond Counsel from time to time serves as counsel to the Financial Advisor in matters unrelated to the Bonds. None of the members of the Board or other officers of the District have any conflict of interest in the issuance of the Bonds that is prohibited by applicable law.

Moreover, the District is not aware of the existence of any actual or potential conflict of interests, breach of duty or less than arm's-length transaction regarding the selection of the Financial Advisor, Underwriter, Bond Counsel and other participants in the offering of the Bonds. Further, the District is not aware of any undisclosed payments to obtain underwriting assignments and undisclosed agreements or arrangements, including fee splitting, between the Underwriter and other participants in the offering of the Bonds.

COMMITMENT TO PROVIDE CONTINUING DISCLOSURE

In order to permit the Underwriter of the Bonds to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the District will covenant and agree, for the benefit of the registered holders or beneficial owners from time to time of the outstanding Bonds to provide certain information and notice of the occurrence of certain events as hereinafter described (the "Undertaking"). The information to be provided, the events as to which notice is to be given and a summary of other provisions of the Undertaking, including termination, amendment and remedies, are set forth in Appendix B to this Official Statement.

Breach of the Undertaking will not constitute a default under the Bonds or the Bond Resolution. A broker or dealer is to consider a known breach of the Undertaking, however, before recommending the purchase or sale of the Bonds in the secondary market. Thus, a failure on the part of the District to observe the Undertaking may adversely affect the transferability and liquidity of the Bonds and their market price. See Appendix B for a description of the District's compliance with previous Continuing Disclosure Undertakings.

ADDITIONAL INFORMATION AND MISCELLANEOUS

The descriptions herein of the Bond Resolution and other documents are brief summaries of certain provisions thereof. Such summaries do not purport to be complete, and reference is made to such documents and contracts, copies of which are available, upon request and upon payment to the District of a charge for copying, mailing and handling, from the District, 15675 Ambaum Blvd. SW, Burien, Washington 98166, telephone (206) 631-3000.

PRELIMINARY OFFICIAL STATEMENT

Pursuant to Rule 15c2-12, the District has deemed this Preliminary Official Statement "final," except for the omission of information dependent upon the pricing of the issue and the completion of the underwriting agreement, such as offering prices, interest rates, selling compensation, aggregate principal amount, and other terms dependent on the foregoing matters.

OFFICIAL STATEMENT CERTIFICATE

At the Date of Delivery of the Bonds, one or more of the officials of the District will furnish a certificate stating that to the best of his, her or their knowledge this Official Statement, as of its date and as of the Date of Delivery of the Bonds, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained herein, in light of the circumstances under which they were made, not misleading.

APPROVAL OF OFFICIAL STATEMENT

The execution and delivery of this Official Statement have been duly authorized by the District.

HIGHLINE SCHOOL DISTRICT NO. 401,
KING COUNTY, WASHINGTON

By: ____

Dr. Susan A. Enfield
Secretary of the Board of Directors

APPENDIX A

Economic and Demographic Information

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ECONOMIC AND DEMOGRAPHIC INFORMATION

The following discussion includes descriptive information obtained from a variety of sources. The information is presented to provide the reader with an overview of the District's economy, but is not intended to be exhaustive or comprehensive.

The District is located in Western Washington, in King County (the "County"). The District encompasses the cities of Burien ("Burien") and Normandy Park ("Normandy Park"). It also encompasses a majority of the cities of SeaTac ("SeaTac") and Des Moines ("Des Moines"). A small portion of the cities of Kent, Seattle, Tukwila and portions of the unincorporated County are located within the District. An estimated 126,636 residents live within the District as of September, 2014.

The County

The County encompasses 2,128 square miles, ranking 11th in geographical size of Washington's 39 counties, but first in population. Seattle is the largest city in the Pacific Northwest and serves as the County seat. The County and Snohomish and Island Counties to the north together comprise the Seattle Primary Metropolitan Statistical Area (the "Seattle PMSA"), which is the fourth-largest metropolitan center on the Pacific Coast. In addition to the City of Seattle, principal cities of the Seattle PMSA include Auburn, Bellevue, Bothell, Burien, Federal Way, Issaquah, Kent, Mercer Island, Redmond, Renton, Shoreline, and Woodinville, all of which are in the County, and Everett, Edmonds, Mountlake Terrace and Lynnwood in Snohomish County. These communities serve as residential, commercial, and industrial satellites of Seattle.

Seattle PMSA's employment base is well diversified, with strengths in manufacturing, trade services and government sectors. In 2014, manufacturing comprised about 10.9% of the area's employment. In the non-manufacturing sectors, services in aggregate was the largest sector with over 52.5% of the total employment, wholesale and retail trade comprised 18.1% and government and government enterprises 13.4%.

The U.S. Defense Department is one of the largest employers in the Puget Sound region. Major facilities include the Puget Sound Naval Shipyard in Bremerton (Kitsap County), Naval Base Kitsap in Kitsap County, Joint Base Lewis-McChord (Army and Air Force facilities) in Pierce County and Naval Station Everett.

The Seattle area is the health care center of the Pacific Northwest. There are 26 general-acute and four special purpose hospitals, more than 4,500 beds, and approximately 3,000 physicians.

The area's universities and research institutions serve as catalysts in the expansion of high tech industries. Other key factors that support continued growth include the existing industry base; a well-trained labor force; relatively low cost power; and with excellent transportation access to worldwide markets.

Seattle is bordered on the west by Elliott Bay, a natural harbor on Puget Sound, which is one of the nation's leading seaports. The Port of Seattle, a County-wide port district, is one of the largest container ports in North America based on port container traffic.

Sea-Tac Airport ("Sea-Tac") is a major airport serving the State and is an aviation division of the Port. According to the Federal Aviation Commission, Sea-Tac was the 15th busiest commercial airport in the United States during 2013. In 2014, Sea-Tac had a total of 37,497,941 air passengers, 89.8% of which were domestic travel. Sea-Tac is served by at least 29 airlines. For 2014, as reported by the Port of

Seattle, daily-non-stop service was available to 72 domestic cities and 19 international cities. King County International Airport ("Boeing Field"), a general aviation facility operated by the County, is located in Seattle. With about 300,000 annual operations (takeoffs and landings), Boeing Field is the busiest such facility in the region and ranks among the top 15 busiest in the nation. It serves as the primary inclement weather alternate for SeaTac.

Population Trends

The following table presents historical population of Burien, Des Moines, Normandy Park, SeaTac, the County and the State for years 2010 through 2014.

Year	City of Burien	City of Des Moines	City of Normandy	City of SeaTac	King County	State of Washington
2014	48,420	30,030	6,375	27,620	2,017,250	6,968,170
2013	48,030	29,730	6,350	27,310	1,981,900	6,882,400
2012	47,730	29,700	6,350	27,210	1,957,000	6,817,770
2011	47,660	29,680	6,345	27,110	1,942,600	6,767,900
2010	33,313	29,673	6,335	26,909	1,931,249	6,724,540

Source: Washington State Office of Financial Management for inter-census estimates as of each April and the 2010 U.S. Census.

Median Household Income

The following table shows the median household income in the County and the State for years 2010 through 2014.

Year	King County	Washington State
2014	$71,517	$58,686
2013	69,897	57,554
2012	68,313	56,444
2011	66,294	55,500
2010	65,383	54,888

Source: Washington State Office of Financial Management. Values are in current dollars, and 2013 figures are preliminary and 2014 figures are projected.

Taxable Retail Sales

Taxable retail sales from 2010 through 2014 are presented in the following table for Burien, Des Moines, Normandy Park, SeaTac and the County.

Year	City of Burien	City of Des Moines	City of Normandy Park	City of SeaTac	King County
2014	$665,312,052	$227,729,378	$49,260,539	$1,100,075,514	$49,638,174,066
2013	594,006,494	199,509,462	51,212,171	951,192,942	46,093,341,485
2012	535,798,328	176,434,358	38,816,152	888,906,520	43,038,779,843
2011	501,989,352	185,172,143	34,095,940	901,469,191	40,403,608,699
2010	460,924,362	216,100,120	34,527,579	878,958,803	38,789,855,551

[1] First three quarters only.

Source: Washington State Department of Revenue.

Nonagricultural Wage and Salary Employment in the Seattle, Bellevue, Everett PMSA

The following table presents nonagricultural wage and salary employment in the Seattle-Bellevue-Everett PMSA for years 2010 through February 2015. Figures presented in thousands.

