



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Grays Harbor College

For the period July 1, 2016 through June 30, 2017

Published March 23, 2018

Report No. 1020986





Office of the Washington State Auditor

Pat McCarthy

March 23, 2018

Board of Trustees
Grays Harbor College
Aberdeen, Washington

Report on Financial Statements

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

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

Sincerely,

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

Pat McCarthy
State Auditor
Olympia, WA

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**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**

**Grays Harbor College
July 1, 2016 through June 30, 2017**

Board of Trustees
Grays Harbor College
Aberdeen, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Grays Harbor College, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 14, 2018. The Harbor College Foundation's prior year comparative information has been derived from the Foundation's 2016 financial statements, on which other auditors issued their report dated December 6, 2016. As discussed in Note 1 to the financial statements, during the year ended June 30, 2017, the College implemented Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*.

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

The financial statements of the Grays Harbor College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where

applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

In addition, we noted certain matters that we communicated to the management of the College in a separate letter dated March 14, 2018.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of the College's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,

providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we communicated to the management of the College in a separate letter dated March 14, 2018.

PURPOSE OF THIS REPORT

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

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

Pat McCarthy
State Auditor
Olympia, WA

March 14, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Grays Harbor College **July 1, 2016 through June 30, 2017**

Board of Trustees
Grays Harbor College
Aberdeen, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Grays Harbor College, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the

financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Grays Harbor College, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2017, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of the Grays Harbor College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017, the changes in its financial

position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The financial statements include summarized prior-year comparative information of the Foundation. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2016, from which such summarized information was derived. Other auditors have previously audited the Foundation's 2016 financial statements and they expressed an unmodified opinion in their report dated December 6, 2016.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2018 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an

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

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

March 14, 2018

FINANCIAL SECTION

Grays Harbor College July 1, 2016 through June 30, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Revenues, Expenses and Changes in Net Position – 2017

Statement of Cash Flows – 2017

Grays Harbor College Foundation Statements of Financial Position – 2017 and 2016

Grays Harbor College Foundation Statements of Activities – 2017 and 2016

Grays Harbor College Foundation Statements of Functional Expenses – 2017 and 2016

Grays Harbor College Foundation Statements of Cash Flows – 2017 and 2016

Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 – 2017

Schedules of Proportionate Share of the Net Pension Liability – PERS 2/3 – 2017

Schedule of Proportionate Share of the Net Pension Liability – TRS 1 – 2017

Schedules of Proportionate Share of the Net Pension Liability – TRS 2/3 – 2017

Schedules of Contributions – PERS 1 – 2017

Schedules of Contributions – PERS 2/3 – 2017

Schedules of Contributions – TRS 1 – 2017

Schedules of Contributions – TRS 2/3 – 2017

Schedules of Contributions – SBRP – 2017

Schedule of Changes in the Total Pension Liability and Related Ratios – 2017

Notes to the Required Supplementary Information

Management's Discussion and Analysis

Grays Harbor College

The following discussion and analysis provides an overview of the financial position and activities of Grays Harbor College (the College) for the fiscal year ended June 30, 2017 (FY 2017). This overview provides readers with an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the College's financial statements and accompanying note disclosures.

Reporting Entity

Grays Harbor College is one of thirty-four public community and technical colleges in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs. The College confers associates degrees, certificates and high school diplomas and equivalencies. The College also serves Running Start high school students (dual enrollments) through contracts with local school districts, and provides basic skills and vocational training to Stafford Creek Correctional Center through a contract with the State of Washington Department of Corrections. For the fiscal year ending June 30, 2017, the College served 1,565 state funded full-time equivalent (FTE) students, and 580 contract funded FTEs. Actual headcount for 2017 totaled 4,213 students.

The College was established in 1930 and is one of the oldest community colleges in the state. The main campus is located in Aberdeen, Washington, and the College's service district includes both Grays Harbor and Pacific counties with a total population of approximately 92,000. The College also has educational centers in Pacific County, with facilities in Raymond and Ilwaco. The College is governed by a five-member Board of Trustees appointed by the governor of the state with the consent of the state Senate. In accordance with Washington State law governing community colleges, the College's board includes one member from business and one member from labor. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

Using the Financial Statements

The financial statements presented in this report encompass the College and its discretely presented component unit. The College's financial statements include the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the College as of June 30, 2017. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash Flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the College's financial health.

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

financial reporting for public colleges and universities. The full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

During 2017, the College adopted GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 as amended by GASB Statement No. 71. It establishes financial reporting requirements for defined benefit pensions that are provided to employees of state and local governmental employers and that are not administered through trusts or equivalent arrangements and therefore outside the scope of Statement 68. The College is required to record its proportionate share of net pension liabilities, deferred inflows, pension expense and benefit payments. The change in accounting principle resulted in an additional amount of \$1,112,003 in pension liability.

Statement of Net Position

The Statement of Net Position provides information about the College's financial position, and presents the College's assets, liabilities, and net position at year-end and includes all assets and liabilities of the College. A condensed comparison of the Statement of Net Position is as follows:

Condensed Statement of Net Position As of June 30th	FY 2017	FY 2016 restated
Assets		
Current Assets	7,836,595	8,760,759
Capital Assets, net	74,424,456	75,530,896
Other Assets, non-current	4,414,269	4,176,917
Total Assets	\$ 86,675,320	\$ 88,468,572
Deferred Outflows	\$ 1,050,086	\$ 736,188
Liabilities		
Current Liabilities	2,890,386	2,572,686
Other Liabilities, non-current	6,538,506	6,007,939
Total Liabilities	\$ 9,428,892	\$ 8,580,625
Deferred Inflows	\$ 404,520	\$ 488,729
Net Position	\$ 77,891,994	\$ 80,135,406

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The 10% decrease can be attributed to the timing of payments due to the College for College expenditures and transfers from the state treasurer and the write off of old receivables prior to June 30, 2014.

Net capital assets decreased by \$1,106,440 from FY 2016 to FY 2017. The decrease is primarily the result of current depreciation expense of \$2.4 million offset in part by ongoing acquisitions of capitalizable equipment. (See Note 6 for detail on changes to capital assets).

Non-current assets consist of the long-term portion of investments in certificate of deposits at local banks, and the long-term portion of restricted cash and investments, contributed by student fees and held for future construction of a new student union building.

Deferred outflows of resources totaling \$1,050,086 are related to the net pension liability that was recorded on the College's financials per GASB 68.

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

The modest increase in current liabilities from FY 2016 to FY 2017 resulted from the Washington State Legislature not passing a budget until the end of June, causing the College to cover payroll from local funds.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees. The changes in non-current liabilities include reductions to employee vacation and sick leave balances as employees retire or increases to vacation and sick leave balances as employees used unpaid Temporary Salary Reduction leave in lieu of paid leave.

The College's non-current liabilities significantly increased due to the implementation of GASB Statement No. 68 and GASB 73, reflecting the College's proportionate share of the net pension liability.

Deferred inflows of resources related to the College's net pension liability totaled \$404,520. Deferred inflows or resources include the calculated difference between actual and projected investment earnings on the state's pension plans.

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

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

Restricted:

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

Expendable – resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset. The primary expendable funds for the College are institutional aid funds, and student loan funds.

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

against emergencies and for other purposes, in accordance with policies established by the Board of Trustees.

As stated earlier in this section, the College's net position was adjusted by \$1,320,114 (to \$77,891,994) to reflect the adjustment required for GASB 73 and for various immaterial errors.

Net Position As of June 30th	FY 2017	FY 2016 restated
Net investment in capital assets	\$74,424,456	\$75,530,896
Restricted		
Expendable (description)	\$1,813,290	\$2,653,854
Nonexpendable (description)		
Unrestricted	\$1,654,248	\$1,950,656
Total Net Position	\$77,891,994	\$80,135,406

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position accounts for the College's changes in total net position during FY 2017. The objective of the statement is to present the revenues earned, both operating and non-operating, and the expenses paid or incurred by the College, along with any other revenue, expenses, gains and losses of the College.

