Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Grays Harbor College

For the period July 1, 2015 through June 30, 2016

Published March 23, 2018

Report No. 1020985

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,

Pat McCarthy

State Auditor

Olympia, WA

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Grays Harbor College
July 1, 2015 through June 30, 2016

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, 2016, 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 2015 financial statements, on which other auditors issued their report dated March 3, 2016.

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. Although the financial statements of the Foundation were not audited in accordance with *Government Auditing Standard*, and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation, this report, insofar as it relates to material weaknesses in internal control as defined below identified by the other auditors, is based solely on the reports of the other auditors.

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, 2016, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

March 14, 2018

INDEPENDENT AUDITOR S REPORT ON FINANCIAL STATEMENTS

Grays Harbor College
July 1, 2015 through June 30, 2016

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, 2016, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of the 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, 2016, 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, 2015, from which such summarized information was derived. Other auditors have previously audited the Foundation's 2015 financial statements and they expressed an unmodified opinion in their report dated March 3, 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.

Pat McCarthy

State Auditor

Olympia, WA

March 14, 2018

FINANCIAL SECTION

Grays Harbor College
July 1, 2015 through June 30, 2016

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

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, 2016 (FY 2016). 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, 2016, the College served 1,681 state funded full-time equivalent (FTE) students, and 593 contract funded FTEs. Actual headcount for 2016 totaled 4,033 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 facilities in Raymond and Ilwaco, serving a total population of approximately 92,000. 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, 2016. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash Flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the College's financial health.

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

Statement of Net Position

The Statement of Net Position provides information about the College's financial position, and presents the College's assets, 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 2016**		**FY 2015 Restated**
Assets				
Current Assets		8,690,286		8,841,902
Capital Assets, net		75,530,896		75,773,102
Other Assets, non-current		4,176,917		4,810,476
Total Assets	**$**	**88,398,099**	**$**	**89,425,480**
Deferred Outflows	**$**	**742,334**	**$**	**483,367**
Liabilities				
Current Liabilities		2,572,686		1,977,236
Other Liabilities, non-current		4,623,498		4,365,706
Total Liabilities	**$**	**7,196,184**	**$**	**6,342,942**
Deferred Inflows	**$**	**488,729**	**$**	**1,064,449**
Net Position	**$**	**81,455,520**	**$**	**82,501,456**

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The modest 1.2 percent decrease can be attributed to the timing of payments due to the college for college expenditures and transfers from the state treasurer.

Net capital assets decreased by $242,206 from FY 2015 to FY 2016. The decrease is primarily the result of current depreciation expenses of $2.3 million offset 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 $742,334 are related to the net pension that was recorded on the College's financials this year as per GASB 68.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, 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.

A contributing factor to the increase in current liabilities from FY 2015 to FY 2016 is due to an obligation related to litigations concerning health insurance for part-time employees and represents the college's share of a court settlement (*Moore v. HCA).*

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 increased due to the implementation of GASB Statement No. 68, reflecting the College's proportionate share of the net pension liability.

Deferred inflows of resources related to the College's net pension liability totaled $488,729 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:***
>
>> ***Non expendable –*** consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for 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.

The College's net position for fiscal year 2015 was adjusted by $53,918 (to $82,501,455) to reflect expenses not accrued and depreciation not booked to FY 2015. (See Note 1 for detail regarding net position adjustments).

Condensed Net Position As of June 30th	**FY 2016**	**FY 2015 Restated**
Investment in capital assets	$75,530,896	$75,773,102
Restricted		
Expendable (description)	$2,653,854	$2,414,569
Nonexpendable (description)		
Unrestricted	$3,270,770	$4,313,784
Total Net Position	**$81,455,520**	**$82,501,455**

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 2016. 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, 2016 and 2015 is presented below:

Condensed Statement of Revenue, Expenses and Changes in Net Position As of June 30th		**FY 2016**		**FY 2015 (restated)**
Revenues				
Net Tuition and fees	$	3,378,147	$	3,135,377
Auxiliary enterprise sales	$	942,614	$	906,650
State, Federal and local grants and contracts		7,806,174		9,689,003
Other operating revenues		207,955		142,121
Expenses				
Supplies and materials, travel and non-capitalized equipment		4,499,201		3,473,343
Salaries, wages and benefits		15,895,507		14,877,276
Scholarships and fellowships		5,965,021		7,906,004
Depreciation, purchases services and utilities		3,510,934		2,743,384
Net Operating Loss		**(17,535,773)**		**(15,126,856)**
Non-Operating Revenues		13,872,264		13,333,520
Non-Operating Expenses		573,949		610,245
Loss Before Capital Appropriations		**(4,237,458)**		**(2,403,581)**
Capital Appropriations and Contributions		3,191,523		27,049,615
Increase (Decrease) in Net Position		**(1,045,935)**		**24,646,034**
Net Position, Beginning of the Year		**82,501,455**		**57,855,421**
Net Position, End of the Year	**$**	**81,455,520**	**$**	**82,501,455**

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. Fiscal year 2016 represents the first year in which community and technical college scheduled tuition decreased over the previous year. In all, tuition rates were reduced by an average of five percent, and contributed to the reduction in student tuition and fees. Another factor that impacts operating fee collections are enrollment levels. There was a slight increase in FTE 'state students' enrolled at the College between FY 2015 and 2016.