	Annual Average					
Employment Sector	2010	2011	2012	2013	2014	2015[1]
Total Non-Farm Employment	1,396.3	1,423.5	1,461.9	1,507.5	1,551.5	1,565.8
Manufacturing	150.7	158.5	167.3	170.7	170.1	170.3
Nt. Res., Constr. & Mining	66.1	63.7	66.5	72.4	0.7	0.7
Transportation, Trade, & Utilities	248.2	253.4	260.0	270.3	77.9	81.9
Information	84.8	85.9	86.9	88.3	281.3	284.1
Financial Activities	80.1	79.6	80.0	83.4	91.3	91.9
Professional& Business Srvs.	197.1	205.9	215.6	224.0	84.7	85.9
Education & Health Srvs.	182.6	188.6	191.2	195.1	231.6	234.4
Leisure & Hospitality	130.4	133.5	138.1	144.1	201.0	203.2
Other Services	50.6	52.1	53.7	54.4	149.1	146.4
Government	205.8	202.2	202.7	204.8	56.0	55.8

[1] Average through February 2015.

Source: Washington State Department of Employment Security.

Residential Building Permit Data

Shown in the following table are residential building permit data for Burien, Des Moines, Normandy Park and SeaTac from 2010 through 2014, most recent available.

City of Burien

	Single Family		Duplexes/Multi-Family		
Year	Permits	Value	Permits	Units	Value
2014	57	$17,474,638	0	0	$0
2013	48	14,807,526	0	0	0
2012	52	13,519,861	0	0	0
2011	55	15,048,734	0	0	0
2010	17	5,351,753	0	0	0

City of Des Moines

	Single Family		Duplexes/Multi-Family		
Year	Permits	Value	Permits	Units	Value
2014	33	$10,868,276	8	17	$2,239,071
2013	19	4,442,493	9	62	9,496,647
2012	16	3,865,331	1	2	296,080
2011	9	2,651,449	0	0	0
2010	5	2,137,240	0	0	0

City of Normandy Park

	Single Family		Duplexes/Multi-Family		
Year	Permits	Value	Permits	Units	Value
2014	15	$4,902,780	0	0	$0
2013	14	4,575,930	0	0	0
2012	2	1,324,000	0	0	0
2011	5	2,125,000	0	0	0
2010	0	0	0	0	0

City of SeaTac

	Single Family		Duplexes/Multi-Family		
Year	Permits	Value	Permits	Units	Value
2014	1	$ 288,929	2	10	$ 982,358
2013	1	288,258	9	45	4,420,611
2012	2	576,576	6	31	3,045,310
2011	0	0	3	15	1,473,537
2010	7	2,018,019	4	28	2,750,602

Source: U.S. Department of Commerce, Census Bureau.

Major Employers

The following table provides a list of the major employers based in the County.

Major Employers

Employer	Product/Business	No. of Employees[1]
The Boeing Company	Aerospace	81,939
Microsoft Corporation	Software	43,031
University of Washington	Higher Education	30,200
Amazon.com Inc.	Internet Retail	24,700[2]
Providence Health and Services	Healthcare	19,456
King County Government	Government	13,400
Starbucks Corp.	Coffee Roaster	11,239
Swedish	Healthcare	10,726
City of Seattle	Government	10,080
Costco Wholesale Corp	Retail Warehouse	9,264
Nordstrom Inc.	Retail Department Store	8,982
Group Health Cooperative	Healthcare	7,271
Alaska Air Group	Airline	6,139

[1] Employees listed are for companies located in King County, but include all employees in the State.
[2] Estimated employee count based on company square footage.
Source: Puget Sound Business Journal's Book of Lists 2014.

Personal Income Trends

The following table shows total and per capita personal income growth in the County from 2009 through 2013 (most recent data available from this source).

Year	Total Personal Income (000's)	Per Capita Income
2013	$128,330,859	$62,770
2012	120,627,950	60,090
2011	113,922,436	57,837
2010	106,806,333	55,136
2009	109,053,408	56,904

Source: U.S. Department of Commerce, Regional Economic Information Center, Bureau of Economic Analysis.

Labor Force and Unemployment

The following table shows labor force and employment data for the County from 2010 through February 2015, as well as unemployment rates for the State and the United States for the same period.

	King County		- - - - - Unemployment Rates - - - - -		
Year	Labor Force	Employment	King County	State of Washington	United States
2015[1]	1,171,980	1,115,550	4.8%	6.9%	5.6%
2014	1,158,230	1,104,930	4.6	6.2	6.2
2013	1,139,610	1,079,950	5.2	7.0	7.5
2012	1,129,670	1,055,000	6.6	8.1	8.1
2011	1,115,790	1,025,070	8.1	9.2	8.9
2010	1,113,290	1,011,940	9.1	9.9	9.6

[1] Average through February 2015.

Source: Washington State Department of Employment Security.

APPENDIX B

Continuing Disclosure

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UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE

Basic Undertaking to Provide Annual Financial Information and Notice of Listed Events. To meet the requirements of paragraph (b)(5) of United States Securities and Exchange Commission ("SEC") Rule 15c2-12 ("Rule 15c2-12"), as applicable to a participating underwriter for the Bonds, the District will undertake (the "Undertaking") for the benefit of holders of the Bonds to provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board ("MSRB"), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB:

(i) Annual financial information and operating data of the type included in this Official Statement as generally described below ("annual financial information"); and

(ii) Timely notice (not in excess of ten business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District (as such "Bankruptcy Events" are defined in Rule 15c2-12); (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; and

(iii) Timely notice of a failure by the District to provide required annual financial information on or before the date specified below.

Type of Annual Financial Information Undertaken to be Provided. The annual financial information that the District undertakes to provide will consist of (i) annual financial statements prepared (except as noted in the financial statements) in accordance with applicable generally accepted accounting principles applicable to local governmental units of the State, such as the District, as such principles may be changed from time to time and as permitted by State law, which statements may be unaudited, provided, that if and when audited financial statements are prepared and available to the District they will be provided; (ii) a statement of authorized, issued and outstanding general obligation debt of the District; (iii) the assessed value of the property within the District subject to *ad valorem* taxation; and (iv) *ad valorem* tax levy rates and amounts and percentage of taxes collected. The annual financial information will be provided to the MSRB not later than the last day of the ninth month after the end of each fiscal year of the District (currently, a fiscal year ending August 31), as such fiscal year may be changed as required or permitted by State law, commencing with the District's fiscal year ending August 31, 2015.

The annual financial information may be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet Website of the MSRB or filed with the SEC.

Amendment of Undertaking. The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB, under the circumstances and in the manner permitted by Rule 15c2-12.

The District will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

Termination of Undertaking. The District's obligations under the Undertaking shall terminate upon the legal defeasance of all of the Bonds. In addition, the District's obligations under the Undertaking shall terminate if those provisions of Rule 15c2-12 which require the District to comply with the Undertaking become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to the District, and the District provides timely notice of such termination to the MSRB.

Remedy for Failure to Comply with Undertaking. If the District or any other obligated person fails to comply with the Undertaking, the District will proceed with due diligence to cause such noncompliance to be corrected as soon as practicable after the District learns of that failure. No failure by the District or other obligated person to comply with the Undertaking will constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the District or other obligated person to comply with the Undertaking.

Continuing Disclosure Obligation of the State of Washington. See Appendix C attached hereto for a description of the State's compliance with the State's prior written undertakings under Rule 15c2-12.

Prior Continuing Disclosure Undertakings of the District. In the past five years, the District had continuing disclosure undertakings in effect with respect to its bonds issued in 2002, 2004, 2006, 2007, 2009, 2011 and 2012 (collectively, the "Prior Undertakings"). The District has identified the following instances of noncompliance with the Prior Undertakings:

- While the 2010 operating data was timely filed with MSRB's Electronic Municipal Market Access ("EMMA"), the District failed to link such filing to the CUSIP numbers for the bonds issued in 2009.
- While the 2012 operating data was available on EMMA on or about November 6, 2012 (*i.e.*, before the deadline of May 31, 2013), as part of the District's Official Statement for its second series of bonds issued in 2012, such Official Statement omitted the percentage of property taxes that had been collected by the District (because such taxes were in the process of collection) and the District did not link such Official Statement to the CUSIP numbers for its outstanding bonds as noted above.
- While the unaudited financial statements for fiscal year 2010 were timely filed with EMMA, the audited financial statements for 2010 (which became publicly available on May 3, 2011), were first available on EMMA on or about November 30, 2011, as part of the District's 2011 Official Statement. The District did not link such Official Statement to the CUSIP numbers for its outstanding bonds. The District filed the audited financial statements for 2010 as a separate filing on October 30, 2012, linking such filing to the CUSIP numbers for its outstanding bonds.
- While the unaudited financial statements for fiscal year 2011 were initially timely filed with EMMA on November 21, 2011 (and refiled with EMMA on July 12, 2012, constituting a second filing date), the District's audited financial statements for 2011 (which became publicly available on May 21, 2012), were filed with EMMA on October 30, 2012.

