Grays Harbor College

2018 ANNUAL FINANCIAL REPORT

Fiscal Year Ended

June 30, 2018

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For information about the financial data included in this report, contact:

Assistant Dean for Financial Services
Grays Harbor College
1620 Edward P Smith Dr
Aberdeen, WA 98520
360-538-2506

Visit the Facts and Stats of Grays Harbor College – Home page at https://www.ghc.edu/facts-and-statistics

GRAYS HARBOR COLLEGE

Introductory Section

Vision, Mission, Values and Core Themes

Vision
Grays Harbor College is a catalyst for positive change.

Mission
Grays Harbor College provides meaningful education and cultural enrichment through academic transfer, workforce preparation, basic skills, and service to community.

Values

- Access to educational opportunities
- Success for students, faculty and staff
- Excellence in programs, practices and principles
- Respect for diversity of people, ideas, culture and the environment
- Effective and efficient use of resources

Core Themes

- **Transfer**
  - Students demonstrate high rates of progress and completion.
  - Transfer students are successful in baccalaureate programs.
- **Workforce Preparation**
  - Students demonstrate high rates of progress and completion.
  - Students are successful in employment.
  - Stafford Creek students demonstrate high rates of progress and completion in Workforce programs
- **Transitions (Basic Skills)**
  - Students demonstrate high rates of progress and completion.
  - Students demonstrate high rates of achievement.
  - Stafford Creek students demonstrate high rates of progress and completion in Transitions programs
- **Service to Community**
  - Faculty, staff, and students demonstrate service to Grays Harbor and Pacific Counties.
  - Grays Harbor College presents meaningful educational and culturally enriching events on campus.
  - Grays Harbor College promotes life-long learning and personal enrichment to community members through Community Education.
  - Grays Harbor College provides short-term/customized training that meets the professional development needs of Grays Harbor and Pacific Counties.

Letter *to the* Board of Trustees

February 7, 2019

Dear Ms. Portmann,

We are pleased to submit the Annual Financial Report of Grays Harbor College. The accounts of Grays Harbor College are maintained in accordance with policies and regulations established by Washington State and its Office of Financial Management. This report has been prepared in accordance with generally accepted accounting principles and following the guidance of the Governmental Accounting Standards Board.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatement.

The Washington State Auditor's Office has issued an unqualified (clean) opinion on the Grays Harbor College financial statement for the year ended June 30, 2018. This opinion is included in the independent auditor's report.

Management's discussion and analysis, located at the front of the financial section of this report, provides a narrative introduction, overview, and analysis of the basic financial statement.

Grays Harbor is proud of the quality of our programs and the many ways we've helped students, families, businesses and our community grow. We look forward to serving even more students in the years to come.

Sincerely,

Nicholas Lutes
VP for Administrative Services

Jenifer Robarge
Asst Dean for Financial Services

Trustees *and* Administrative Officers

BOARD OF TRUSTEES

EXECUTIVE OFFICERS

Financial Section

Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Grays Harbor College

For the period July 1, 2017 through June 30, 2018

Published February 21, 2019

Report No. 1023250

Office of the Washington State Auditor
Pat McCarthy

February 21, 2019

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

Grays Harbor College
July 1, 2017 through June 30, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 7, 2019. As discussed in Note 2 to the financial statements, during the year ended June 30, 2018, the College implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Our report includes a reference to other auditors who audited the financial statements of the Harbor College Foundation (the Foundation), as described in our report on the College's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Foundation were not audited in accordance with Government Auditing Standards and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation. The Foundation's prior year comparative information has been derived from the Foundation's 2017 financial statements, on which other auditors issued their report dated October 18, 2017.

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, 2018, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

February 7, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Grays Harbor College
July 1, 2017 through June 30, 2018

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, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the 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.