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

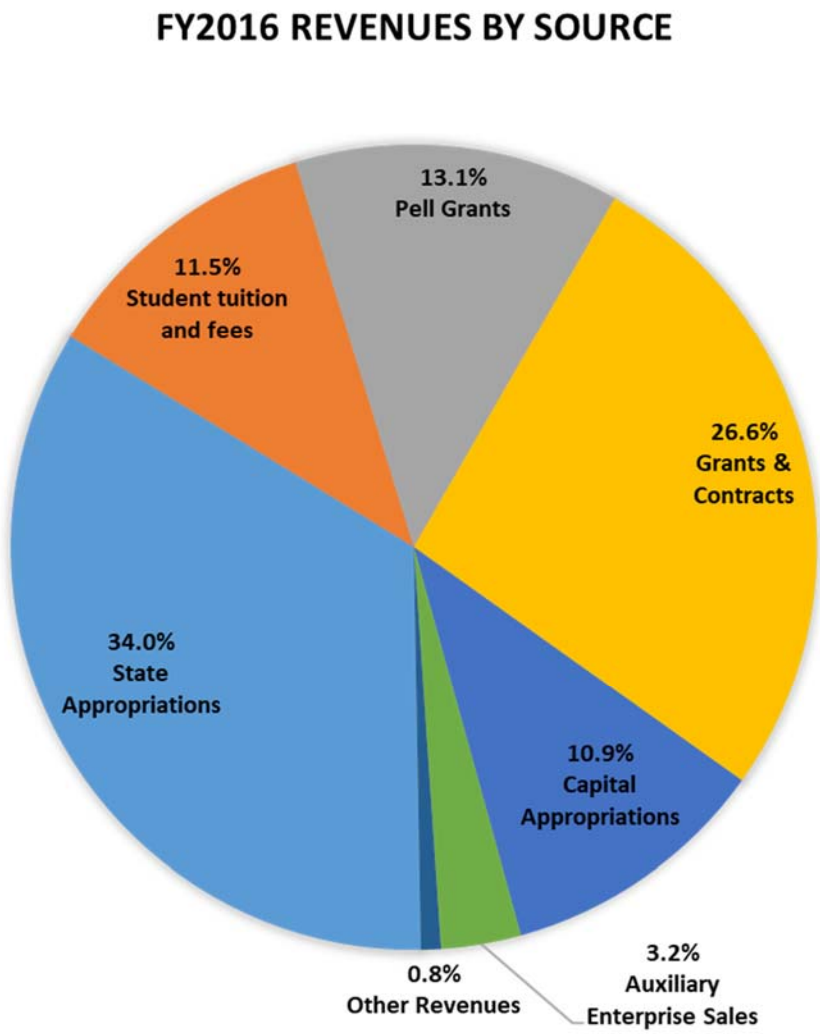
As a public institution of higher education, Grays Harbor College is dependent upon non-operating revenue to maintain its educational mission. The state of Washington provides funding to the 34 community and technical colleges in a single appropriation. The State Board for Community and Technical Colleges (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. In response to the reduction in tuition rates for fiscal year 2016, the state appropriated funding to offset revenue losses at the colleges. An actuarial driven adjustment was made to appropriations to recognize a planned increase in the monthly employer contribution rates for employee health insurance and was a significant factor in the year to year change in the College's share of state appropriations.

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, 2015 and 2016.

Revenue	FY2015	as a percent of total	FY2016	as a percent of total
State Appropriations	9,037,325	16.7%	10,008,529	34.0%
Student tuition and fees	3,135,377	5.8%	3,378,147	11.5%
Pell Grants	4,260,964	7.9%	3,836,836	13.1%
Grants & Contracts	9,689,002	17.9%	7,806,174	26.6%
Capital Appropriations	27,049,615	49.9%	3,191,523	10.9%
Auxiliary enterprise sales	906,650	1.7%	942,614	3.2%
Other revenues	177,352	0.3%	234,853	0.8%
Total	54,256,285		29,398,676	

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, 2016.