The District has filed with EMMA notice regarding the foregoing instances of non-compliance. As of the date of this Official Statement, the District believes the information described above was linked to the applicable CUSIP numbers and/or filed as required by the Prior Undertakings.

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APPENDIX C

Washington State School District Credit Enhancement Program

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WASHINGTON STATE SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM

The following information has been furnished by the State of Washington for use in this Official Statement. The issuer of the bonds offered pursuant to this Official Statement (the "Offered Bonds") makes no representation as to the accuracy or the completeness of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Definitions

"Act" means the Washington State School District Credit Enhancement Program Act, chapter 39.98 Revised Code of Washington.

"Program" means the Washington State School District Credit Enhancement Program established by the Act.

"Program Bond" means any validly issued voted general obligation bond issued by a school district, holding a certificate issued pursuant to the Act for such a bond.

"State" means the State of Washington.

Program Provisions

Article VIII, section 1(e) of the Constitution of the State and the Act allow the State to guarantee any voted general obligation bonds issued by a school district. Payment of the principal of and interest on Program Bonds when due is guaranteed by the full faith, credit and taxing power of the State under the provisions of the Act. The Act provides as follows:

> The full faith, credit, and taxing power of the State is pledged to guarantee full and timely payment of the principal of and interest on Program Bonds as such payments become due. However, in the event of any acceleration of the due date of the principal by reason of mandatory redemption or acceleration resulting from default, the payments guaranteed shall be made in the amounts and at the times as payments of principal would have been due had there not been any acceleration. The State guarantee does not extend to the payment of any redemption premium.

The Act further provides that the State pledges to and agrees with the owners of any Program Bonds that the State will not alter, impair, or limit the rights vested by the Program with respect to the Program Bonds until the Program Bonds, together with applicable interest, are fully paid and discharged. However, an alteration, impairment, or limitation of such rights is not precluded if full provision is made by law for the payment of the Program Bonds.

Program Procedures

In accordance with applicable law, each school district with outstanding, unpaid Program Bonds is required to levy property taxes approved by the voters for repayment of the Program Bonds and certify the taxes to the County Assessor. In accordance with applicable law, the County Treasurer for each school district with outstanding, unpaid Program Bonds is required to collect property taxes approved by the voters for repayment of the Program Bonds.

Under the Act, the County Treasurer is required to transfer money sufficient for each scheduled debt service payment to the paying agent on or before any principal or interest payment date for the Program Bonds.

A County Treasurer who is unable to transfer to the paying agent funds required to make any scheduled debt service payments on the Program Bonds on or prior to the payment date is required to immediately provide notice to the State Treasurer and to the paying agent. If sufficient funds are not transferred to the paying agent at the time required to make a scheduled debt service payment on the Program Bonds, the paying agent is required to immediately notify the State Treasurer.

Pursuant to the Act, the State legislature is required to appropriate, in each and every biennial appropriations act, such amount as may be required to make timely payment on the Program Bonds. If sufficient money to make any scheduled debt service payment on the Program Bonds has not been transferred to the paying agent in a timely manner, the State Treasurer is required to transfer sufficient money to the paying agent for such payment and the paying agent is required to make such scheduled debt service payment.

Each school district is responsible for paying in full the principal of and interest on its Program Bonds. The State Treasurer is required to recover from the school district any funds paid by the State on behalf of that school district under the Program. A payment by the State Treasurer discharges the obligation of the school district to its Program Bond owners for the payment, but does not retire any Program Bond that has matured. The terms of that Program Bond remain in effect until the State is repaid. Any such payment by the State transfers the rights represented by the general obligation of the school district from the Program Bond owners to the State.

If the State has made all or part of a debt service payment on behalf of a school district that has issued Program Bonds, the State Treasurer may (a) direct the school district and the County Treasurer to restructure and revise, to the extent permitted by law, the collection of excess levy taxes for the payment of Program Bonds on which the State Treasurer has made payments under the Act to the extent necessary to obtain repayment to the State Treasurer; and (b) require, to the extent permitted by law, that the proceeds of such taxes be applied to the school district's obligations to the State if all outstanding obligations of the school district payable from such taxes are fully paid or their payment is fully provided for.

Outstanding Certificates of Eligibility and Outstanding Program Bonds

As of March 1, 2015, the State has guaranteed the following under the Act (not including the Offered Bonds):

Number of school districts with Certificates of Eligibility	174
Number of Program Bond issues guaranteed	473
Aggregate total principal amount outstanding of Program Bonds guaranteed	$8,854,022,271.71

Program Contact Person

Requests for information regarding the Program may be directed to:

School Bond Guarantee Program
Office of the State Treasurer
Legislative Office Building 2nd Floor
P.O. Box 40200
Olympia, WA 98504 0200
Phone: (360) 902-9000 Fax: (360) 902-9045

State of Washington - Financial and Operating Information

The State's most recent audited financial statements and the financial and operating information relating to the State included in the most recent official statement for the State's general obligation debt are on file with the Municipal Securities Rulemaking Board (the "MSRB"), in an electronic format as prescribed by the MSRB, and are incorporated by this reference in this official statement. The State's financial statements and official statement are dated and speak only as of their dates. Except as provided below under "STATE OF WASHINGTON – Continuing Disclosure," the State does not undertake to update this information.

State of Washington - Continuing Disclosure

The State has undertaken (the "Undertaking") to provide (1) not later than seven months after the end of each fiscal year in each fiscal year that the Offered Bonds are outstanding, either directly or through a designated agent, to the MSRB, in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB, (a) audited financial statements of the State for such fiscal year prepared ((except as noted therein) in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board, as such principles may be changed from time to time, except that if the audited financial statements are not available by such date, unaudited financial statements in a format similar to the audited financial statements most recently prepared for the State shall be provided, and the State's audited financial statements shall be provided when and if they become available; and (b) the historical financial and operating information relating to the State included in the most recent official statement for the State's general obligation debt; and (2) to the MSRB, in a timely manner, notice of its failure to provide the foregoing information on or prior to the date set forth in (1). The State regularly updates the information described in (1)(b) in the prior sentence, which may involve adding additional financial and operation data, displaying data in a different format, or eliminating data that are no longer material.

The MSRB has indicated that it intends to make the continuing disclosure information submitted to it publicly available on the internet on its Electronic Municipal Market Access System ("EMMA") website. Currently, the State's latest audited financials and historical financial and operating information may be found on the EMMA website under base CUSIP number 93974D.

The Undertaking is subject to amendment or termination under the circumstances and in the manner permitted by SEC Rule 15c2-12.

The right to enforce the provisions of the Undertaking shall be limited to a right to obtain specific performance of the State's obligations thereunder, and any failure by the State to comply with the provisions of the Undertaking shall not be a default with respect to the Offered Bonds. The Undertaking inures to the benefit of the State and the issuer, any underwriter and any holder of the Offered Bonds, and does not inure to the benefit of or create any rights in any other person.

The State has complied in all materials respects with all of the State's prior written undertakings under SEC Rule 15c2-12. However, on June 5, 2014, the State discovered that The Bank of New York Mellon, acting as escrow agent and fiscal agent for the State, failed to file with the MSRB a notice of defeasance on March 23, 2010, of a portion ($1,740,000) of the State's then-outstanding Certificates of Participation, Series 2006C (State Board for Community and Technical Colleges), which had been issued in the original principal amount of $9,835,000. The State has subsequently filed the notice of defeasance on the EMMA system.

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APPENDIX D

Audited Financial Statement for Fiscal Year Ended August 31, 2014

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Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements Report

Highline School District No. 401

King County

For the period September 1, 2013 through August 31, 2014

Published May 11, 2015

Report No. 1014170

Washington State Auditor

May 11, 2015

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

Report on Financial Statements

Please find attached our report on Highline School District No. 401's financial statements.