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

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

A condensed comparison of the College's revenues, expense and changes in net position for the years ended June 30, 2017 and 2016 is presented below.

Condensed Statement of Revenue, Expenses and Net Position Changes in Net Position As of June 30th	FY 2017	FY 2016 (restated)
Revenues		
Net Tuition and fees	\$ 3,517,713	\$ 3,378,147
Auxiliary enterprise sales	\$ 946,358	\$ 942,614
State, Federal and local grants and contracts	\$ 8,194,480	\$ 7,806,174
Other operating revenues	\$ 68,995	\$ 278,428
Expenses		
Supplies and materials, travel and non-capitalized equip	3,760,695	4,499,201
Salaries, wages and benefits	17,018,296	17,286,094
Scholarships and fellowships	5,828,233	5,965,021
Depreciation, purchased services and utilities	3,654,465	3,510,934
Net Operating Loss	(17,534,143)	(18,855,887)
Non-Operating Revenues	14,676,304	13,872,264
Non-Operating Expenses	631,769	573,949
Loss Before Capital Appropriations	(3,489,608)	(5,557,572)
Capital Appropriations and Contributions	1,246,196	3,191,523
Increase (Decrease) in Net Position	(2,243,412)	(2,366,049)
Net Position, Beginning of the Year	80,135,406	82,501,455
Net Position, End of the Year	\$ 77,891,994	\$ 80,135,406

Revenues

Operating Revenues

As with most institutions of higher education, Grays Harbor College has a fee for service relationship with each student who enrolls for courses. The payment of this fee occurs as a transaction between the College and students directly or through their financial aid processing. As well, student fees can be sponsored and paid by a third party. The type of fee paid is determined by the program in which the student is enrolled.

The bulk of students at Grays Harbor College are enrolled in credential and degree programs whose fee rates are governed by the state-wide tuition fee schedules established and managed by the State Board for Community and Technical Colleges (SBCTC). Commonly referred to as tuition from 'state students,' tuition is comprised of three legally defined fees that are applied at a per credit rate. The first of the fees, the operating fee, represents approximately 80 percent of the tuition rate and is available to the College as an operating revenue to support College operations. Half of the remaining 20 percent is diverted and collected as a building fee (10%), while the other half is made available for use by students for student activities (10%). From the operating fee portion of tuition, the College is required to set aside 3.5 and 3.0 percent as *financial aid for GHC students in need* and a *state-wide technology innovation fund*, respectively. After all diversions and set-asides, approximately 75 percent of scheduled, student-paid tuition is available to the College to support normal operations.

The amount of tuition revenue collected is a function of rate multiplied by volume, with rate being the per credit value of tuition and volume the number of credit hours taken (45 credit hours attended per year equals one full time equivalent [FTE] student). The College does not have authority to change the rate of tuition charged to students. This authority rests with the Washington state legislature, who provides the maximum net percent change allowed annually, which is used by the SBCTC to update annual tuition schedules accordingly. There was no

increase in tuition rates for fiscal year 2017. Another factor impacting operating fee collections are enrollment levels. There was a modest decrease in FTE ‘state students’ enrolled at the College between FY 2016 and 2017. Most of this change was due to a change in how FTE are counted in the adult basic education classes. Because these FTE are not required to pay full tuition, there was minimal impact to College revenues, despite the loss of ‘credit hours taken.’ In all, the College experienced a slight increase in tuition revenues in 2017.

For a small number of students, the College offers programs on a fee-only basis, as allowed by law. This fee-only basis is generally established through a contractual arrangement between the College and a third party seeking specialized educational opportunities. These fees are set to cover the cost of the educational service provided.

The state of Washington appropriates funds to the community college system as a whole. The SBCTC then allocates monies to each college.

Pell grant revenues generally follow enrollment trends and tuition rates. Stable enrollment combined with declining tuition rates explain some of the reductions experienced in Pell grant revenues

Non-Operating Revenue

As a public institution of higher education, Grays Harbor College is dependent upon non-operating revenue to maintain its educational mission. The state of Washington provides funding to the 34 community and technical colleges in a single appropriation. The State Board for Community and Technical Colleges (SBCTC) receives this appropriation and then allocates resources to each college (listed as *State Appropriations* in the Statement of Revenues). System-level appropriations hit their height in FY 2009 and experienced a 24 percent reduction by the end of the FY 2013. For FY 2017, the system rebased college allocations based on a new method, which resulted in an increase of state allocation for Grays Harbor College of approximately \$370,000. Final allocations for FY 2017 also included a one-time distribution related to the aforementioned *Moore v. HCA* lawsuit, of approximately \$259,000.

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

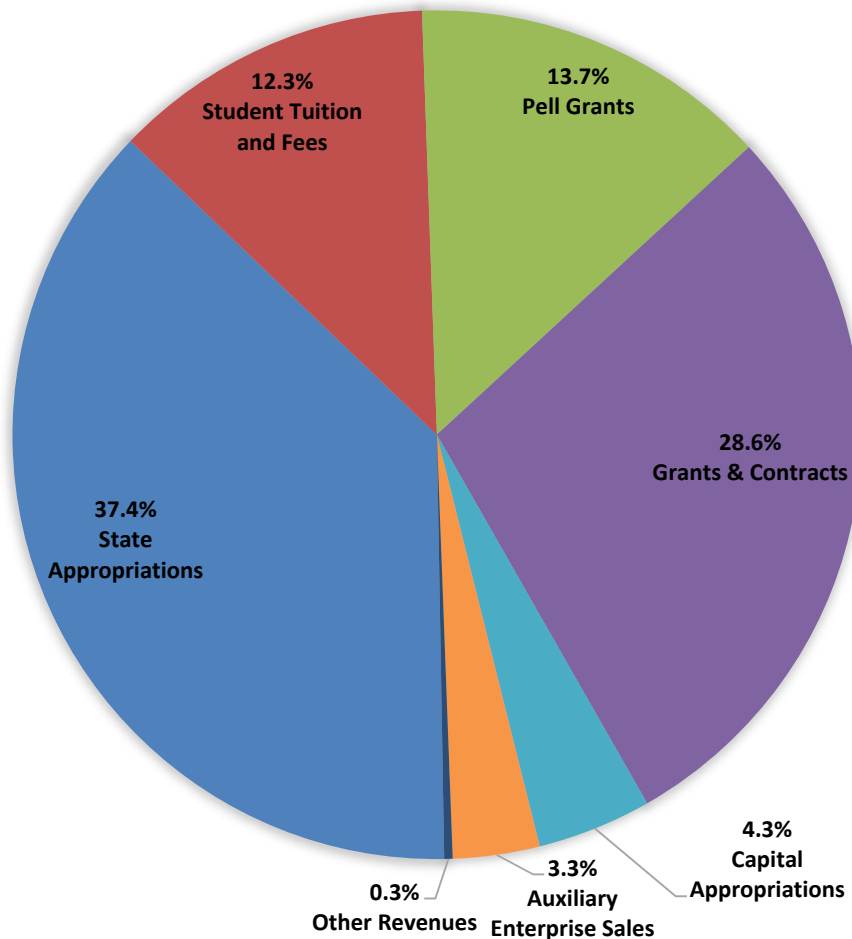
The following table shows a comparison of revenues for years ending June 30, 2016 and 2017

Revenue	FY2016	as a percent of total	FY2017	as a percent of total
State Appropriations	10,008,529	34%	10,726,467	37%
Student Tuition and Fees	3,378,147	11%	3,517,713	12%
Pell Grants	3,836,836	13%	3,927,266	14%
Grants & Contracts	7,806,174	27%	8,194,480	29%
Capital Appropriations	3,191,523	11%	1,246,196	4%

Auxiliary Enterprise Sales	942,614	3%	946,358	3%
Other Revenues	<u>234,853</u>	1%	<u>91,567</u>	0%
Total	29,398,676		28,650,047	

The following illustration showing revenue by source, both operating and non-operating, used to fund the College's programs for the year ended June 30, 2017.