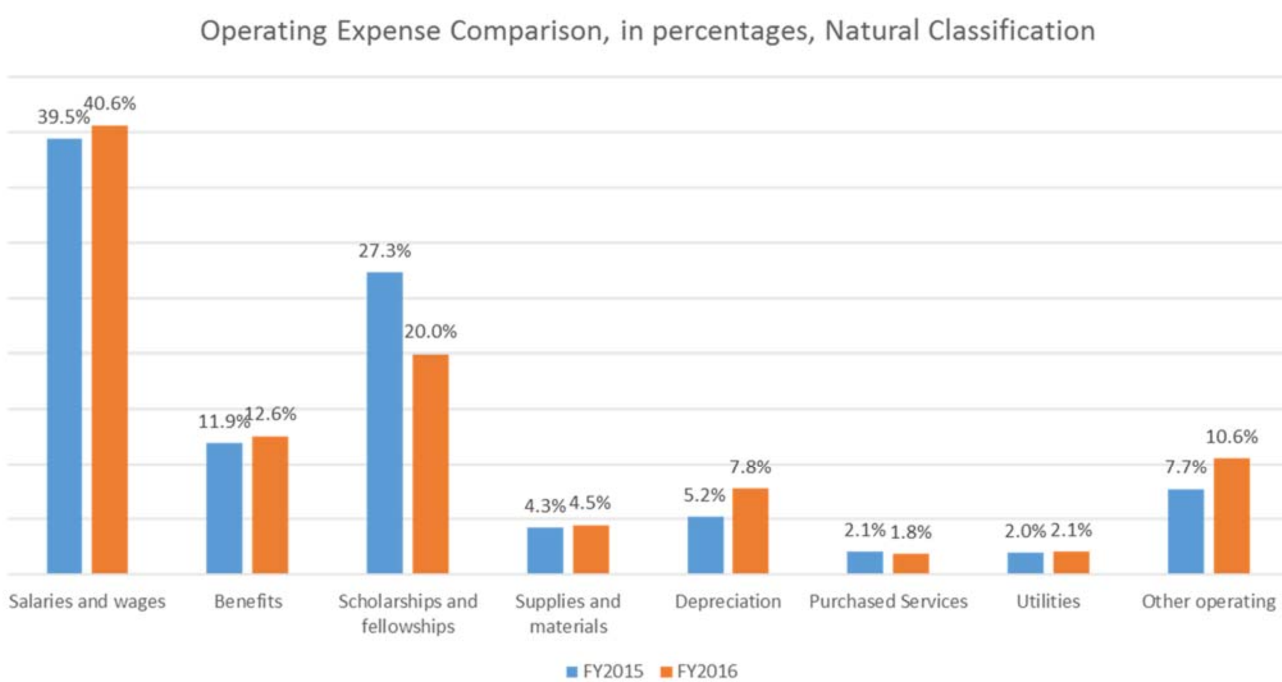


Operating Expenses

Having weathered the severe budget reductions implemented between 2009 and 2013, fiscal year 2014 marked a reversal in shrinking operating expenditures. Fiscal year 2015 continued this trend and reflects modest growth in operating expenses. The College experienced minimal growth in *salaries and wages* and *benefits,* categories that represent 53 percent of operating expenses. Small increases in these categories were driven by a three percent cost of living adjustment for staff and faculty, along with continued emphasis on student success and retention initiatives requiring new positions and adjustments in salaries to reflect added duties. In addition, non-compensation related items for health insurance and retirement contributions increased in FY 2016. Finally, the assumption of operating costs related to the Schermer Building is reflected through increases in other operating expense categories, such as *utilities, supplies and materials,* and *operating expenses.*

Operating expenses, for 2015 and 2016 are noted below, by natural classification, followed by a bar chart that shows the comparative percentages for 2015 and 2016:

Expenses	FY2015	as a percent of total	FY2016	as a percent of total
Salaries and wages	11,427,974	39.5%	12,138,118	40.6%
Benefits	3,449,302	11.9%	3,757,389	12.6%
Scholarships and fellowships	7,906,004	27.3%	5,965,021	20.0%
Supplies and materials	1,230,397	4.3%	1,342,497	4.5%
Depreciation	1,518,056	5.2%	2,331,247	7.8%
Purchased Services	593,791	2.1%	552,265	1.8%
Utilities	577,620	2.0%	627,423	2.1%
Travel, non-cap equip, misc	2,242,946	7.7%	3,156,704	10.6%
total	28,946,090		29,870,663	



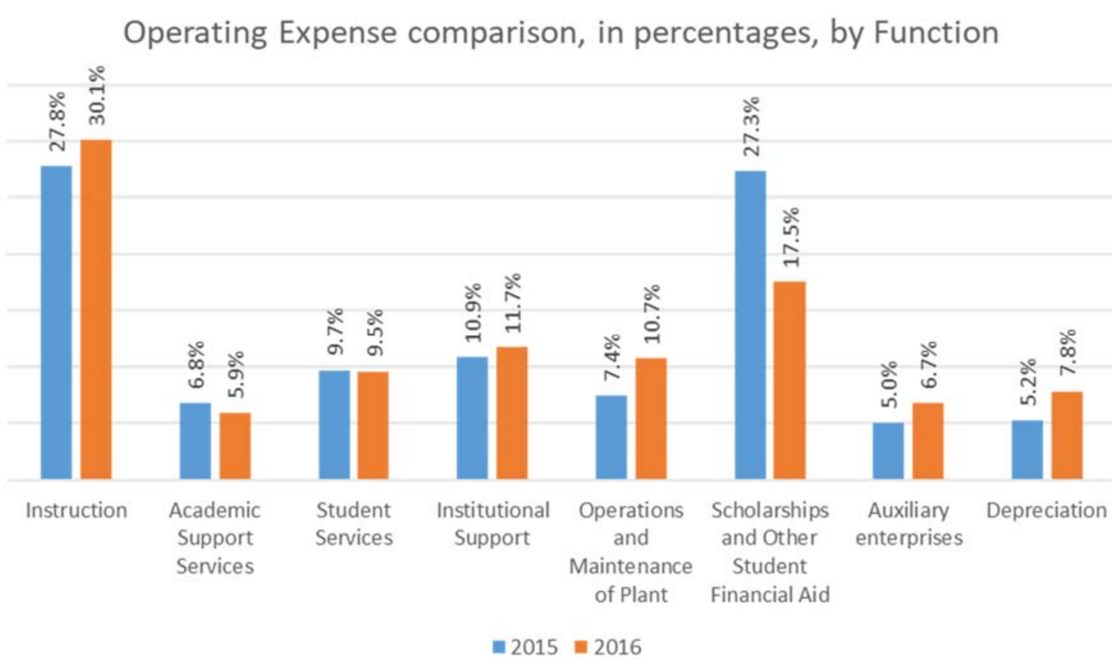
Comparison of Selected Operating Expenses by Function

The chart below shows the amount, in dollars, for selected functional areas of operating expenses for FY 2016 and FY 2015.