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

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Highline School District No. 401
King County
September 1, 2013 through August 31, 2014

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Highline School District No. 401, King County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated April 21, 2015. As discussed in Note 1 to the financial statements, during the year ended August 31, 2014, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR

April 21, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Highline School District No. 401
King County
September 1, 2013 through August 31, 2014

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Highline School District No. 401, King County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Highline School District No. 401, as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions on the Governmental and Fiduciary Funds Based on U.S. GAAP

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, ASB, Debt Service, Capital Project, Transportation Vehicle and Fiduciary funds as of August 31, 2014, and the changes in financial position 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 to the financial statements, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedules of Long-Term Liabilities are also presented for purposes of additional analysis, as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR

April 21, 2015

FINANCIAL SECTION

Highline School District No. 401
King County
September 1, 2013 through August 31, 2014

FINANCIAL STATEMENTS

SUPPLEMENTARY AND OTHER INFORMATION

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	14,893,488.81	679,309.68	15,204,984.36	24,851,759.28	661,519.81	0.00	56,291,061.94
Minus Warrants Outstanding	-3,097,613.50	-19,600.05	0.00	-2,197,675.39	0.00	0.00	-5,314,888.94
Taxes Receivable	22,144,631.89		10,853,527.46	0.00	0.00		32,998,159.35
Due From Other Funds	13,144.22	29,955.49	0.00	0.00	0.00	0.00	43,099.71
Due From Other Governmental Units	395,874.01	70.00	0.00	0.00	0.00	0.00	395,944.01
Accounts Receivable	2,818,694.67	0.00	0.00	0.00	0.00	0.00	2,818,694.67
Interfund Loans Receivable	0.00			0.00			0.00
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	183,138.46	0.00					183,138.46
Prepaid Items	206,248.76	2,116.26		0.00	0.00	0.00	208,365.02
Investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investments/Cash With Trustee	1,425,903.00		0.00	0.00	0.00	0.00	1,425,903.00
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
TOTAL ASSETS	**38,983,510.32**	**691,851.38**	**26,058,511.82**	**22,654,083.89**	**661,519.81**	**0.00**	**89,049,477.22**
LIABILITIES:							
Accounts Payable	2,592,986.59	21,229.88	0.00	1,791,091.01	0.00	0.00	4,405,307.48
Contracts Payable Current	123,605.00	2,627.55		449,529.51	0.00	0.00	575,762.06
Accrued Interest Payable			0.00				0.00
Accrued Salaries	489,551.06	0.00		0.00			489,551.06
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	2,809,545.03	0.00		0.00			2,809,545.03
Due To Other Governmental Units	0.00	0.00		0.00	0.00	0.00	0.00
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	1,929,050.08						1,929,050.08
Due To Other Funds	30,955.49	11,242.58	905.25	0.00	0.00	0.00	43,103.32

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	254,497.96	17,285.70	0.00	0.00	0.00		271,783.66
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
TOTAL LIABILITIES	**8,230,191.21**	**52,385.71**	**905.25**	**2,240,620.52**	**0.00**	**0.00**	**10,524,102.69**
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unavailable Revenue - Taxes Receivable	22,144,631.89		10,853,527.46	0.00	0.00		32,998,159.35
TOTAL DEFERRED INFLOWS OF RESOURCES	**22,144,631.89**	**0.00**	**10,853,527.46**	**0.00**	**0.00**	**0.00**	**32,998,159.35**
FUND BALANCE:							
Nonspendable Fund Balance	389,387.22	0.00	0.00	0.00	0.00	0.00	389,387.22
Restricted Fund Balance	1,552,146.85	639,465.67	15,204,079.11	5,642,359.86	661,519.81	0.00	23,699,571.30
Committed Fund Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assigned Fund Balance	781,110.00	0.00	0.00	14,771,103.51	0.00	0.00	15,552,213.51
Unassigned Fund Balance	5,886,043.15	0.00	0.00	0.00	0.00	0.00	5,886,043.15
TOTAL FUND BALANCE	**8,608,687.22**	**639,465.67**	**15,204,079.11**	**20,413,463.37**	**661,519.81**	**0.00**	**45,527,215.18**
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	**38,983,510.32**	**691,851.38**	**26,058,511.82**	**22,654,083.89**	**661,519.81**	**0.00**	**89,049,477.22**

See accompanying notes to the financial statements

Statement of Revenues, Expenditures, and Changes in Fund Balance

COUNTY: 17 King

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	50,968,228.75	1,046,143.36	22,416,546.25	7,166,679.69	1,965.29		81,599,563.34
State	135,241,299.49		0.00	340,076.36	660,173.14		136,241,548.99
Federal	18,460,433.57		0.00	4,452,406.00	0.00		22,912,839.57
Federal Stimulus	1,232,598.02						1,232,598.02
Other	934,042.73			7,480,271.00	0.00	0.00	8,414,313.73
TOTAL REVENUES	**206,836,602.56**	**1,046,143.36**	**22,416,546.25**	**19,439,433.05**	**662,138.43**	**0.00**	**250,400,863.65**
EXPENDITURES:							
CURRENT:							
Regular Instruction	106,446,433.31						106,446,433.31
Federal Stimulus	1,151,269.02						1,151,269.02
Special Education	26,199,169.17						26,199,169.17
Vocational Education	4,815,802.74						4,815,802.74
Skill Center	3,693,876.39						3,693,876.39
Compensatory Programs	17,119,179.88						17,119,179.88
Other Instructional Programs	1,065,033.13						1,065,033.13
Community Services	1,230,213.16						1,230,213.16
Support Services	44,308,715.41						44,308,715.41
Student Activities/Other		1,112,160.21				0.00	1,112,160.21
CAPITAL OUTLAY:							
Sites				248,642.44			248,642.44
Building				17,255,606.82			17,255,606.82
Equipment				1,610,299.55			1,610,299.55
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					220,849.54		220,849.54
Sales and Lease				0.00			0.00
Other	291,207.39						291,207.39
DEBT SERVICE:							
Principal	0.00		10,434,000.00	0.00	0.00		10,434,000.00
Interest and Other Charges	0.00		12,732,967.75	0.00	0.00		12,732,967.75
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	**206,320,899.60**	**1,112,160.21**	**23,166,967.75**	**19,114,548.81**	**220,849.54**	**0.00**	**249,935,425.91**

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	515,702.96	-66,016.85	-750,421.50	324,884.24	441,288.89	0.00	465,437.74
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	1,300,000.00		240,000.00	0.00	618.60		1,540,618.60
Transfers Out (GL 536)	-120,000.00		0.00	-1,420,000.00	-618.60	0.00	-1,540,618.60
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	3,484,016.16	0.00		3,484,016.16
TOTAL OTHER FINANCING SOURCES (USES)	**1,180,000.00**		**240,000.00**	**2,064,016.16**	**0.00**	**0.00**	**3,484,016.16**
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1,695,702.96	-66,016.85	-510,421.50	2,388,900.40	441,288.89	0.00	3,949,453.90
BEGINNING TOTAL FUND BALANCE	**8,506,329.86**	**705,482.52**	**15,714,500.61**	**18,024,562.97**	**220,230.92**	**0.00**	**43,171,106.88**
Prior Year(s) Corrections or Restatements	-1,593,345.60	0.00	0.00	0.00	0.00	0.00	-1,593,345.60
ENDING TOTAL FUND BALANCE	**8,608,687.22**	**639,465.67**	**15,204,079.11**	**20,413,463.37**	**661,519.81**	**0.00**	**45,527,215.18**

See accompanying notes to financial statements

Highline School District No. 401

Statement Of Fiduciary Net Position

Fiduciary Funds

August 31, 2014

ASSETS:	Private Purpose Trust	Other Trust
Imprest Cash	0.00	0.00
Cash On Hand	0.00	18,813.02
Cash On Deposit with Cty Treas	512,952.50	0.00
Minus Warrants Outstanding	-10,993.15	0.00
Due From Other Funds	1,000.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	0.00	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	
Capital Assets, Land	0.00	
Capital Assets, Buildings	0.00	
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	
Accum Depreciation, Equipment	0.00	0.00
TOTAL ASSETS	**502,959.35**	**18,813.02**
LIABILITIES:		
Accounts Payable	8,505.15	0.00
Due To Other Funds	0.00	996.39
TOTAL LIABILITIES	**8,505.15**	**996.39**
NET POSITION:		
Held in trust for:		
Restricted for Other Items	0.00	0.00
Restricted for Self Insurance		0.00
Restricted for Uninsured Risks		0.00
Nonspendable -- Trust Principal	98,587.40	0.00
Committed to Other Purposes	0.00	0.00
Held In Trust For Private Purposes	0.00	
Assigned to Fund Purposes	395,866.80	17,816.63
Held In Trust For Pension And Other Employee Benefits		0.00
Unassigned Fund Balance	0.00	0.00
TOTAL NET POSITION	**494,454.20**	**17,816.63**

See accompanying notes to financial statements

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended August 31, 2014

ADDITIONS: Contributions:	Private Purpose Trust	Other Trust
Private Donations	112,713.00	0.00
Employer		0.00
Members		158,895.95
Other	0.00	0.00
TOTAL CONTRIBUTIONS	**112,713.00**	**158,895.95**
Investment Income:		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	2,439.35	0.00
Less Investment Expenses	0.00	0.00
Net Investment Income	2,439.35	0.00
Other Additions:		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
TOTAL ADDITIONS	**115,152.35**	**158,895.95**
DEDUCTIONS:		
Benefits		155,781.64
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	996.39
Scholarships	51,495.82	
Other	9,105.55	0.00
TOTAL DEDUCTIONS	**60,601.37**	**156,778.03**
Net Increase (Decrease)	54,550.98	2,117.92
Net Position--Beginning	439,903.22	15,698.71
Prior Year(s) Corrections or Restatements	0.00	0.00
NET POSITION--ENDING	**494,454.20**	**17,816.63**

See accompanying notes to financial statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

(1) Districtwide statements, as defined in GAAP, are not presented.
(2) A Schedule of Long-Term Liabilities is presented as supplementary information.
(3) Supplementary information required by GAAP is not presented.