FY2017 REVENUES BY SOURCE



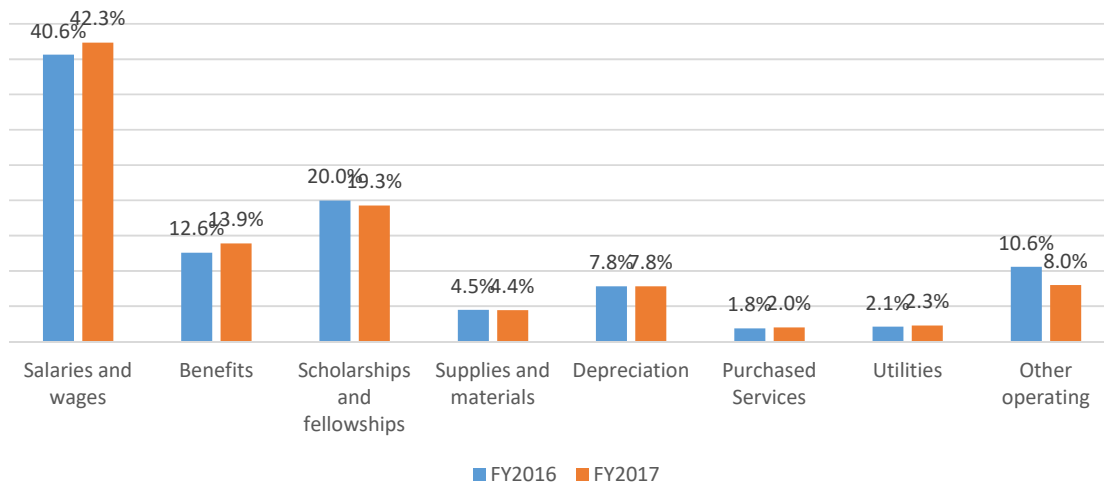
Operating Expenses

Fiscal year 2017 continued the trend of modest growth in operating expenses. The College experienced minimal growth in *salaries and wages* and *benefits*, categories that represent 56 percent of operating expenses. Small increases in these categories were driven by an almost two percent cost of living adjustment for staff and faculty. The College increased program offerings, adding three baccalaureate level programs which required additional faculty. In addition, non-compensation related items for health insurance and retirement contributions increased in FY 2017.

Operating expenses, for 2016 and 2017 are noted below, by natural classification, followed by a bar chart that shows the comparative percentages for 2016 and 2017:

Expenses	FY2016	as a percent of total	FY2017	as a percent of total
Salaries and wages	12,138,118	40.6%	12,813,144	42.3%
Benefits	3,757,389	12.6%	4,205,153	13.9%
Scholarships and fellowships	5,965,021	20.0%	5,828,233	19.3%
Supplies and materials	1,342,497	4.5%	1,344,123	4.4%
Depreciation	2,331,247	7.8%	2,367,315	7.8%
Purchased Services	552,265	1.8%	600,649	2.0%
Utilities	627,423	2.1%	686,502	2.3%
Other operating	3,156,704	10.6%	2,416,572	8.0%
total	29,870,663		30,261,690	

Operating Expense Comparison, in percentages, Natural Classification

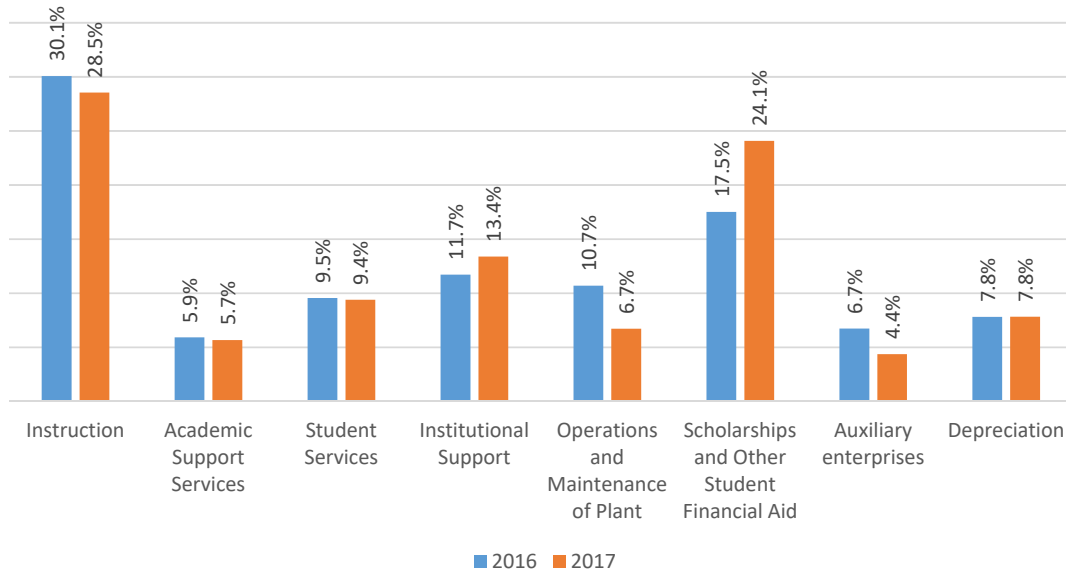


Comparison of Selected Operating Expenses by Function

Operating expenses, for 2016 and 2017 are noted below, by natural classification, followed by a bar chart that shows the comparative percentages for 2016 and 2017:

Expenses by Functional Classification	2016	as a percent of total	2017	as a percent of total
Instruction	\$ 8,981,217	30.1%	\$ 8,638,753	28.5%
Academic Support Services	1,765,436	5.9%	1,716,672	5.7%
Student Services	2,852,325	9.5%	2,843,685	9.4%
Institutional Support	3,501,694	11.7%	4,055,889	13.4%
Operations and Maintenance of Plant	3,194,045	10.7%	2,032,287	6.7%
Scholarships and Other Student Financial Aid	5,232,297	17.5%	7,287,500	24.1%
Auxiliary enterprises	2,012,402	6.7%	1,319,590	4.4%
Depreciation	2,331,247	7.8%	2,367,315	7.8%
Total operating expenses	\$ 29,870,663		\$ 30,261,690	

Operating Expense comparison, in percentages, by Function



Capital Assets and Long-Term Debt Activities

The community and technical college system submits a single prioritized request to the Office of Financial Management and the Legislature for appropriated capital funds. Capital expenditures include major projects, minor projects, repairs, emergency funds, alternative financing and major leases. There are two primary funding sources for college capital projects, state general obligation bonds and building fees collected with student tuition. The budget crisis that resulted from the great recession of 2009 led to declining state revenues and significantly reduced the

state's debt capacity and is expected to continue to impact the number of new projects that can be financed. Because the building fee is collected with operating fees (within student tuition), the availability of resources is dependent upon changes in rate and enrollment levels. These two sources, plus the use of local funds and alternative financing, are used to establish the state's capital appropriations for the community and technical college system.

Economic Factors That May Affect the Future

The College continues to experience changes in leadership that will shape future growth. Some of the challenges include upgrading the final elements of the College's original, and aging, campus facility (e.g., the Gymnasium), and defining the space required for program changes and improvements to meet the demands of Grays Harbor and Pacific Counties.

In FY 2017, the State Board for Community and Technical Colleges accepted and implemented the recommendation of the system to move to a new allocation model, changing how the state appropriated funds are allocated to each college. The impacts of the model will continue, as the rebasing of the system's allocation was phased in over four years.