Expenses by Functional Classification		2015	as a percent of total		2016	as a percent of total
Instruction	$	8,034,766	27.8%	$	8,981,217	30.1%
Academic Support Services	$	1,959,597	6.8%		1,765,436	5.9%
Student Services	$	2,797,761	9.7%		2,852,325	9.5%
Institutional Support	$	3,141,574	10.9%		3,501,694	11.7%
Operations and Maintenance of Plant	$	2,142,563	7.4%		3,194,045	10.7%
Scholarships and Other Student Financial Aid	$	7,906,004	27.3%		5,232,297	17.5%
Auxiliary enterprises	$	1,445,768	5.0%		2,012,402	6.7%
Depreciation	$	1,518,056	5.2%		2,331,247	7.8%
Total operating expenses	**$**	**28,946,089**		**$**	**29,870,663**	

Operating Expenses by Function

The chart below shows the percentage of each functional area of operating expenses for FY 2016.



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 funding for capital project expenditures. 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
Beginning FY 2016, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the College. This will further reduce the amount of tuition collected by the College. The Legislature did however backfill this loss. However, given previous budget reductions, state funding does not have the same guarantees of stability it once held. It's unclear how much opportunity there may be for additional investments in community and technical colleges in the next few years, as state budget writers continue to grapple with court-mandated basic education obligations such as the McCleary Act.

In FY 2017, the State Board for Community and Technical College's 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 new model distributes five percent of the state appropriation based on performance in several key indicators, with the remaining 95 percent allocated based on share of general enrollments and share of enrollments in high priority programs. The model establishes enrollment allocation based on a three-year rolling average of enrollments.

Grays Harbor College
Statement of Net Position
June 30,2016

Assets		
Current Assets		
Cash and Cash Equivalents		5,493,070
Short-term Investments		500,000
Restricted Short-term Investments		446,660
Accounts Receivable		1,837,879
Due from State Treasurer		264,248
Inventories		148,335
Prepaid Expenses		95
	Total Current Assets	8,690,286
Non-Current Assets		
Restricted Cash and Cash Equivalents		2,216,876
Long-term Investments		1,960,041
Capital Assets, Net of Depreciation		75,530,896
	Total Non-current Assets	79,707,813
	Total Assets	**88,398,099**
Deferred Outflows of Resources		
Deferred Outflows Related to Pensions		742,334
	Total Deferred Outflows of Resources	**742,334**
Liabilities		
Current Liabilities		
Accounts Payable		125,125
Due to State Treasurer		7,611
VPA Advance		133,600
Accrued Liabilities		1,707,026
Compensated Absences		197,615
Moore Settlement		176,017
Unearned Revenue		225,692
	Total Current Liabilities	2,572,686
Noncurrent Liabilities		
Compensated Absences		1,164,076
Pension Liability		3,459,422
	Total Non-current Liabilities	4,623,498
	Total Liabilities	**7,196,184**
Deferred Inflows of Resources		
Deferred Inflows Related to Pensions		488,729
	Total Deferred Inflows of Resources	**488,729**
Net Position		
Investment in Capital Assets		75,530,896
Restricted for:		
Nonexpendable		-
Expendable		2,583,257
Student Loans		70,597
Unrestricted		3,270,770
Total Net Position		**81,455,520**

The accompanying notes are 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, 2016

Operating Revenues		
Student Tuition and Fees, Net		3,378,147
Auxiliary Enterprise Sales		942,614
State and Local Grants and Contracts		7,360,467
Federal Grants and Contracts		445,707
Other Operating Revenues		207,955
	Total Operating Revenue	12,334,889
Operating Expenses		
Travel, Non-capitalized equipment and other misc expenses		3,156,704
Salaries and Wages		12,138,118
Benefits		3,757,390
Scholarships and Fellowships		5,965,021
Supplies and Materials		1,342,497
Depreciation		2,331,247
Purchased Services		552,265
Utilities		627,423
	Total Operating Expenses	29,870,664
	Operating Income (Loss)	(17,535,775)
Non-Operating Revenues (Expenses)		
State Appropriations		10,008,529
Federal Pell Grant Revenue		3,836,836
Investment Income, Gains and Losses		26,898
Building Fee Remittance		(464,323)
Innovation Fund Remittance		(109,626)
	Net Non-Operating Revenues (Expenses)	**13,298,315**
Loss Before Capital Appropriations		(4,237,460)
Capital Appropriations		3,191,523
	Increase (Decrease) in Net Position	(1,045,936)
Net Position		
Net Position, Beginning of Year		82,555,373
Prior Period Adjustment		(53,918)
Adjusted Net Position, Beginning of Year		82,501,455
Net Position, End of Year		81,455,519

The accompanying notes are 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, 2016

Cash Flow From Operating Activities	
Student Tuition and Fees	2,626,016
Grants and Contracts	7,727,804
Payments to Vendors	(1,847,846)
Payments for Utilities	(621,143)
Payments to Employees	(12,067,722)
Payments for Benefits	(3,898,828)
Auxiliary Enterprise Sales	951,401
Payments for Scholarships and Fellowships	(5,965,021)
Other Payments	(3,156,798)
Other Receipts	1,840,076
Net Cash Used by Operating Activities	(14,412,062)
Cash Flow From Noncapital Financing Activities	
State Appropriations	10,784,978
Pell Grants	3,836,836
Building Fee Remittance	(467,208)
Innovation Fund Remittance	(110,408)
Net Cash Provided by Noncapital Financing Activities	14,044,199
Cash Flow From Capital and Related Financing Activities	
Capital Appropriations	3,244,701
Purchases of Capital Assets	(2,089,041)
Net Cash Provided by Capital and Related Financing Activities	1,155,660
Cash Flow From Investing Activities	
Income of Investments	26,898
Net Cash Provided by Investing Activities	26,898
Increase in Cash and Cash Equivalents	814,695
Cash and Cash Equivalents at the Beginning of the Year	6,895,251
Cash and Cash Equivalents at the End of the Year	7,709,946
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Operating Loss	(17,535,775)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities	
Depreciation Expense	2,331,247
Changes in Assets and Liabilities	
Receivables , Net	706,360
Inventories	54,346
Other Assets	(95)
Accounts Payable	(20,121)
Accrued Liabilities	151,434
Unearned Revenue	104,417
Compensated Absences	(25,609)
Pension Liability Adjustment Expense	(178,265)
Net Cash Used by Operating Activities	(14,412,062)