Fund Accounting

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

Governmental Funds

General Fund

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

Capital Projects Funds

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

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

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

Debt Service Fund

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

Special Revenue Fund

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

Permanent Funds

These funds are used to report resources that are legally restricted such that only earnings, and not principal, may be expended. Amounts in the Permanent Fund may only be spent in support of the District's programs and may not be used to the benefit of any individual.

Fiduciary Funds

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

Private-Purpose Trust Fund

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

Pension (and Other Employee Benefit) Trust Fund

This fund is used to account for resources to be held for the members and beneficiaries of a pension plan or other employee benefit plans.

Agency Funds

These funds are used to account for assets that the District holds on behalf of others in a purely custodial capacity.

The measurement focus and basis of accounting and fund financial statement presentation

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

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

- **Budgets**

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

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

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

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

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

The government's fund balance classifications policies and procedures.

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

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

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

Committed Fund Balance. Amounts that are reported as Committed are those resources of the District that have had a limitation placed upon their usage by formal action of the District's board of directors. Commitments are made either through a formal adopted board resolution or are related to a school board policy. Commitments may only be changed when the resources are used for the intended purpose or the limitation is removed by a subsequent formal action of the board of directors.

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

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

The Chief of Staff and Finance is the only person who has the authority to create Assignments of fund balance.

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

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

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

Cash and Cash Equivalents

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

Inventory

Inventory is valued at cost using the first-in, first-out (FIFO) method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of fund balance, representing inventory, is considered Nonspendable. USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities, plus any processing fees.

Accounting and Reporting Changes for 2013–2014

Effective for the 2013-2014 school year, the district implemented provisions of *GASB Statement No. 65 Items Previously Reported as Assets and Liabilities*. As a result, deferred property taxes were reclassified from liabilities to deferred inflows of resources.

NOTE 2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

All of the District's investments (except for investments of deferred compensation plans) during the year and at year-end were insured or registered and held by the District or its agent in the District's name.

In accordance with state laws, the district's governing body has entered into a formal interlocal agreement with the district's ex officio treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool).

As of August 31, 2014, the district had the following investments:

	Fair Value	Effective Duration
King County Investment Pool	$54,859,959	1.34 Years

Impaired Investments. As of August 31, 2014, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal is $641,138 and the district's fair value of these investments is $383,085.

Interest Rate Risk. As of August 31, 2014, the Pool's average duration was 1.34 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk. As of August 31, 2014, the district's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

Litigation

The District has no known legal obligations that would materially impact the financial position of the District.

Arbitrage Rebate

This district contracted with AMTEC for arbitrage calculations on its 2004, 2006, and 2007 bonds. All the rebated reports indicated that the district has no yield reduction liabilities. Since all the bond proceeds have been expended, there is no further arbitrage calculation.

NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

The District had proposed the construction bond of $385 million in November 2014. The bond proposal was not passed. The District will propose again with $377 million in February 2015 along with the renewal of the Maintenance and Operations three-year levy of $180.9 million.

NOTE 5: ANNUAL PENSION COST AND NET PENSION OBLIGATIONS

General Information

Substantially all District full-time and qualifying part-time employees participate in one of the following statewide retirement systems managed by the Washington State Department of Retirement Systems (DRS), under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Membership by retirement system program as of June 30, 2013:

Program	Active Members	Inactive Vested Members	Retired Members
TRS	65,935	9,823	44,220
PERS	150,706	31,047	85,328
SERS	52,295	11,588	9,079

Certificated public employees are members of TRS. Noncertificated public employees are members of PERS (if Plan 1) or SERS.

Plan 1 under the TRS and PERS programs are defined benefit pension plans whose members joined the system on or before September 30, 1977. Plan 1 members are eligible to retire with full benefits after five years of credited service and attainment of age 60, after 25 years of credited service and attainment of age 55, or after 30 years of credited service.

Plan 2 under the TRS or SERS programs are defined benefit pension plans whose members joined on or after October 1, 1977, but before June 30, 1996, or August 31, 2000, for TRS or SERS, respectively. Members are eligible to retire with full benefits after five years of credited service and attainment of age 65, or after 20 years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65.

Plan 3 under the TRS and SERS programs are defined benefit, defined contribution pension plans whose members joined on or after July 1, 1996, or September 1, 2000, for TRS and SERS, respectively. Members are eligible to retire with full benefits at age 65, or they may retire at age 55 with at least ten service years with a reduced benefit amount, or they may retire at age 55 with at least 30 service years and receive either a reduced benefit or stricter return-to-work rules.

Average final compensation (AFC) of Plan 1 TRS and PERS members is the highest average salary during any two consecutive years. For Plan 2 and Plan 3 TRS and SERS members, it is the highest average salary during any five consecutive years.

The retirement allowance of Plan 1 TRS and PERS members is the AFC multiplied by 2 percent per year of service, capped at 60 percent, with a cost-of-living adjustment. For Plan 2 TRS and SERS members, it is the AFC multiplied by 2 percent per year of service with provision for a cost-of-living adjustment. For the defined benefit portion of Plan 3 TRS and SERS members, it is the AFC multiplied by 1 percent per year of service with a cost-of-living adjustment.

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2, and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon advice from the Office of the State Actuary. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at 6 percent and does not vary from year to year. The employer rate is the same for all plans in a system. The methods used to determine the contribution requirements are established under Chapters 41.40, 41.32, and 41.35 RCW for PERS, TRS, and SERS, respectively.

The District’s contribution represents its full liability under both systems, except that future rates may be adjusted to meet the system needs.

Contributions

Employee contribution rates effective September 1, 2013 through August 31, 2014:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.96%	Plan 2 SERS	4.64%
Plan 3 TRS and SERS	5.00% (minimum),	15.00% (maximum)	

For Plan 3 TRS and SERS, rates adjusted based upon age may be chosen. The optional rates range begins at 5 percent and increase to a maximum of 15 percent.

Employer contribution rates effective September 1, 2013 through August 31, 2014:

Plan 1 TRS	10.39%	Plan 1 PERS	9.21%
Plan 2 TRS	10.39%	Plan 2 SERS	9.82%
Plan 3 TRS	10.39%	Plan 3 SERS	9.82%

Under current law, the employer must contribute 100 percent of the employer-required contribution. Employer required contributions in dollars (participant information for all plans is as of August 31):

Plan	2013-2014	2012-2013	2011-2012
Plan 1 TRS	$216,864	$203,309	$228,921
Plan 2 TRS	$1,932,011	$1,263,791	$1,067,149
Plan 3 TRS	$6,648,287	$4,975,523	$4,623,926
Plan 1 PERS	$65,155	$66,900	$72,004
Plan 2 SERS	$1,568,012	$1,162,170	$1,075,172
Plan 3 SERS	$1,665,705	$1,204,913	$1,154,070

Historical trend information showing TRS, PERS, and SERS progress in accumulating sufficient assets to pay benefits when due is presented in the state of Washington's June 30, 2014, comprehensive annual financial report. Refer to this report for detailed trend information. It is available from:

State of Washington
Office of Financial Management
300 Insurance Building
PO Box 43113
Olympia, WA 98504-3113

NOTE 6: ANNUAL OTHER POST-EMPLOYMENT BENEFIT COST AND NET OPEB OBLIGATIONS

The State, through the Health Care Authority (HCA), administers an agent multi-employer Other Post-Employment Benefit plan. The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Programs include (medical, dental, life insurance and long-term disability insurance).

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institutions), 57 of the state's K–12 school districts and educational service districts (ESDs), and 206 political subdivisions and tribal governments.