Grays Harbor College
Statement of Net Position
June 30, 2017

Assets

Current assets

Cash and cash equivalents	5,951,929
Accounts Receivable	1,704,618
Inventories	179,953
Prepaid Expenses	95
Total current assets	7,836,595

Non-Current Assets

Restricted cash and cash equivalents	2,449,288
Long-term investments	1,964,982
Capital assets, net of depreciation	74,424,456
Total non-current assets	78,838,725

Total assets **86,675,320**

Deferred Outflows of Resources

Deferred Outflows Related to Pensions	1,050,086
Total Deferred Outflows of Resources	1,050,086

Liabilities

Current Liabilities

Accounts Payable	143,568
Due to State Treasurer	547,457
Accrued Liabilities	1,723,670
Compensated absences	226,721
Unearned Revenue	248,970
Total current liabilities	2,890,386

Noncurrent Liabilities

Compensated Absences	1,284,750
Net Pension Liability	5,253,756
Total non-current liabilities	6,538,506

Total liabilities **9,428,892**

Deferred Inflows of Resources

Deferred Inflows Related to Pensions	404,520
Total Deferred Inflows of Resources	404,520

Net Position

Net Investment in Capital Assets	74,424,456
Restricted for:	
Expendable	1,742,693
Student Loans	70,597
Unrestricted	1,654,248
Total Net Position	77,891,994

These notes form an integral part of the financial statements.

(See accompanying note to the financial statements)

Grays Harbor College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

Operating Revenues

Student tuition and fees, net	3,517,713
Auxiliary enterprise sales	946,358
State and local grants and contracts	7,585,434
Federal grants and contracts	609,046
Other operating revenues	68,995
Total operating revenue	<u>12,727,547</u>

Operating Expenses

Travel, Non-capitalized equipment and other misc expenses	2,416,572
Salaries and wages	12,813,144
Benefits	4,205,153
Scholarships and fellowships	5,828,233
Supplies and materials	1,344,123
Depreciation	2,367,315
Purchased services	600,649
Utilities	686,502
Total operating expenses	<u>30,261,690</u>

(17,534,143)

Non-Operating Revenues (Expenses)

State appropriations	10,726,467
Federal Pell grant revenue	3,927,266
Investment income, gains and losses	22,572
Building fee remittance	(513,864)
Innovation fund remittance	(117,905)
Net Non-Operating Revenues (Expenses)	<u>14,044,535</u>

(3,489,608)

1,246,196

(2,243,412)

Net Position

Net position, beginning of year	81,455,520
Cumulative Effect of Change in Accounting Principle - GASB 73	(1,384,441)
Prior period adjustments	64,327
Adjusted Net position, beginning of year	<u>80,135,406</u>
Net position, end of year	<u><u>77,891,994</u></u>

These notes form an integral part of the financial statements.

(See accompanying note to the financial statements)

Grays Harbor College
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash flow from operating activities	
Student tuition and fees	3,173,161
Grants and contracts	8,494,068
Payments to vendors	(1,828,237)
Payments for utilities	(696,083)
Payments to employees	(12,568,100)
Payments for benefits	(4,161,886)
Auxiliary enterprise sales	897,340
Payments for scholarships and fellowships	(5,828,233)
Other payments	68,995
Other receipts	(2,478,509)
Net cash used by operating activities	(14,927,486)
Cash flow from noncapital financing activities	
State appropriations	11,254,631
Pell grants	3,927,266
Building fee remittance	(514,741)
Innovation fund remittance	(118,301)
Net cash provided by noncapital financing activities	14,548,855
Cash flow from capital and related financing activities	
Capital appropriations	1,389,798
Purchases of capital assets	(1,284,186)
Net cash used by capital and related financing activities	105,612
Cash flow from investing activities	
Proceeds from sales and maturities of investments	941,719
Income of investments	22,572
Net cash provided by investing activities	964,291
Increase in cash and cash equivalents	691,272
Cash and cash equivalents at the beginning of the year	7,709,946
Cash and cash equivalents at the end of the year	8,401,218
Reconciliation of Operating Loss to Net Cash used by Operating Activities	
Operating Loss	(17,534,143)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	2,367,315
Changes in assets and liabilities	
Receivables , net	(185,844)
Inventories	(31,618)
Accounts payable	18,443
Accrued liabilities	246,873
Unearned Revenue	23,278
Compensated absences	149,779
Pension liability adjustment expense	18,431
Net cash used by operating activities	(14,927,486)

These notes form an integral part of the financial statements.

(See accompanying note to the financial statements)

GRAYS HARBOR COLLEGE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

ASSETS

CURRENT ASSETS:	2017	2016
Cash and cash equivalents	\$ 639,418	\$ 176,003
Investments	7,865,202	6,573,583
Promises to give--current	82,965	1,265,645
Total current assets	<u>8,587,585</u>	<u>8,015,231</u>
OTHER ASSETS:		
Long-term investments	2,275,958	2,019,694
Assets held for investment	105,876	105,876
Other long-term assets	23,967	108,443
Total other assets	<u>2,405,801</u>	<u>2,234,013</u>
Total assets	<u>\$ 10,993,386</u>	<u>\$ 10,249,244</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	<u>\$ 15,500</u>	<u>\$ 15,000</u>
NET ASSETS:		
Unrestricted--		
Board designated	318,550	234,073
Undesignated	<u>223,685</u>	<u>442,065</u>
Total unrestricted	542,235	676,138
Temporarily restricted	5,166,957	4,510,836
Permanently restricted	<u>5,268,694</u>	<u>5,047,270</u>
Total net assets	<u>10,977,886</u>	<u>10,234,244</u>
Total liabilities and net assets	<u>\$ 10,993,386</u>	<u>\$ 10,249,244</u>

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

GRAYS HARBOR COLLEGE FOUNDATION

STATEMENTS OF ACTIVITIES

For the year ended June 30, 2017 with comparative totals for the year ended June 30, 2016

	2017			2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:				
Gifts and contributions	\$ 23,267	\$ 473,368	\$ 251,176	\$ 747,811
Investment income	49,023	809,123	-	858,146
Special event revenue--net	-	63,661	-	63,661
In-kind contributions	7,585	-	-	7,585
Other income	-	-	-	13,538
Loss on prior year promises to give	-	-	(29,752)	(29,752)
Net assets released from restrictions	738,682	(738,682)	-	-
Total revenues and support	818,557	607,470	221,424	1,647,451
				2,187,895
FUNCTIONAL EXPENSES:				
Program services--				
Awards, grants and scholarships	585,765	-	-	585,765
Other college support	183,236	-	-	183,236
Total program services	769,001	-	-	769,001
Fundraising	18,596	-	-	18,596
Management and general	116,212	-	-	116,212
Total expenses	903,809	-	-	903,809
				981,262
INCREASE (DECREASE) IN NET ASSETS	(85,252)	607,470	221,424	743,642
				1,206,633
NET ASSETS, beginning	676,138	4,510,836	5,047,270	10,234,244
Net asset transfers	(48,651)	48,651	-	-
NET ASSETS, ending	\$ 542,235	\$ 5,166,957	\$ 5,268,694	\$ 10,977,886
				\$ 10,234,244

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

STATEMENTS OF FUNCTIONAL EXPENSES

	2017				2016	
	Program Services		Support Services			
	Awards, Grants and Scholarships	Other College Support	Total Program Services	Fundraising		Management and General
EXPENSES:						
Grants and allocations	\$ 577,397	\$ 180,593	\$ 757,990	\$ -	\$ -	\$ -
Salaries, wages and benefits	8,368	2,643	11,011	11,011	50,615	61,626
Investment management fees	-	-	-	-	43,630	43,630
Insurance	-	-	-	-	1,362	1,362
Office expense	-	-	-	-	2,465	2,465
In-kind expense	-	-	-	7,585	-	7,585
Miscellaneous	-	-	-	-	6,768	6,768
Professional fees	-	-	-	-	11,372	11,372
Total expenses	\$ 585,765	\$ 183,236	\$ 769,001	\$ 18,596	\$ 116,212	\$ 134,808
				\$ -	\$ -	\$ -
				\$ 757,990	\$ 757,990	\$ 757,990
						\$ 858,368
						63,962
						38,021
						1,312
						1,611
						7,525
						1,317
						9,146
						\$ 981,262