The accompanying notes are an integral part of the financial statements

(See accompanying note to the financial statements)

GRAYS HARBOR COLLEGE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

ASSETS

	2016	2015
CURRENT ASSETS:		
Cash and cash equivalents	$ 176,003	$ 262,279
Investments	6,573,583	6,175,993
Promises to give--current	1,265,645	2,250
Total current assets	8,015,231	6,440,522
OTHER ASSETS:		
Long-term investments	2,019,694	2,375,267
Assets held for investment	105,876	105,876
Other long-term assets	108,443	108,443
Total other assets	2,234,013	2,589,586
Total assets	$ 10,249,244	$ 9,030,108

LIABILITIES AND NET ASSETS

	2016	2015
CURRENT LIABILITIES:		
Accounts payable	$ 15,000	$ 2,497
NET ASSETS:		
Unrestricted--		
Board designated	234,073	234,073
Undesignated	442,065	572,185
Total unrestricted	676,138	806,258
Temporarily restricted	4,510,836	3,478,914
Permanently restricted	5,047,270	4,742,439
Total net assets	10,234,244	9,027,611
Total liabilities and net assets	$ 10,249,244	$ 9,030,108

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

GRAYS HARBOR COLLEGE FOUNDATION

STATEMENTS OF ACTIVITIES

For the year ended June 30, 2016 with comparative totals for the year ended June 30, 2015

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
SUPPORT AND REVENUE:					
Gifts and contributions	$ 115,248	$ 1,340,341	$ 304,831	$ 1,760,420	$ 536,080
Investment income	30,425	320,200	-	350,625	62,721
Special event revenue--net	-	55,787	-	55,787	52,275
In-kind contributions	7,525	-	-	7,525	48,326
Other income	3,189	10,349	-	13,538	13,174
Loss on prior year promises to give	-	-	-	-	(1,519)
Net assets released from restrictions	694,755	(694,755)	-	-	-
Total revenues and support	851,142	1,031,922	304,831	2,187,895	711,057
FUNCTIONAL EXPENSES:					
Program services--					
Awards, grants and scholarships	613,969	-	-	613,969	599,647
Other college support	255,131	-	-	255,131	101,247
Total program services	869,100	-	-	869,100	700,894
Fundraising	18,533	-	-	18,533	15,545
Management and general	93,629	-	-	93,629	86,954
Total expenses	981,262	-	-	981,262	803,393
INCREASE (DECREASE) IN NET ASSETS	(130,120)	1,031,922	304,831	1,206,633	(92,336)
NET ASSETS, beginning	806,258	3,478,914	4,742,439	9,027,611	9,119,947
NET ASSETS, ending	$ 676,138	$ 4,510,836	$ 5,047,270	$ 10,234,244	$ 9,027,611

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

GRAYS HARBOR COLLEGE FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended June 30, 2016 with comparative totals for the year ended June 30, 2015

	2016							2015
	Program Services			Support Services				
	Awards, Grants and Scholarships	Other College Support	Total Program Services	Fundraising	Management and General	Total Support Services	Total	Total
EXPENSES:								
Grants and allocations	$ 606,349	$ 252,019	$ 858,368	$ -	$ -	$ -	$ 858,368	$ 690,799
Salaries, wages and benefits	7,620	3,112	10,732	10,732	42,498	53,230	63,962	58,184
Investment management fees	-	-	-	-	38,021	38,021	38,021	36,766
Insurance	-	-	-	-	1,312	1,312	1,312	1,312
Business taxes	-	-	-	-	-	-	-	-
Office expense	-	-	-	-	1,611	1,611	1,611	1,155
In-kind expense	-	-	-	7,525	-	7,525	7,525	5,450
Miscellaneous	-	-	-	276	1,041	1,317	1,317	18
Professional fees	-	-	-	-	9,146	9,146	9,146	9,709
Total expenses	$ 613,969	$ 255,131	$ 869,100	$ 18,533	$ 93,629	$ 112,162	$ 981,262	$ 803,393

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

GRAYS HARBOR COLLEGE FOUNDATION

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ 1,206,633	$ (92,336)
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities--		
Unrealized and realized (gains) losses on investments	(559,735)	228,224
Loss on prior year promises to give	-	1,519
Dividends and interest reinvested in investments	(298,411)	(290,974)
Donations of stock and assets	-	(42,876)
Contributions and earnings restricted for investment in endowments	(304,831)	(187,275)
(Increase) decrease in--		
Promises to give	1,152,928	339,000
Increase (decrease) in--		
Accounts payable	500	(13,011)
Net cash used by operating activities	1,197,084	(57,729)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	1,058,684	1,591,804
Purchase of investments	(1,801,993)	(1,671,673)
Net cash provided (used) by investing activities	(743,309)	(79,869)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions and earnings restricted for investment in endowments	304,831	187,275
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT	758,606	49,677
CASH AND CASH EQUIVALENTS, at beginning of year	262,279	212,602
CASH AND CASH EQUIVALENTS, at end of year	$ 1,020,885	$ 262,279

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

Notes to the Financial Statements

June 30, 2016
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 and basic skills education, as well as 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 discrete component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity 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, 2016, the Foundation distributed approximately $869,100 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 Correction of Errors

The college recorded a reduction to the beginning net position balance as a result of correction of errors. The net position has been restated as follows:

Net Position as previously reported at June 30, 2015		$82,555,373
Correction of errors		
Expenses not accrued in FY15	(13,568)	
Depreciation not booked in FY15	(40,249)	
Miscellaneous immaterial errors	(101)	
Total prior period adjustment		($53,918)
Net Position, as restated, July 1, 2015		$82,501,455

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 be misleading.