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 financial position of the business-type activities and the aggregate discretely presented component unit of Grays Harbor College, as of June 30, 2018, and the respective changes in financial position and 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 2 to the financial statements, in 2018, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of Grays Harbor College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and 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, 2018, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2019 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

Pat McCarthy

State Auditor

Olympia, WA

February 7, 2019

FINANCIAL SECTION

Grays Harbor College
July 1, 2017 through June 30, 2018

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Grays Harbor College – Statement of Revenues, Expenses and Changes in Net Position – 2018
Grays Harbor College – Statement of Cash Flows – 2018
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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, 2018 (FY 2018). 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 public community and technical college districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs. 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. The College confers applied baccalaureate degrees, associates degrees, certificates and high school diplomas. For the fiscal year ending June 30, 2018, the College served 1,510 state funded full-time equivalent (FTE) students, and 590 contract funded FTEs. Actual headcount for 2018 totaled 2,100 students.

The College was established in 1930 and is one of the oldest community colleges in the state.

The main campus is located in Aberdeen, Washington, and the College's service district includes both Grays Harbor and Pacific counties with a total population of approximately 92,000. The College also has educational centers in Pacific County, with facilities in Raymond and Ilwaco. The College is governed by a five member Board of Trustees appointed by the governor of the state with the consent of the state Senate. In accordance with Washington State law governing technical colleges, the College's board includes one member from business and one member from labor. In addition, the college has a Governor-appointed student trustee who is prohibited from voting on personnel or collective bargaining matters. 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, 2018. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the College's financial health.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net position are reported under the accrual basis of accounting where all of the current year's revenues and expenses are taken into account regardless of when cash is received or payments are made. Full accrual statements are intended to provide a view of the College's financial position similar to that presented by most private-sector companies.

These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

During 2018, the College implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB).* This Statement requires the College to recognize its proportionate share of the state's actuarially determined OPEB liability with a one year lag measurement date similar to GASB Statement No. 68. The change in accounting principle resulted in an adjustment to beginning net position in the amount of $9,389,130.

Statement of Net Position

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

Condensed Statement of Net Position As of June 30th	2018	2017
Assets		
Current Assets	$ 8,380,103	$ 10,285,882
Capital Assets, net	72,600,865	74,424,456
Other Assets, non-current	2,348,839	1,964,982
Total Assets	**83,329,807**	**86,675,320**
Deferred Outflows of Resources		
Deferred Outflows Related to Pensions	966,966	1,050,086
Deferred Outflows Related to OPEB	139,739	-
Total Deferred Outflows	**1,106,706**	**1,050,086**
Liabilities		
Current Liabilities	4,295,395	2,890,386
Other Liabilities, non-current	13,557,357	6,538,506
Total Liabilities	**17,852,752**	**9,428,892**
Deferred Inflows of Resources		
Deferred Inflows Related to Pensions	949,396	404,520
Deferred Inflows Related to OPEB	1,278,403	
Total Deferred Inflows	**2,227,800**	**404,520**
Net Position		
Net Investment in Capital Assets	72,599,739	74,424,456
Restricted	383,393	1,813,290
Unrestricted	(8,627,172)	1,654,248
Total Net Position, as restated	**$ 64,355,960**	**$ 77,891,994**

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The decrease can be attributed to the timing of payments due to the College for College expenditures and transfers from the state treasurer and the write off of old receivables prior to June 30, 2015.

Net capital assets decreased by $1,823,591 from FY 2017 to FY 2018. The decrease is primarily the result of current depreciation expense of $2,410,222. This decrease was offset in part by ongoing acquisitions of capitalizable equipment.

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 and deferred inflows of resources represent deferrals in pension and postemployment benefits associated with the implementation of GASB Statement No. 68 in FY 2015, Statement No. 73 in FY 2017, and Statement No. 75 in FY 2018. The increase/decrease in deferred outflows reflect the College's proportionate share of an increase/decrease in the state-wide amounts reported by the Department of Retirement System (DRS) and Health Care Authority (HCA) due to differences between expected and actual experience related to the actuarial assumptions. The College recorded $1,050,086 in FY 2017 and $1,106,706 in FY2018 of pension and postemployment-related deferred outflows. The increase reflects the change in proportionate share.