Washington State Auditor's Office

GRAYS HARBOR COLLEGE FOUNDATION

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 743,642	\$ 1,206,633
Adjustments to reconcile increase in net assets to net cash used by operating activities--		
Unrealized and realized gains on investments	(559,735)	(55,368)
Loss on prior year promises to give	29,752	-
Dividends and interest reinvested in investments	(298,411)	(295,257)
Contributions and earnings restricted for investment in endowments	(221,424)	(304,831)
(Increase) decrease in--		
Promises to give	1,152,928	(1,263,395)
Increase (decrease) in--		
Accounts payable	500	12,503
Net cash provided (used) by operating activities	847,252	(699,715)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	1,058,684	1,069,896
Proceeds from return of capital	84,476	-
Purchase of investments	(1,748,421)	(761,288)
Net cash provided (used) by investing activities	(605,261)	308,608
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions and earnings restricted for investment in endowments	221,424	304,831
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT	463,415	(86,276)
CASH AND CASH EQUIVALENTS, at beginning of year	176,003	262,279
CASH AND CASH EQUIVALENTS, at end of year	<u>\$ 639,418</u>	<u>\$ 176,003</u>

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

Notes to the Financial Statements

June 30, 2017

These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

Grays Harbor College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College confers applied baccalaureate degrees, associates degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees appointed by the Governor and confirmed by the state Senate.

The College is an agency of the State of Washington. The financial activity of the college is included in the State's Comprehensive Annual Financial Report.

The Grays Harbor College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1963 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to support the students and mission of Grays Harbor College. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete

The Foundation's financial statements are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2017, the Foundation distributed approximately \$769,001 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at Grays Harbor College, 1620 Edward P. Smith Drive, Aberdeen, WA, (360)538-4243.

Basis of Presentation

The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities*. For financial reporting purposes, the College is considered a special-purpose government engaged only in Business Type Activities (BTA). In accordance with BTA reporting, the College presents a

Management's Discussion and Analysis; a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The format provides a comprehensive, entity-wide perspective of the college's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, expenses, changes in net position and cash flows.

Net Effect of a Change in Accounting Principle

The college recorded a reduction to the beginning net position balance as a result of implementing GASB Statement No. 73. The net position has been restated as follows:

Net Position as previously reported at June 30, 2016	\$81,455,520
Cumulative effect of change in accounting principle-GASB 73:	
Net Pension Liability	(1,384,441)
Prior Period Adjustment	
Various immaterial errors	<u>64,327</u>
Total changes and adjustment	<u>(\$1,320,114)</u>
Net Position, as restated, July 1, 2016	\$80,135,406

Basis of Accounting

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts

of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand and bank demand deposits. Cash in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets. The College records all cash, cash equivalents, and investments at fair value

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is distributed to the affected funds. The internal investment pool is comprised of cash, cash equivalents, and certificates of deposit.

Accounts Receivable

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

Inventories

Inventories, consisting primarily of merchandise for resale in the college bookstore and course-related supplies, are valued at cost using various methods.

Capital Assets

In accordance with state law, capital assets constructed with state funds are owned by the State of Washington. Property titles are shown accordingly. However, responsibility for managing the assets rests with the College. As a result, the assets are included in the financial statements because excluding them would have been misleading.

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

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

In accordance with GASB Statement 42, the college reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2017, no assets had been written down.

Unearned Revenues

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

Tax Exemption

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

Net Pension Liability

For purposes of measuring the net pension liability in accordance with GASB 68, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. In FY17, the College also reports its share of the pension liability for the State Board Retirement Plan in accordance with GASB73 *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68 (Accounting and Financial Reporting for Pensions)*. The reporting requirements are similar to GASB68 but use current fiscal yearend as the measurement date for reporting the pension liabilities.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent consumption of net position that is applicable to a future period. Deferred inflows of resources represent acquisition of net position that is applicable to a future period. Changes in net position liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

Net Position

The College's net position is classified as follows.

- *Net Investment in Capital Assets.* This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

- *Restricted for Nonexpendable.* This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.
- *Restricted for Loans.* The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- *Restricted for Expendable.* These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
- *Unrestricted.* These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

Classification of Revenues and Expenses

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

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

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

Non-operating Revenues. This includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations, investment income and Pell Grants received from the federal government.

Non-operating Expenses. Non-operating expenses include state remittance related to the building fee and the innovation fee.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of Scholarship Discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating

or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2017 are \$2,642,174.

State Appropriations

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

Building and Innovation Fee Remittance

Tuition collected includes amounts remitted to the Washington State Treasurer's office to be held and appropriated in future years. The Building Fee portion of tuition charged to students is an amount established by the Legislature is subject to change annually. The fee provides funding for capital construction and projects on a system wide basis using a competitive biennial allocation process. The Building Fee is remitted on the 35th day of each quarter. The Innovation Fee was established in order to fund the State Board of Community and Technical College's Strategic Technology Plan. The use of the fund is to implement new ERP software across the entire system. On a monthly basis, the College's remits the portion of tuition collected for the Innovation Fee to the State Treasurer for allocation to SBCTC. These remittances are non-exchange transactions reported as an expense in the non-operating revenues and expenses section of the statement of revenues, expenses and changes in net position.

2. Accounting and Reporting Changes

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68*. This Statement is intended to improve financial reporting of governments whose employees are provided with pensions that are not within the scope of Statement No. 68, improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68, and to clarify the application of certain provisions of Statements No. 67 and 68. In addition, it establishes requirements for defined contribution plans that are not within the scope of Statement 68. GASB 73 is effective for fiscal years beginning after June 15, 2016. The College has implemented this pronouncement during the 2017 fiscal year. The College recorded a beginning balance adjustment to long-term obligations of \$1,384,441 as a result of the implementation of GASB Statement No. 73.

Statement No. 82 Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73. GASB Statement No. 82 amends the definition of covered payroll for pensions reported in required supplementary information. Instead of presenting covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, the required

supplementary information will present covered payroll, defined as the payroll on which contributions to a pension plan are based

3. Cash and Investments

Cash and cash equivalents include bank demand deposits and petty cash held at the College.

As of June 30, 2017, the carrying amount of the College's cash and equivalents was \$8,401,217 as represented in the table below.

Cash and Cash Equivalents	June 30, 2017
Petty Cash and Change Funds	\$7,775
Bank Demand and Time Deposits	\$8,393,442
Total Cash and Cash Equivalents	\$8,401,217

Investments consist of time certificates of deposit. Time certificates of deposit have repurchase agreements with the respective financial institutions.

Investment Maturities	Fair Value	1 - 5 Years
Time Certificate of Deposits	\$ 1,964,981.54	\$ 1,964,981.54
Total Investments	\$ 1,964,981.54	\$ 1,964,981.54

Custodial Credit Risks—Deposits

Custodial credit risk for bank demand deposits is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The majority of the College's demand deposits are with the Bank of the Pacific. All cash and equivalents, except for change funds and petty cash held by the College, are insured by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the Washington Public Deposit Protection Commission (PDPC).

Interest Rate Risk—Investments

The College manages its exposure to interest rate changes by limiting the duration of investments to mature at various points in time. Current procedure is that no investment may exceed 60 months.

Concentration of Credit Risk—Investments

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

Custodial Credit Risk—Investments

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

Investments Exposed to Custodial Risk	Fair Value
Certificates of Deposit	\$ 1,964,982
Total Investments Exposed to Custodial Risk	\$ 1,964,982

Investment Expenses

Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2017 were \$0.

4. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenses made according to sponsored agreements. At June 30, 2017, accounts receivable were as follows.

Accounts Receivable	Amount
Student Tuition and Fees	\$ 763,252
Due from the Federal Government	\$ 153,077
Due from Other State Agencies	\$ 704,658
Auxiliary Enterprises	\$ 99,690
Other	\$ 5,591
Subtotal	\$ 1,726,269
Less Allowance for Uncollectible Accounts	\$ (21,651)
Accounts Receivable, net	\$ 1,704,618

5. Inventories

Inventories, stated at cost using FIFO or the first in/first out method, consisted of the following as of June 30, 2017.

Inventories	Amount
Merchandise Inventories	\$ 179,953
Inventories	\$ 179,953

6. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2017 is presented as follows. The current year depreciation expense was \$2,367,315

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	\$ 177,724			\$ 177,724
Construction in progress	0	159,358		159,358
Total nondepreciable capital assets	177,724	159,358	0	337,082
Depreciable capital assets				
Buildings	91,065,944	850,073		91,916,017
Other improvements and infrastructure	778,746	122,270		901,016
Equipment	3,371,395	91,901	149,022	3,314,274
Library resources	850,410	37,272	640,916	246,766
Subtotal depreciable capital assets	96,066,495	1,101,516	789,938	96,378,073
Less accumulated depreciation				
Buildings	16,957,751	2,108,318		19,066,069
Other improvements and infrastructure	341,683	29,304		370,987
Equipment	2,686,846	198,056	149,022	2,735,880
Library resources	727,043	31,637	640,916	117,764
Total accumulated depreciation	20,713,323	2,367,315	789,938	22,290,700
Total depreciable capital assets	75,353,172	(1,265,799)	0	74,087,373
Capital assets, net of accumulated depreciation	\$ 75,530,896	\$ (1,106,441)	\$ 0	\$ 74,424,455

7. Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of equity that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The category of deferred outflow of resources reported in statement of net position relates to pensions.

Deferred outflows on pensions are recorded when projected earnings on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and

rational method over a closed five-year period. Deferred outflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. State contributions to pension plans made subsequent to the measurement date are also deferred and reduce net pension liability in the subsequent year.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of equity that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported by the College relate to pensions.

Deferred inflows on pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred inflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan.

8. Accounts Payable and Accrued Liabilities

At June 30, 2017, accrued liabilities are the following.

Accounts Payable and Accrued Liabilities	Amount
Accounts Payable	\$ 143,568
Due to State Treasurer	\$ 547,457
Amounts Owed to Employees	\$ 1,102,661
Sales Tax Payable	\$ 9,096
Due to other agencies	\$ 53,606
Accrued Liabilities	\$ 558,308
Total	\$ 2,414,696

9. Unearned Revenue

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

Unearned Revenue	Amount
Summer and Fall Quarter Tuition & Fees	\$ 248,970
Total Unearned Revenue	\$ 248,970

10. Risk Management

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

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2016 through June 30, 2017, were \$21,223.

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

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

11. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled \$688,872.70, and accrued sick leave totaled \$595,876.80 at June 30, 2017.

Accrued annual and sick leave are categorized as non-current liabilities. Compensatory time is categorized as a current liability since it must be used before other leave.

12. Leases Payable

The College has leases for office equipment with various vendors. These leases are classified as operating leases. As of June 30, 2017, the minimum lease payments under operating leases consist of the following.

Fiscal year	Operating Leases
2018	26,891
2019	22,106
2020	21,814
2021	18,034
2022-26	9,091
Total minimum lease payments	97,936

13. Schedule of Long Term Liabilities

	Balance outstanding 6/30/16	Additions	Reductions	Balance outstanding 6/30/17	Current portion
Compensation Absences	\$ 1,361,691.00		76,942	\$ 1,511,470	\$ 226,721
Net pension obligation	\$ 3,459,422.00	\$ 682,331		\$ 4,141,753	
GASB 73	\$ 1,112,003.00			\$ 1,112,003	
Total	\$ 5,933,116	\$ 682,331	\$ 76,942	\$ 6,765,226	\$ 226,721

14. Pension Liability

Pension liabilities reported as of June 30, 2017 consists of the following:

Pension Liability by Plan		
PERS 1	\$	1,754,211
PERS 2/3		1,783,772
TRS 1		471,096
TRS 2/3		132,674
SBRP		1,112,003
Total	\$	5,253,756

15. Retirement Plans

A. General

The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) plans are cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Services. The **State Board Retirement Plan (SBRP)** is a defined contribution single employer pension plan with a supplemental payment when required. SBRP is

administered by the State Board for Community and Technical Colleges (SBCTC) and available to faculty, exempt administrative and professional staff of the state's public community and technical colleges. The College reports its proportionate share of the total pension liability as it is a part of the college system.

For FY2017, the payroll for the College's employees was \$3,674,522 for PERS, \$644,073 for TRS, and \$6,385,342 for SBRP. Total covered payroll was \$10,703,937.

Basis of Accounting

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

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 for Grays Harbor College, for fiscal year 2017:

Aggregate Pension Amounts - All Plans

Pension liabilities	\$5,253,756
Deferred outflows of resources related to pensions	\$1,050,086
Deferred inflows of resources related to pensions	\$404,520
Pension expense	\$506,035

As established in chapter 28B.10 RCW, eligible higher education state employees may participate in higher education retirement plans. These plans include a defined contribution plan administered by a third party with a supplemental defined benefit component (on a pay as you go basis) which is administered by the state. The College implemented Statement No. 73 of the Governmental Accounting Standards Board (GASB) Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 for the fiscal year 2017 financial reporting. The College has elected to use the current fiscal year end as the measurement date for reporting net pension liabilities for the Higher Education Supplemental Retirement Plan in alignment with the State CAFR.

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

PERS and TRS

Plan Descriptions. PERS Plan 1 provides retirement and disability benefits and minimum benefit increases to eligible nonacademic plan members hired prior to October 1, 1977. PERS Plans 2 and 3 provide retirement and disability benefits and a cost-of-living adjustment to eligible nonacademic plan members hired on or after October 1, 1977. Retirement benefits are vested after five years of eligible service. PERS Plan 3 has a defined contribution component that members may elect to self-direct as established by the Employee Retirement Benefits Board. PERS 3 defined benefit plan benefits are vested after an employee completes five years of eligible service.

TRS Plan 3 provides retirement benefits to certain eligible faculty hired on or after October 1, 1977. The plan includes both a defined benefit portion and a defined contribution portion. The defined benefit portion is funded by employer contributions only. Benefits are vested after an employee completes five or ten years of eligible service, depending on the employee's age and service credit, and include an annual cost-of living adjustment. The defined contribution component is fully funded by employee contributions and investment performance.

The college also has three faculty members with pre-existing eligibility who continue to participate in TRS 1 or 2.

The authority to establish and amend benefit provisions resides with the legislature. PERS and TRS issue publicly available financial reports that include financial statements and required supplementary information. The report may be obtained by writing to the Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at <http://www.drs.wa.gov/administration>.

Funding Policy. Each biennium, the state Pension Funding Council adopts PERS and TRS Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for PERS and TRS Plans 1 are established by statute. By statute, PERS 3 employees may select among six contribution rate options, ranging from 5 to 15 percent.

The required contribution rates expressed as a percentage of current year covered payroll are shown in the table below. The College and the employees made 100% of required contributions.

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2017, 2016, and 2015 are as follows.