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market 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, 2016, no assets had been written down.

Donated capital assets are recorded at acquisition value at the date of donation.

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, fall, winter and spring 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, 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.

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, 2016 are $2,188,295.

State Appropriations

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

Building and Innovation Fee Remittance

Tuition collected includes amounts remitted to the Washington State Treasurer's office to be held and appropriated in future years. The Building Fee portion of tuition charged to students is an amount established by the Legislature and is subject to change annually. The fee provides funding for capital construction and projects on a system wide basis using a competitive biennial allocation process. 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.

Accounting and Reporting Changes

In February 2015, the GASB issued Statement No. 72, Fair Value Measurement and Application, which provides guidance for applying fair value to certain investments, and disclosures related to all fair value measurements. This Statement establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value, and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The College reviewed the standard but it had no effect on FY16 statements as the investments are Certificates of Deposit with the stated value matching the fair value.

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. The College is currently working with SBCTC to determine the financial impact.

In June 2015, the GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which identifies the hierarchy of generally accepted accounting principles (GAAP). The Statement reduced the GAAP hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The College adheres to this hierarchy of GAAP.

In March 2016, the GASB issued Statement No. 82, Pension Issues-an Amendment of GASB Statements No. 67, No. 68, and No.73. This Statement addresses issues regarding the presentation of payroll-related measures in the required supplementary information. The College has implemented this standard early in relation to the RSI presented with its financial statements.

2. Cash and Investments

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

As of June 30, 2016, the carrying amount of the College's cash and equivalents was $7,709,946 as represented in the table below.

Cash and Cash Equivalents	June 30, 2016
Petty Cash and Change Funds	$7,975
Bank Demand and Time Deposits	$7,701,971
Total Cash and Cash Equivalents	**$7,709,946**

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

Investment Maturities	Fair Value	One Year or Less	1 - 5 Years
Time Certificate of Deposits	$ 2,906,701	$ 946,660	$ 1,960,041
Total Investments	**$ 2,906,701**	**$ 946,660**	**$ 1,960,041**

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
Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2016, $2,906,701 of the College's operating fund investments, held by The Bank of the Pacific in the bank's name as agent for the College are exposed to custodial credit risk as follows.

Investments Exposed to Custodial Risk	Fair Value
Certificates of Deposit	$ 2,906,701
Total Investments Exposed to Custodial Risk	**$ 2,906,701**

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, 2016 were $0.

3. 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 expenditures made according to sponsored agreements. At June 30, 2016, accounts receivable were as follows.

Accounts Receivable		Amount
Student Tuition and Fees	$	622,093
Due from the Federal Government	$	254,691
Due from Other State Agencies	$	1,191,256
Auxiliary Enterprises	$	49,773
Other	$	5,964
Subtotal	$	2,123,778
Less Allowance for Uncollectible Accounts	$	(21,651)
Accounts Receivable, net	**$**	**2,102,127**

4. Inventories
Inventories, stated at cost using FIFO or the first in/first out method, consisted of the following as of June 30, 2016.

Inventories		Amount
Merchandise Inventories	$	148,335
Inventories	**$**	**148,335**

5. Capital Assets
A summary of the changes in capital assets for the year ended June 30, 2016 is presented as follows. The current year depreciation expense was $2,331,247.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 177,724			$ 177,724
Construction in progress	41,853,832		41,853,832	$ -
Total nondepreciable capital assets	42,031,556	0	41,853,832	177,724
Depreciable capital assets				
Buildings	47,492,047	43,573,897		$ 91,065,944
Other improvements and infrastructure	778,746			$ 778,746
Equipment	3,126,274	325,275	80,154	$ 3,371,395
Library resources	997,923	43,701	191,214	$ 850,410
Subtotal depreciable capital assets	52,394,990	43,942,873	271,368	96,066,495
Less accumulated depreciation				
Buildings	14,895,042	2,062,709		$ 16,957,751
Other improvements and infrastructure	313,588	28,095		$ 341,683
Equipment	2,556,214	210,786	80,154	$ 2,686,846
Library resources	888,600	29,657	191,214	$ 727,043
Total accumulated depreciation	18,653,444	2,331,247	271,368	20,713,323
Total depreciable capital assets	33,741,546	41,611,626	0	75,353,172
Capital assets, net of accumulated depreciation	**$ 75,773,102**	**$ 41,611,626**	**$ 41,853,832**	**$ 75,530,896**

6. 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.

7. Accounts Payable and Accrued Liabilities

At June 30, 2016, accrued liabilities are the following.