Additionally, the PEBB plan is available to the retirees of the remaining 247 K–12 school districts and ESDs. The District's retirees are eligible to participate in the PEBB plan under this arrangement.

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2013-14, the District was required to pay the HCA $64.40 per month per full-time equivalent employee to support the program, for a total payment of $1,725,543. This assessment to the District is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

The District has no control over the benefits offered to retirees, the rates charged to retirees, nor the fee paid to the Health Care Authority. The District does not determine its Annual Required Contribution nor the Net Other Post-Employment Benefit obligation associated with this plan. Accordingly, these amounts are not shown on the financial statements. This is a departure from GAAP.

NOTE 7: COMMITMENTS UNDER NONCAPITALIZED (OPERATING) LEASES

For the fiscal year ended August 31, 2014, the District had incurred additional long-term debt as follows:

Raisbeck Aviation High School Ground Lease

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

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

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

The district liability for the third and fourth lease renewal terms is outlined in section 4.3 of the agreement. Base monthly rent for the first lease year of the third and fourth renewal terms shall be calculated on the fair market rent for a ground lease of the building land without reference to any improvements. The fair market value will be determined for the first year of each renewal term and will be subject to CPI adjustment the first day of each subsequent lease year. The base for computing any rent increase is the Consumer Price Index All Urban Consumers Seattle-Tacoma Metropolitan Area (1982-84=100), published by the United States Department of Labor, Bureau of Labor Statistics.

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

Marine Technology Ground Lease

The district has leased from King County a parcel at Seahurst Park since November 25, 1970 and built on the property the Marine Technology facility for instructional use by the Puget Sound Skills Center. In 1993 the City of Burien incorporated and the park became city property. Since that time the lease has been between the city and the district.
The terms of the lease states, " the Lessee is hereby granted an irrevocable option to renew this lease for an extend terms of forty years, by written notice of renewal to the Lessor at least thirty days prior to the termination of the initial term thereof." The lease option was executed November 1, 2011 for an additional forty years, beginning November 26, 2010 through November 25, 2050. The lease rate is $10 per year.

Warehouse lease

The district has leased from LIT Industrial Limited Partnership a building of 13,950 square feet for warehouse on July 1, 2014 for 65 calendar months. The monthly rental payment schedule as below:

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

Along with the rental expense, the district will also pay $2,511 operating expense each month.

NOTE 8: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS, INCLUDING ENCUMBRANCES, IF APPROPRIATE

Construction in progress is composed of:

Project	Original Project Authorization Amount	Expended as of 8/31/2014	Additional Local funds Committed	Additional State Funds Committed
Raisbeck Aviation High School	43,500,000	36,446,733	1,000,000	0
Total	**43,500,000**	**36,446,733**	**1,000,000**	**0**

NOTE 9: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The district's capital assets are insured in the amount of $ 980,803,091 for fiscal year 2014. In the opinion of the district's insurance consultant, this amount is sufficient to adequately fund replacement of the district's assets.

The following district facilities are being leased to outside users under long-term contracts:

Burien Heights located at 1210 SW 136th Street, Burien, WA 98166. The entire site (land only, no building) is leased to NAVOS. Lease expires in 2058 and requires 24 months written notification for cancellation. Annual amount is $23,367(including Leasehold Excise tax). Lease term: 4/2014 - 03/2015. The terms of the lease allow for an annual adjustment equal to the Consumer Price Index (CPI). Every ten years the lease amount will adjust by the current fair market rent for land.

North Shorewood Elementary School located at 1410 S. 200th Ave. SW; Seattle, WA 98146 Facility is leased to Westside School and Explorer West Middle School. Lease expires April, 2049 and requires twelve months written notification for cancellation. Annual amount is $60,048. Lease term: 2/2014 – 1/2015. The terms of the lease allow for an annual adjustment equal to the Consumer Price Index (CPI.)

Salmon Creek located at 614 SW 120th St; Burien WA 98168
Facility is leased to Burien Little Theatre, The Hi-Liners and World Vision. The Burien Little Theatre and the Hi-Liners leases are open and have no end date, but requires twelve months

written notification by tenant for cancellation. The World Vision lease is year-to-year in July as long as the district has no need for the space, Annual amount is $9,075. Lease term: 07/2014 – 06/2015. The lease amount is recalculated annually using the previous 12 months operating costs.

Office Space at Educational Resource and Administrative Center located at 15675 Ambaum Boulevard SW, Burien WA 98166
Office space is leased to the Highline Schools Foundation for Excellence. The term of the lease is for 12 months, with an option to extend for an additional 12 months. The lease expiration date is September 30, 2014. Annual amount for fiscal year 2013-2014 was $758.

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

NOTE 10: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

Long-Term Debt

Bonds payable at August 31, 2014 are comprised of the following individual issues:

Issue Name General Obligation Bonds	Amount Issued	Final Maturity	Interest Rate(s)	Amount Outstanding
2004 G.O. Refunding	$71,065,000	12/1/2015	3.8 - 4.0	$725,000
2006 G. O. Bonds	89,000,000	12/1/2018	4.00 - 5.00	11,670,000
2007 G.O. Bonds	59,000,000	12/1/2026	5.00	52,000,000
2009 G.O. Bonds Refunding	106,835,000	12/1/2021	5.00	89,015,000
2011 G.O. Bond Refunding 04 Bond	38,015,000	12/1/2023	2.75 - 5.00	37,740,000
2012 G.O. Bond Refunding 04 Bond	11,835,000	6/1/2024	2.00	11,520,000
2003 QZAB	1,645,000	12/1/2016	0.00	994,391
2012 G.O. Bond Refunding 04 & 06 Bond	69,760,000	12/1/2025	.35 - 5.0	69,100,000
Total General Obligation Bonds	$447,155,000			$272,764,391

The following is a summary of general obligation long-term debt transactions of the district for the fiscal year(s) ended August 31, 2014:

Years Ending August 31, 2014	Principal	Interest	Total
2014-2015	9,640,000	12,415,530	22,055,530
2015-2018	39,929,391	34,492,553	74,421,944
2018-2024	138,605,000	46,950,344	185,555,344
2024-2027	84,590,000	7,190,913	91,780,913
Total	$272,764,391	$101,049,339	$373,813,730

The following is a schedule of annual requirements to amortize long-term debt at August 31, 2014:

Long-Term Debt Payable at 9/1/2013	$283,198,391
New Issues	$0
Debt Retired	10,434,000
Long-Term Debt Payable at 8/31/2014	$272,764,391

At August 31, 2014, the district had $15,204,079.11 available in the Debt Service Fund to service the general obligation bonds.

NOTE 11: INTERFUND BALANCES AND TRANSFERS

The District had no interfund loan activity during the 2013-2014 fiscal year.

NOTE 12: ENTITY RISK MANAGEMENT ACTIVITIES

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

Unemployment Insurance

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

	Beginning Balance	Additions	Reductions	Ending Balance
2013-2014	$1,044,917	$548,635	$167,648	$1,425,904

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

Other Insurance

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

The program allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Wrongful Act Liability and Employee Benefit Liability is on a claims-made basis. All other coverages are on an occurrence basis. The program provides the following forms of group purchased insurance coverage for its members: property, earthquake, general liability, automobile liability, Equipment breakdown, crime, and Wrongful Acts Liability.

The program acquires liability insurance through their administrator, Canfield, that is subject to a pre-occurrence of $100,000. Members are responsible for a standard deductible of $2,500 for each claim (some member deductibles vary), while the program is responsible for the $100,000 self-insured retention. Insurance carriers cover insured losses over $102,500 to the limits of ach policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the $100,000 of the self-insured retention. The program also purchases a Stop Loss Policy with an attachment point of $3,400,000 which it fully funds in its annual budget.

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

Equipment breakdown insurance is subject to a per-occurrence deductible of $10,000. Members are responsible for the deductible amount of each claim.

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

The program is fully funded by its member participants. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2014 were $2,956,785.70.

A Board of Directors of 8 members is selected by the membership from the east and west side of the state and is responsible for conducting the business affairs of the program. The Board of Directors has contracted with Canfield to perform day-to-day administration of the program. This program has no employees.