Contribution Rates at June 30

	FY 2015		FY 2016		FY 2017	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	9.21%	6.00%	11.18%	6.00%	11.18%
Plan 2	4.92%	9.21%	6.12%	11.18%	6.12%	11.18%
Plan 3	5 - 15%	9.21%	5 - 15%	11.18%	5 - 15%	11.18%
TRS						
Plan 1	6.00%	10.39%	6.00%	13.13%	6.00%	13.13%
Plan 2	4.96%	10.39%	5.95%	13.13%	5.95%	13.13%
Plan 3	5-15%	10.39%	5-15%	13.13%	5-15%	13.13%

Required Contributions

	Required Contributions					
	FY2015		FY2016		FY2017	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	\$ 15,151	\$ 142,600	\$18,172	\$191,843	\$4,256	\$179,694
Plan 2	\$ 100,580	\$ 102,640	\$133,947	\$136,390	\$147,560	\$150,211
Plan 3	\$ 58,858	\$ 47,404	\$72,502	\$70,685	\$78,217	\$74,292
TRS						
Plan 1	\$ 6,300	\$ 37,553	\$6,489	\$43,517	\$6,606	\$47,524
Plan 2	\$ 14,066	\$ 16,146	\$7,092	\$8,010	\$6,416	\$7,246
Plan 3	\$ 23,405	\$ 17,652	\$26,385	\$24,572	\$29,354	\$28,637

Investments

The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). Established on July 1, 1992, the CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate, and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of written WSIB adopted investment policies for the various asset classes in which the WSIB invests.

For the year ended June 30, 2016, the annual money-weighted rate of return on the pension investments, net of pension plan expenses are as follows:

Pension Plan	Rate of Return
PERS Plan 1	2.19%
PERS Plan 2/3	2.47%
TRS Plan 1	2.09%
TRS Plan 2/3	2.51%

These money-weighted rates of return express investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows.

The PERS and TRS target asset allocation and long-term expected real rate of return as of June 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
Total	100%	

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

Pension Expense

Pension expense is included as part of "Employee Benefits" expense in the statement of revenues, expenses and changes in net position. The table below shows the components of each pension plans expense as it affected employee benefits:

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Total Pension Expense	175,744	292,222	(56,388)	48,725	460,303

Changes in Proportionate Shares of Pension Liabilities

The changes to the College's proportionate share of pension liabilities from 2015 to 2016 for each retirement plan are listed below:

	2015	2016
PERS 1	.031287%	.032664%
PER 2/3	.033641%	.035428%
TRS 1	.016342%	.013798%
TRS 2/3	.012215%	.009661%

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

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation 3.00%
- Salary Increases 3.75%
- Investment rate of return 7.50%

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

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements.

Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including TRS Plan 2/3, whose rates include a component for the TRS Plan 1 liability).

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the College calculated using the discount rate of 7.50 percent, as well as what the College's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Pension Plan	(6.50%)	(7.50%)	(8.50%)
PERS Plan 1	2,115,402	1,754,211	1,443,384
PERS Plan 2/3	3,284,245	1,783,772	(928,556)
TRS Plan 1	579,121	471,096	378,049
TRS Plan 2/3	300,260	132,674	(154,127)

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

The following represent the components of the College's deferred outflows and inflows of resources as reflected on the Statement of Net Position, for the year ended June 30, 2017:

	PERS 1		PERS 2/3	
	Deferred	Deferred	Deferred	Deferred
	Outflows	Inflows	Outflows	Inflows
Difference between expected and actual experience			\$94,985	\$58,885
Difference between expected and actual earnings of pension plan investments	\$44,168		\$218,282	
Changes of Assumptions			\$18,437	
Changes in College's proportionate share of pension liabilities			\$92,466	
Contributions to pension plans after measurement date	\$179,694		\$224,502	
	\$ 223,862		\$ 648,672	\$58,885

	TRS 1		TRS 2/3	
	Deferred	Deferred	Deferred	Deferred
	Outflows	Inflows	Outflows	Inflows
Difference between expected and actual experience			\$10,037	\$5,887
Difference between expected and actual earnings of pension plan investments	\$14,942		\$21,357	
Changes of Assumptions			\$1,351	
Changes in College's proportionate share of pension liabilities			\$46,459	\$21,578
Contributions to pension plans after measurement date	47,524		\$35,884	
	\$62,466		\$ 115,088	\$27,465

The \$1,050,086 reported as deferred outflows of resources represent contributions the College made subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2017.

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

Year ended June 30	PERS 1**	PERS 2/3	TRS 1**	TRS 2/3
2018	(10,875)	42,611	(3,862)	10,106
2019	(10,875)	30,978	(3,862)	10,106
2020	40,564	184,718	13,979	24,698
2021	25,355	106,977	8,687	9,208
2022	-	-	-	(2,379)
2023	-	-	-	-
Total	44,168	365,285	14,942	51,739

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

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

Plan Description.

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

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2017 were each \$560,068.

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

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

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

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

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2017, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of \$902,000. The College's share of this amount was \$10,553. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2017, the College paid into this fund at a rate of 0.5% of covered salaries, totaling \$56,285. This amount was not used as a part of GASB73 calculations, its status as an asset has not been determined by the Legislature. As of June 30, 2017, the Community and Technical College system accounted for \$13,280,149.81 of the fund balance.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016, with the results rolled forward to the June 30, 2017, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	3.50% - 4.25%
Fixed Income and Variable Income Investment Returns	4.25%-6.25%

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

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

Material assumption changes during the measurement period include the discount rate increase from 2.85 percent to 3.58 percent and the variable income investment return assumption dropping from 6.75 percent to 6.25 percent.

Discount Rate

The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.58 percent for the June 30, 2017, measurement date.

Pension Expense

For the year ended June 30, 2017, Grays Harbor College reported \$45,732 for pension expense in the Higher Education Supplemental Retirement Plans.

Proportionate Shares of Pension Liabilities

The College's proportionate share of pension liabilities for fiscal year ending June 30, 2017 was 5.23%. The College's proportion of the net pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating College's, actuarially determined.

Plan Membership

Membership in the State Board Supplemental Retirement Plans consisted of the following at June 30, 2016, the date of the latest actuarial valuation:

Number of Participating Members				
Plan	Inactive Members (Or Beneficiaries) Currently Receiving Benefits	Inactive Members Entitled To But Not Yet Receiving Benefits	Active Members	Total Members
Grays Harbor College	2		75	77

Change in Total Pension Liability/ (Asset)

The following table presents the change in total pension liability/(asset) of Higher Education Supplemental Retirement Plans at June 30, 2017, the latest measurement date for all plans (expressed in thousands):.

Change in Total Pension Liability/(Asset)	
Total Pension Liability	Amount
Service Cost	\$ 63
Interest	41
Changes of benefit terms	-
Differences between expected and actual experience	(296)
Changes of assumptions	(70)
Benefit Payments	(11)
Other	-
Net Change in Total Pension Liability	(272)
Total Pension Liability - Beginning	1,385
Total Pension Liability - Ending (a)	1,112

Sensitivity of the Total Pension Liability/ (Asset) to Changes in the Discount Rate

The following table presents the total pension liability/(asset), calculated using the discount rate of 3.58 percent, as well as what the employers' total pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate (expressed in thousands):

Total Pension Liability/(Asset)	1% Decrease	Current Discount Rate	1% Increase
Grays Harbor College	\$ 1,278	\$ 1,112	\$ 975

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

At June 30, 2017, the Higher Education Supplemental Retirement Plans reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Grays Harbor College		
Difference between expected and actual experience	\$ -	\$ 257
Changes of assumptions		\$ 61
Transactions subsequent to the measurement date		
Total	\$ -	\$ 318

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

Grays Harbor College	
2018	(48)
2019	(48)
2020	(48)
2021	(48)
2022	(48)
Thereafter	(77)

D. Defined Contribution Plans

Public Employees' Retirement System Plan 3

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS).

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent on employee contributions and investment earnings on those contributions. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the retirement strategy fund that assumes the member will retire at age 65.

Members in PERS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions, adjusted by earnings and losses from investments of those contributions, upon separation from PERS-covered employment.