Accounts Payable and Accrued Liabilities	Amount	
Amounts Owed to Employees	$	975,915
Accounts Payable	$	125,125
Sales Tax Payable	$	9,814
Due to other agencies	$	30,924
Accrued Liabilities	$	690,373
Total	**$**	**1,832,151**

8 Unearned Revenue

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

Unearned Revenue	Amount	
Summer, Fall, Spring and Winter Quarter Tuition & Fees	$	225,692
Total Unearned Revenue	$	225,692

9. Risk Management

The College is exposed to various risk of loss related to tort liability, injuries to employees, errors and omissions, theft of, damage to, and destruction of assets, and natural disasters. The College purchases insurance to mitigate these risks. Management believes 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, 2015 through June 30, 2016, were $12,013.

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.

10. Compensated Absences
At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled $720,101, and accrued sick leave totaled $641,590 at June 30, 2016.

Accrued annual and sick leave are categorized as current and non-current liabilities.

11. Leases Payable
The College has leases for office equipment with various vendors. These leases are classified as operating leases. As of June 30, 2016, the minimum lease payments under operating leases consist of the following.

Fiscal year	Operating Leases
2017	27,360
2018	26,891
2019	22,106
2020	21,814
2021	18,034
2022-26	9,091
Total minimum lease payments	125,296

12. Schedule of Long Term Liabilities

	Balance outstanding 6/30/15	Additions	Reductions	Balance outstanding 6/30/16	Due within one year
Compensated Absences	$ 1,387,057.00	$ -	$ 222,981.00	$ 1,361,691.00	$ 197,615.00
Net pension obligation	$ 2,802,632.00	$ 656,790.00	$ -	$ 3,459,422.00	$ -
Moore settlement	$ 176,017.00	$ -	$ 176,017.00	$ -	$ -
Total	**$ 4,365,706**	**$ 656,790**	**$ 398,998**	**$ 4,821,113**	**$ 197,615**

13. Pension Liability

Pension liabilities reported as of June 30, 2016 consists of the following:

Pension Liability by Plan

PERS 1	$	1,636,601
PERS 2/3		1,202,012
TRS 1		517,738
TRS 2/3		103,070
Total	**$**	**3,459,421**

14. Pension Plans

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 multiple employer defined contribution plan for the faculty and exempt administrative and professional staff of the state's public community and technical colleges. The plan includes supplemental payment, when required. The plan is administered by the State Board for Community and Technical Colleges (SBCTC).

For FY2016, the payroll for the College's employees was $3,630,757 for PERS, $596,576 for TRS, and $6,491,031 for SBRP. Total covered payroll was $10,718,364.

Grays Harbor College implemented Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions for the fiscal year 2015 financial reporting. The College's defined benefit pension plans were created by statutes rather than through trust documents. With the exception of the supplemental defined benefit component of the higher education retirement plan, they are administered in a way equivalent to pension trust arrangements as defined by the GASB.

In accordance with Statement No. 68, the College has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities to align with the State CAFR.

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 2016:

Aggregate Pension Amounts - All Plans

Pension liabilities	$ 3,459,422
Deferred outflows of resources related to pensions	$ 742,334
Deferred inflows of resources related to pensions	$ 488,729
Pension expense/expenditures	$ 296,753

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 four 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, 2016, 2015, and 2014 are as follows.

Contribution Rates at June 30

	FY 2014		FY 2015		FY 2016	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	9.21%	6.00%	9.21%	6.00%	11.18%
Plan 2	4.92%	9.21%	4.92%	9.21%	6.12%	11.18%
Plan 3	5 - 15%	9.21%	5 - 15%	9.21%	5 - 15%	11.18%
TRS						
Plan 1	6.00%	10.39%	6.00%	10.39%	6.00%	13.13%
Plan 2	4.96%	10.39%	4.96%	10.39%	5.95%	13.13%
Plan 3	5-15%	10.39%	5-15%	10.39%	5-15%	13.13%

Required Contributions

	FY2014		FY2015		FY2016	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$ 23,871	$ 153,096	$ 15,151	$ 142,600	$18,172	$191,843
Plan 2	$ 103,463	$ 104,539	$ 100,580	$ 102,640	$133,947	$136,390
Plan 3	$ 48,371	$ 39,436	$ 58,858	$ 47,404	$72,502	$70,685
TRS						
Plan 1	$ 6,300	$ 26,858	$ 6,300	$ 37,553	$6,489	$43,517
Plan 2	$ 8,492	$ 10,002	$ 14,066	$ 16,146	$7,092	$8,010
Plan 3	$ 13,487	$ 12,136	$ 23,405	$ 17,652	$26,385	$24,572

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, 2015, 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	4.45%
PERS Plan 2/3	4.63%
TRS Plan 1	4.41%
TRS Plan 2/3	4.65%

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, 2015, 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	**(55,590)**	**166,167**	**140,312**	**45,864**	**296,753**

Changes in Proportionate Shares of Pension Liabilities
The changes to the College's proportionate share of pension liabilities from 2014 to 2015 for each retirement plan are listed below:

	2014	2015
PERS 1	.033954%	.031287%
PER 2/3	.033589%	.033641%
TRS 1	.013076%	.016342%
TRS 2/3	.008532%	.012215%

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, 2014, 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.