Industrial Insurance

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

Claims management was assigned to Cannon Cochran Management Services, Inc., Illinois. The changes in the industrial insurance account are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
2013-2014	$682,557	$1,402,952	$1,582,362	$503,147

Dental and Vision Insurance

At August 31, 2014, the amount of liabilities totaled $1,088,603 (Dental) and $66,383 (Vision). This liability is the District's best estimate based on available information. Changes in the reported liability for fiscal year 2013-2014 resulted in the following:

	9/1/2013 Liability	Current Year Claims and Changes in Estimates	Claim Payments	8/31/2014 Balance
Dental (United Concordia)	$1,232,096	$1,865,294	$2,008,787	$1,088,603
Vision	$86,211	$499,706	$519,534	$66,383

NOTE 13: PROPERTY TAXES

Property tax revenues are collected as the result of special levies passed by the voters in the District. Taxes are levied on January 1. The taxpayer has the obligation of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The October 31 collection is not available in time to cover liabilities for the fiscal period ended August 31. Therefore, the fall portion of property taxes is not accrued as revenue. Instead, the property taxes due on October 31 are recorded as deferred revenue.

NOTE 14: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association by passing a Resolution in June, 1974 and has remained in the joint venture ever since. The district's current equity of $356,584.77 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the district compared to all other districts applied against paid administrative fees. The district may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

NOTE 15: FUND BALANCE CLASSIFICATION DETAILS

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

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory and Prepaid Items	$ 389,387				
Restricted Fund Balance					
Carryover of Restricted Revenues	$ 797,747				
Debt Service	$ 264,855		$ 264,855	$ 15,204,079	
Uninsured Risks	$ 400,000		$ 100,000		
Fund Purposes		$ 639,466			
Skills Center	$ 89,544				
Assigned Fund Balance					
Fund Purposes	$ 781,110		$ 20,048,608		$ 661,520
Unassigned Fund Balance	$ 5,886,043				

The board of directors has established a minimum fund balance policy for the general fund to provide for financial stability and contingencies within the District. The policy is that the District shall maintain an unassigned fund balance (890) of 3% of the current year's expenditures attributable to basic education, special education, support services and transportation.

NOTE 16: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS

457 Plan – Deferred Compensation Plan

District employees have the option of participating in a deferred compensation plan as defined in §457 of the Internal Revenue Code that is administered by the district, state retirement system, or another governmental entity. The district retains a right of legal access to the plan assets (valued at market) until paid or made available to the employees, subject only to the claims of the district's general creditor.

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

The District offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under two types of deferrals: elective deferrals (employee contribution) and non-elective contribution (employer matching).

The District complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by a third party administrator, National Benefits Services, LLC. The plan assets are assets of the District employees, not the school district, and are many major investment providers and ensures that our plan is compliant with the law and operates in the best interest of the employees.

For the year ended August 31, 2014, the District made $25,850 in employer discretionary contributions to the plan.

NOTE 17: TERMINATION BENEFITS

Compensated Absences

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

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

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

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

NOTE 18: OTHER DISCLOSURES

Skills Center Core Campus Note

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

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

As host district, the District has the following responsibilities:

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

The district received an enrollment audit finding at Puget Sound Skills Center. This was due to incorrect enrollment reporting, resulting in overpayment of $433,381 for fiscal year 2009 and $32,888 for fiscal year 2010. The district has scheduled a repayment plan with OSPI over a three-year period via a reduction of the State apportionment each May. The last repayment of $155,423 will occur with the May 2015 apportionment payment.

Sources of Funding

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

Unspent Funds

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

The following districts are member districts of the Skills Center:

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

REPORT F196 **Highline School District No. 401** **RUN: 11/4/2014 4:25:58 PM**

E.S.D. 121 **Schedule of Long-Term Liabilities: GENERAL FUND**

COUNTY: 17 King **For the Year Ended August 31, 2014**

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Non-Voted Debt and Liabilities					
Capital Leases	25,439.64	0.00	25,439.64	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	7,634,998.64	7,785,654.22	9,019,362.57	6,401,290.29	1,700,000.00
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	7,660,438.28	7,785,654.22	9,044,802.21	6,401,290.29	1,700,000.00

REPORT F196 | Highline School District No. 401 | RUN: 11/4/2014 4:25:59 PM

E.S.D. 121 | Schedule of Long-Term Liabilities: DEBT SERVICE FUND

COUNTY: 17 King | For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Voted Debt					
Voted Bonds	281,340,000.00	0.00	9,570,000.00	271,770,000.00	9,640,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt					
Non-Voted Bonds	1,858,391.00	0.00	864,000.00	994,391.00	0.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	283,198,391.00	0.00	10,434,000.00	272,764,391.00	9,640,000.00

REPORT F196 | Highline School District No. 401 | RUN: 11/4/2014 4:26:00 PM

E.S.D. 121 | Schedule of Long-Term Liabilities: CAPITAL PROJECTS FUND

COUNTY: 17 King | For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Non-Voted Debt and Liabilities					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	0.00	0.00	0.00	0.00	0.00
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	0.00	0.00	0.00	0.00	0.00

REPORT F196 | Highline School District No. 401 | RUN: 11/4/2014 4:26:01 PM

E.S.D. 121 | Schedule of Long-Term Liabilities: TRANSPORTATION VEHICLE FUND

COUNTY: 17 King | For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Non-Voted Debt and Liabilities					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	0.00	0.00	0.00	0.00	0.00

HIGHLINE SCHOOL DISTRICT #401

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ending August 31, 2014

1	2	3	4	5	6	7	8	9
					Expenditures			
Federal Agency Name	**Pass Through Agency**	**Federal Program Title**	**CFDA Number**	**Other ID Number**	**From Direct Awards**	**From Pass Through Awards**	**Total**	**Foot-note**
CHILD NUTRITION CLUSTER:								
Department of Agriculture - Food and Nutrition Service	OSPI	National School Lunch Program	10.555	N/A		6,697,301	6,697,301	
Department of Agriculture - Food and Nutrition Service	OSPI	National School Lunch Program	10.555	N/A		580,092	580,092	
Department of Agriculture - Food and Nutrition Service	OSPI	Summer Food Service Program for Children	10.559	N/A		158,324	158,324	
NON-CLUSTER:								
Department of Agriculture - Food and Nutrition Service	OSPI	Child and Adult Care Food Program	10.558	N/A		153,391	153,391	
Department of Agriculture - Food and Nutrition Service		Team Nutrition Grants	10.574	N/A	19,500		19,500	
Department of Agriculture - Food and Nutrition Service	OSPI	Fresh Fruit and Vegetable Program	10.582	N/A		299,227	299,227	
Department of Agriculture - Forest Service	OSPI	School & Roads - Grants to State	10.665	N/A		10,776	10,776	
					Dept. of Agriculture Subtotal		**7,918,609**	
Department of Commerce - National Telecommunications and Information Administration	Technology Alliance	ARRA Recovery - State Broadband Data and Development Grant Program	11.558	N/A		2,953	2,953	

3/19/2015

The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.

						Dept. of Commerce Subtotal		**2,953**
Department of Housing and Urban Development - Office of Public and Indian Housing	KCHA	Moving to Work Demonstration Program	14.881	10193		9,421	9,421	
					Dept. of Housing and Urban Development Subtotal			**9,421**
Department of Justice - Bureau of Justice Assistance		Bulletproof Vest Partnership Program	16.607	N/A	3,799		3,799	
Department of Justice - Office of Community Oriented Policing Services	King County	ARRA Recovery - Public Safety Partnership and Community Policing Grants	16.710	FFY 13-SSI-001		55,043	55,043	
						Dept. of Justice Subtotal		**58,843**
Department of Labor - Employment Training Administration	King County	WIA Youth Activities	17.259	12/135-YTH		42,721	42,721	
Department of Labor - Employment Training Administration	King County	WIA Youth Activities	17.259	5691893		6,200	6,200	
						Dept. of Labor Subtotal		**48,921**
Department of Transportation - Federal Aviation Administration (FAA)	Port of Seattle	Airport Improvement Program	20.106			3,879,406	3,879,406	
						Dept. of Commerce Subtotal		**3,879,406**
IDEA CLUSTER:								
Department of Education - Office of Special Education and Rehabilitative Services	OSPI	Special Education_Grants to States	84.027	304758		3,677,354	3,677,354	
Department of Education - Office of Special Education and Rehabilitative Services	OSPI	Special Education_PreSchool Grants	84.173	364762		106,119	106,119	
NON-CLUSTER:								
Department of Education - Office of Elementary and Secondary Education	OSPI	Title I Grants to Local Educational Agencies	84.010	224470		78,681	78,681	
Department of Education - Office of Elementary and Secondary Education	OSPI	Title I Grants to Local Educational Agencies	84.010	201403		4,286,548	4,286,548	

3/19/2015

The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.