Teachers' Retirement System Plan 3

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer Note 11.B for TRS Plan descriptions.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a

contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

TRS Plan 3 defined contribution retirement benefits are dependent on employee contributions and investment earnings on those contributions. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, TRS Plan 3 contributions are invested in the retirement strategy fund that assumes the member will retire at age 65.

Members in TRS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions, adjusted by earnings and losses from investments of those contributions, upon separation from TRS-covered employment.

Washington State Deferred Compensation Program

The College, through the state of Washington, offers its employees a deferred compensation plan created under Internal Revenue Code Section 457. The plan, available to all State employees, permits individuals to defer a portion of their salary until future years. The state of Washington administers the plan on behalf of the College's employees. The deferred compensation is not available to employees until termination, retirement or unforeseeable financial emergency. The College does not have access to the funds.

16. Other Post-Employment Benefits

Health care and life insurance programs for employees of the state of Washington are administered by the Washington State Health Care Authority (HCA). The HCA calculates the premium amounts each year that are sufficient to fund the statewide health and life insurance programs on a pay-as-you-go basis. These costs are passed through to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA. The agencies may also charge employees for certain higher cost options elected by the employee.

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors. The health care premiums for active employees, which are paid by the agency during the employees' working careers, subsidize the "underpayments" of retirees. An additional factor in the Other Post-Employment Benefits (OPEB) obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). This explicit subsidy is also passed through to state agencies via active employee rates charged to the agency. There is no formal state or College plan that underlies the subsidy of retiree health and life insurance.

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is \$8,184,126, with an annual required contribution (ARC) of \$737,407. The ARC represents the amortization of the liability for FY 2017 plus the current expense for active employees, which is reduced by the

current contributions of approximately \$(158,219). The College's net OPEB obligation at June 30, 2017 was approximately \$2,157,184. This amount is not included in the College's financial statements.

The College paid approximately \$1.9 million for healthcare expenses in 2017, which included its pay-as-you-go portion of the OPEB liability.

17. Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summarizes operating expenses by program or function such as instruction, research, and academic support. The following table lists operating expenses by program for the year ending June 30, 2017.

Expenses by Functional Classification	
Instruction	\$ 8,638,753
Academic Support Services	1,716,672
Student Services	2,843,685
Institutional Support	4,055,889
Operations and Maintenance of Plant	2,032,287
Scholarships and Other Student Financial Aid	7,287,500
Auxiliary enterprises	1,319,590
Depreciation	2,367,315
Total operating expenses	\$ 30,261,690

18. Commitments and Contingencies

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

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Grays Harbor College's Proportionate Share of the Net Pension Liability

Schedule of Grays Harbor College's Share of the Net Pension Liability						
Public Employees' Retirement System (PERS) Plan 1						
Measurement Date of June 30						
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability	
2014	0.033954%	\$ 1,710,449	\$ 3,295,503	51.90%	61.19%	
2015	0.031287%	\$ 1,636,601	\$ 3,240,796	50.50%	59.10%	
2016	0.032664%	\$ 1,754,211	\$ 3,630,757	48.32%	57.03%	

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

Cost Sharing Employer Plans

Schedules of Grays Harbor College's Proportionate Share of the Net Pension Liability

Schedule of Grays Harbor College's Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 2/3 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.033589%	\$ 678,955	\$ 2,897,653	23.43%	93.29%
2015	0.0336%	\$ 1,202,012	\$ 2,988,284	40.22%	89.20%
2016	0.035428%	\$ 1,783,772	\$ 3,327,880	53.60%	85.82%

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

Cost Sharing Employer Plans

Schedules of Grays Harbor College's Proportionate Share of the Net Pension Liability

Schedule of Grays Harbor College's Share of the Net Pension Liability						
Teachers' Retirement System (TRS) Plan 1						
Measurement Date of June 30						
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability	
2014	0.013076%	\$ 385,671	\$ 485,076	79.51%	68.77%	
2015	0.016342%	\$ 517,738	\$ 698,846	74.08%	65.70%	
2016	0.013798%	\$ 471,096	\$ 596,576	78.97%	62.07%	

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

Cost Sharing Employer Plans

Schedules of Grays Harbor College's Proportionate Share of the Net Pension Liability

**Schedule of Grays Harbor College's Share of the Net Pension Liability
Teachers' Retirement System (TRS) Plan 2/3**

Measurement Date of June 30

Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.008532%	\$ 27,557	\$ 380,076	7.25%	96.81%
2015	0.012215%	\$ 103,070	\$ 593,846	17.36%	92.48%
2016	0.009661%	\$ 132,674	\$ 488,426	27.16%	88.72%

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

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Contributions

Public Employees' Retirement System (PERS) Plan 1							
Fiscal Year Ended June 30							
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll		
2014	\$ 153,096	\$ 153,096	\$ -	\$ 3,295,503	4.65%		
2015	\$ 142,600	\$ 142,600	\$ -	\$ 3,240,796	4.40%		
2016	\$ 191,843	\$ 191,843	\$ -	\$ 3,630,757	5.28%		
2017	\$ 179,694	\$ 179,694	\$ -	\$ 3,674,522	4.89%		

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

Cost Sharing Employer Plans
Schedules of Contributions

Public Employees' Retirement System (PERS) Plan 2/3							
Fiscal Year Ended June 30							
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll		
2014	\$ 143,975	\$ 143,975	\$ -	\$ 2,897,653	4.97%		
2015	\$ 150,044	\$ 150,044	\$ -	\$ 2,988,284	5.02%		
2016	\$ 207,075	\$ 207,075	\$ -	\$ 3,327,880	6.22%		
2017	\$ 224,503	\$ 224,503	\$ -	\$ 3,603,585	6.23%		

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

Cost Sharing Employer Plans
Schedules of Contributions

Teachers' Retirement System (TRS) Plan 1								
Fiscal Year Ended June 30								
Fiscal Year	Contractually Required Contributions		Contributions in relation to the Contractually Required Contributions		Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll	
2014	\$	26,858	\$	26,858	\$ -	\$ 485,076	5.54%	
2015	\$	37,553	\$	37,553	\$ -	\$ 698,846	5.37%	
2016	\$	43,517	\$	43,517	\$ -	\$ 596,576	7.29%	
2017	\$	47,524	\$	47,524	\$ -	\$ 644,073	7.38%	

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 2/3 Fiscal Year Ended June 30								
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll			
2014	\$ 22,138	\$ 22,138	\$ -	\$ 380,076	5.82%			
2015	\$ 33,798	\$ 33,798	\$ -	\$ 593,846	5.69%			
2016	\$ 32,582	\$ 32,582	\$ -	\$ 488,426	6.67%			
2017	\$ 35,883	\$ 35,883	\$ -	\$ 533,976	6.72%			

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

Required Supplementary Information

State Board Supplemental Defined Benefit Plans Schedules of Contributions

Schedule of Grays Harbor College's Contributions						
State Board Retirement Plan						
Fiscal Year Ended June 30						
Contributions in relation to the						
Fiscal Year	Contractually Required Contributions	Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll	
2017	\$ 560,068	\$ 560,068	\$ -	\$ 6,385,342	8.77%	

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

State Board Supplemental Defined Benefit Plans

Schedule of Changes in the Total Pension Liability and Related Ratios Grays Harbor College Fiscal Year Ended and Measurement Date June 30 <i>(Expressed in thousands)</i>	
	2017
Total Pension Liability	
Service Cost	\$ 63
Interest	41
Changes of benefit terms	-
Differences between expected and actual experience	(296)
Changes of assumptions	(70)
Benefit Payments	(11)
Other	-
Net Change in Total Pension Liability	(272)
Total Pension Liability - Beginning	1,385
Total Pension Liability - Ending	\$ 1,112

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

Higher Education Supplemental Defined Benefit Plans

Notes to Required Supplementary Information

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

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.

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