Pension Plan	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS Plan 1	1,992,566	1,636,601	1,330,504
PERS Plan 2/3	3,514,746	1,202,012	(568,761)
TRS Plan 1	650,832	517,738	403,288
TRS Plan 2/3	436,103	103,070	144,512

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, 2016:

	PERS 1		PERS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience			127,774	
Difference between expected and actual earnings of pension plan investments		89,540		320,880
Changes of Assumptions			1,937	
Changes in College's proportionate share of pension liabilities			59,840	
Contributions to pension plans after measurement date	191,843		207,076	
	$ 191,843	$ 89,540	$ 396,627	$ 320,880
	-	-	-	-

	TRS 1		TRS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience			16,315	
Difference between expected and actual earnings of pension plan investments		38,321		39,988
Changes of Assumptions			90	
Changes in College's proportionate share of pension liabilities			61,860	
Contributions to pension plans after measurement date	43,517		32,583	
	$ 43,517	**$ 38,321**	**$ 110,848**	**$ 39,988**
	-	-	-	-

The $742,334 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
2017	(34,703)	(63,361)	(14,863)	3,392
2018	(34,703)	(63,361)	(14,863)	3,392
2019	(34,703)	(74,996)	(14,863)	3,392
2020	14,568	70,389	6,267	22,715
2021				5,386
2022				
Total	**(89,541)**	**(131,329)**	**(38,322)**	**38,277**

State Board Retirement Plan

Plan Description. Faculty and exempt administrative and professional staff are eligible to participate in SBRP. The Teacher's Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) are the companion organizations through which individual retirement annuities are purchased. Employees have at all times a 100% vested interest in their accumulations.

TIAA-CREF benefits are payable upon termination at the member's option unless the participant is re-employed in another institution which participates in TIAA-CREF.

The Plan has a supplemental payment component that guarantees a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date. The SBCTC makes direct payments on behalf of the College to qualifying retirees when the retirement benefit provided by TIAA-CREF does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with ten years of full-time service.

The minimum retirement benefit goal is 2% of the average annual salary for each year of full-time service up to a maximum of 25 years. However, if the participant does not elect to make the 10% TIAA-CREF contribution after age 49, the benefit goal is 1.5% for each year of full-time service for those years the lower contribution rate is selected.

The State Board for Community and Technical Colleges is authorized to amend benefit provisions under RCW 28B.10.400. In 2011, the plan was amended to eliminate the supplemental benefit provisions for all employees hired after June 30, 2011.

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, 2016 were each $571,467.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2016, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $766,692. 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 2016, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $32,455. As of June 30, 2016, the Community and Technical College system accounted for $10,439,441 of the fund balance.

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.

15. 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 $6,581,642, with an annual required contribution (ARC) of $654,953. The ARC represents the amortization of the liability for FY 2016 plus the current expense for active employees, which is reduced by the current contributions of approximately $(95,251). The College's net OPEB obligation at June 30, 2016 was approximately $1,517,870. This amount is not included in the College's financial statements.

The College paid approximately $1.8 million for healthcare expenses in 2016, which included its pay-as-you-go portion of the OPEB liability.

16. 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, 2016.

Expenses by Functional Classification		
Instruction	$	8,981,217
Academic Support Services		1,765,436
Student Services		2,852,325
Institutional Support		3,501,694
Operations and Maintenance of Plant		3,194,045
Scholarships and Other Student Financial Aid		5,232,297
Auxiliary enterprises		2,012,402
Depreciation		2,331,247
Total operating expenses	**$**	**29,870,663**

17. Commitments and Contingencies

There is a class action lawsuit, *Moore v. HCA*, filed against the State of Washington on behalf of former part-time and non-permanent employees alleging improper denial of healthcare benefits.

As of the end of fiscal year 2016, the parties had reached a settlement agreement with the plaintiffs to settle all matters relating to this and related lawsuits.

On March 29th 2016, the legislature passed the supplemental budget which included an appropriation to fund the settlement for the Moore v. HCA lawsuit. SBCTC's portion of this obligation is $32 million of which $19 million is funded by the legislature and the remaining $13 million allocated among 34 colleges in the system. In July 2016, the College was assessed and accrued a total liability in the amount of $176,017.

Additionally, 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.

The College has commitments of $1,246,196 for various capital improvement projects that includes completion of new buildings and renovations of existing buildings.

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 Public Employees' Retirement System (PERS) Plan 1 Measurement Date of June 30		
	2014	**2015**
College's proportion of the net pension liability	0.033954%	0.031287%
College proportionate share of the net pension liability	$ 1,710,449	$ 1,636,601
College covered-employee payroll	$ 3,295,503	$ 3,240,796
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	51.90%	50.50%
Plan's fiduciary net position as a percentage of the total pension liability	61.19%	59.10%

*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		
	2014	**2015**
College's proportion of the net pension liability	0.033589%	0.0336%
College proportionate share of the net pension liability	$ 678,955	$1,202,012
College covered-employee payroll	$ 2,897,653	$2,988,284
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	23.43%	40.22%
Plan's fiduciary net position as a percentage of the total pension liability	93.29%	89.20%

*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		
	2014	**2015**
College's proportion of the net pension liability	0.013076%	0.016342%
College proportionate share of the net pension liability	$ 385,671	$ 517,738
College covered-employee payroll	$ 485,076	$ 698,846
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	79.51%	74.08%
Plan's fiduciary net position as a percentage of the total pension liability	68.77%	65.70%

*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		
	2014	**2015**
College's proportion of the net pension liability	0.008532%	0.012215%
College proportionate share of the net pension liability	$ 27,557	$ 103,070
College covered-employee payroll	$ 380,076	$ 593,846
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	7.25%	17.36%
Plan's fiduciary net position as a percentage of the total pension liability	96.81%	92.4800%

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

Pension Plan Information

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 1
Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered–employee payroll
2014	$ 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%

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Public Emplyees' Retirement System (PERS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered–employee payroll
2014	$ 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%

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered–employee payroll
2014	$ 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%

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered–employee payroll
2014	$ 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%

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

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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