Department of Education - Office of Elementary and Secondary Education	OSPI	Title I Grants to Local Educational Agencies	84.010	228645		17,642	17,642	
Department of Education - Office of Elementary and Secondary Education	OSPI	Title I Grants to Local Educational Agencies	84.010	228643		19,278	19,278	
Department of Education - Office of Elementary and Secondary Education	OSPI	Title I Grants to Local Educational Agencies	84.010	228642		11,755	11,755	
Department of Education - Office of Elementary and Secondary Education	OSPI	Title I Grants to Local Educational Agencies	84.010	228586		20,000	20,000	
Department of Education - Office of Elementary and Secondary Education	OSPI	Title I Grants to Local Educational Agencies	84.010	228630		26,664	26,664	
Department of Education - Office of Elementary and Secondary Education	OSPI	Title I Grants to Local Educational Agencies	84.010	228641		20,000	20,000	
Department of Education - Office of Elementary and Secondary Education	OSPI	Title I Grants to Local Educational Agencies	84.010	228633		29,904	29,904	
Department of Education - Office of Elementary and Secondary Education	OSPI	Title I Grants to Local Educational Agencies	84.010	228314		30,000	30,000	
Department of Education - Office of Elementary and Secondary Education	OSPI	Title I Grants to Local Educational Agencies	84.010	228313		22,975	22,975	
Department of Education - Office of Elementary and Secondary Education	OSPI	Title I Grants to Local Educational Agencies	84.010	228634		18,779	18,779	
Department of Education - Office of Elementary and Secondary Education	OSPI	Title I Grants to Local Educational Agencies	84.010	228320		26,764	26,764	
Department of Education - Office of Elementary and Secondary Education	OSPI	Title I Grants to Local Educational Agencies	84.010	229543		2,208	2,208	

3/19/2015

The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.

Department of Education - Office of Special Education and Rehabilitative Services	OSPI	Special Education_Grants to States	84.027	334631		272,039	272,039	
Department of Education - Office of Vocational and Adult Education	OSPI	Career and Technical Education - Basic Grants to States	84.048	173090		157,614	157,614	
Department of Education - Office of Vocational and Adult Education	OSPI	Career and Technical Education - Basic Grants to States	84.048	189080		10,000	10,000	
Department of Education - Office of Vacational and Adult Education	OSPI	Career and Technical Education - Basic Grants to States	84.048	172830		68,789	68,789	
Department of Education - Office of Elementary and Secondary Education		Indian Education_Grants to Local Educational Agencies	84.060	S060A132480	54,435		54,435	
Department of Education - Office of Elementary and Secondary Education		Indian Education_Grants to Local Educational Agencies	84.060	S060A142480	9,063		9,063	
Department of Education - Office of Elementary and Secondary Education	OSPI	Education for Homeless Children and Youth	84.196	456140		28,500	28,500	
Department of Education - Office of Innovation and Improvement		Fund for the Improvement of Education	84.215	S215L080782	72,887		72,887	
Department of Education - Office of Innovation and Improvement		Fund for the Improvement of Education	84.215	U215K090177	238,000		238,000	
Department of Education - Office of Innovation and Improvement		Fund for the Improvement of Education	84.215	U215K100054	335,000		335,000	
Department of Education - Office of Elementary and Secondary Education	OSPI	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	887354		6,210	6,210	
Department of Education - Office of Elementary and Secondary Education	OSPI	English Language Acquisition State Grants	84.365	401892		616,963	616,963	

3/19/2015

The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.

Department of Education - Office of Elementary and Secondary Education	OSPI	Improving Teacher Quality State Grants	84.367	523298		583,287	583,287	
Department of Education - Office of Elementary and Secondary Education	OSPI	**ARRA** School Improvement Grants, Recovery Act	84.388	225021		8,664	8,664	
Department of Education - Office of Innovation and Improvement	PSESD	**ARRA** Race to the Top - District Grants	84.416	8221		345,359	345,359	9
Department of Education - Office of Innovation and Improvement	PSESD	**ARRA** Race to the Top - District Grants	84.416	8276		20,727	20,727	
Department of Education - Office of Innovation and Improvement	PSESD	**ARRA** Race to the Top - District Grants	84.416	8248		3,476	3,476	
Department of Education - Office of Innovation and Improvement	PSESD	**ARRA** Race to the Top - District Grants	84.416	8284		168	168	9
Department of Education - Office of Innovation and Improvement	PSESD	**ARRA** Race to the Top - District Grants	84.416	8549		173,817	173,817	9
Department of Education - Office of Innovation and Improvement	PSESD	**ARRA** Race to the Top - District Grants	84.416	8560		234,327	234,327	9
Department of Education - Office of Innovation and Improvement	PSESD	**ARRA** Race to the Top - District Grants	84.416	8421		4,755	4,755	9
Department of Education - Office of Innovation and Improvement	PSESD	**ARRA** Race to the Top - District Grants	84.416	8368		183,837	183,837	
Department of Education - Office of Innovation and Improvement	PSESD	**ARRA** Race to the Top - District Grants	84.416	8531		8,754	8,754	9
Department of Education - Office of Innovation and Improvement	PSESD	**ARRA** Race to the Top - District Grants	84.416	8470		248,714	248,714	9
						Dept. of Education Subtotal	**12,080,058**	

The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.

Department of Health and Human Services - Centers for Disease Control and Prevention	OSPI	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079	930060		481	481	
Department of Health and Human Services - Office of the Secretary	OSPI	Pregnancy Assistance Fund Program	93.500	179004		702	702	
Department of Health and Human Services - Administration for Children and Families	School's Out Washington	Refugee and Entrant Assistance_Discretionary Grants	93.576				0	
Department of Health and Human Services - Centers for Disease Control and Prevention	Seattle Children's Hospital	PPHF: Community Transformation Grants -Small Communities Program financed solely by Public Prevention and Health Funds	93.737	413097		18,000	18,000	
Department of Health and Human Services - Centers for Medicare and Medicaid Services	DSHS	Medical Assistance Program	93.778	N/A		125,984	125,984	
						Health & Human Svcs. Dept. Subtotal	**145,167**	
				SEFA TOTALS	**732,685**	**23,410,693**	**24,143,377**	

3/19/2015

The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.

HIGHLINE SCHOOL DISTRICT NO. 401
SEPTEMBER 1, 2013 THROUGH AUGUST 31, 2014
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City's financial statements. The City uses the modified accrual basis of accounting. Modified accrual for governmental funds means revenues are recognized when they are measurable and available as net current assets and expenditures are recogized in the accounting period in which the related fund liability is incurred.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only federal portion of the program costs. Actual program costs, including the City's portion, may be more than shown.

NOTE 3 - AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the total amount expended for the Community Development Block Grants program is $159,657 that was passed through to a subrecipient that aministered its own project.

Included in the total amount expended for the Emergency Management Performance Grants program is $108,111 that was passed through to a subrecipient that aministered its own project.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov

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APPENDIX E

Form of Bond Counsel Opinion

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FORM OF BOND COUNSEL OPINION

June __, 2015

Highline School District No. 401, King County, Washington

Re: Highline School District No. 401, King County, Washington;
$________ Unlimited Tax General Obligation Refunding Bonds, 2015

We have served as bond counsel to Highline School District No. 401, King County, Washington (the "District"), in connection with the issuance of the above-referenced bonds (the "Bonds"), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

The Bonds are issued by the District pursuant to Resolution No. 07-15 (the "Bond Resolution") to pay: (a) the cost of refunding, paying and redeeming the District's callable outstanding Unlimited Tax General Obligation Bonds, 2007; and (b) the administrative costs of the refunding and the costs related to the issuance, sale and delivery of the Bonds, all under and in accordance with the Constitution and laws of the State of Washington. Reference is made to the Bonds and the Bond Resolution for the definitions of capitalized terms used and not otherwise defined herein.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the District is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The District has covenanted in the Bond Resolution to comply with those requirements, but if the District fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the District's compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. the District is a duly organized and legally existing municipal corporation under the laws of the State of Washington;

2. the Bonds have been duly authorized and executed by the District and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington and the resolutions of the District relating thereto;

3. the Bonds constitute valid and binding general obligations of the District payable from annual *ad valorem* taxes to be levied without limitation as to rate or amount on all of the taxable property within the District, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases; and

4. assuming compliance by the District after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

APPENDIX F

Book-Entry System

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T H E   D E P O S I T O R Y   T R U S T   C O M P A N Y

SAMPLE OFFERING DOCUMENT LANGUAGE
DESCRIBING BOOK-ENTRY-ONLY ISSUANCE

(Prepared by DTC--bracketed material may apply only to certain issues)

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished

by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates rep resenting their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of

redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.