Similarly, the increase in deferred inflows in 2018 reflects the increase in difference between actual and projected investment earnings on the state's pension plans and also the implementation of GASB Statement No. 75.

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.

The increase in current liabilities from FY 2017 to FY 2018 is due to the money advanced for end-of-year payrolls and vendor payments owed back to the State Treasurer's Office.

The College's non-current liabilities significantly increased due to the implementation of GASB Statement 75, reflecting the College's proportionate share of the postemployment benefit liability for state's OPEB.

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

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

Restricted:

***Nonexpendable* –** consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for spending but for investment purposes only. Historically, donors interested in establishing such funds to benefit the College or its students have chosen to do so through the GHC Foundation. As a result, the College is only reporting a single endowment for $10,000 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 fund for the College is institutional aid.

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

As stated earlier in this section, the College's net position was adjusted by $9,293,754 due to the implementation of GASB 75 and various immaterial adjustments.

Net Position As of June 30th	**FY 2018**	**FY 2017**
Net investment in capital assets	$72,599,739	$74,424,456
Restricted		
Expendable - Institutional Aid	$373,393	$1,813,290
Nonexpendable - Middleton Endowment	$10,000	
Unrestricted	($8,627,172)	$1,654,248
Total Net Position	**$64,355,960**	**$77,891,994**

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 2018. 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, 2018 and 2017, is presented below.

	2018	2017
Operating Revenues		
Student tuition and fees, net	4,073,875	3,517,713
Auxiliary enterprise sales	924,352	946,358
State and local grants and contracts	8,099,471	7,585,434
Federal grants and contracts	937,585	609,046
Other operating revenues	82,740	68,995
Total operating revenues	**14,118,023**	**12,727,546**
Operating Expenses		
Salaries and wages	13,502,759	12,813,144
Benefits	4,665,144	4,205,153
Scholarships, net of discounts	7,873,758	5,828,233
Depreciation	2,410,222	2,367,315
Other operating expenses	5,134,028	5,047,846
Total operating expenses	**33,585,912**	**30,261,691**
Operating Income (Loss)	**(19,467,889)**	**(17,534,145)**
Non-Operating Revenues (Expenses)		
State appropriations	11,140,610	10,726,467
Federal Pell grant revenue	3,910,217	3,927,266
Investment income, gains and losses	140,969	22,572
Other non-operating revenues (expenses)	(617,655)	(631,769)
Net non-operating revenues (expenses)	**14,574,141**	**14,044,536**
Income or (loss) before capital contributions	**(4,893,749)**	**(3,489,609)**
Capital appropriations and contributions	**651,468**	**1,246,196**
Change in Net position	**(4,242,280)**	**(2,243,413)**
Net Position		
Net position, beginning of year	77,891,994	81,455,520
Cumulative effect of change in accounting principle (GASB 75)	(9,389,130)	(1,384,441)
Prior period adjustment, Capital	68,100	
Prior period adjustment, various immaterial errors	27,277	64,328
Net position, beginning of year, as restated	68,598,240	80,071,079
Net position, end of year	**64,355,960**	**77,891,994**

Revenues

The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. In FY 2018, the SBCTC allocated funds to each of the 34 colleges based on 3 year average FTE actuals. Additionally, the Supplemental Budget also reduces the general fund by the amount set aside specifically for Pension Stabilization. This method of allocation will continue in FY 2019.

Since enrollments decreased in FY 2018, the College's increase in tuition and fee revenue is primarily attributable to the increased tuition rates (2.2%) and an increase in new baccalaureate self-support programs, which charge rates at upper division level, similar to regional universities in the state of Washington. *For FY 2018, the College attempted to hold other fees as stable as possible, resulting in only small changes in these revenues.* In addition, the College serves some students and offers some programs on a fee-only basis, as allowed by law.

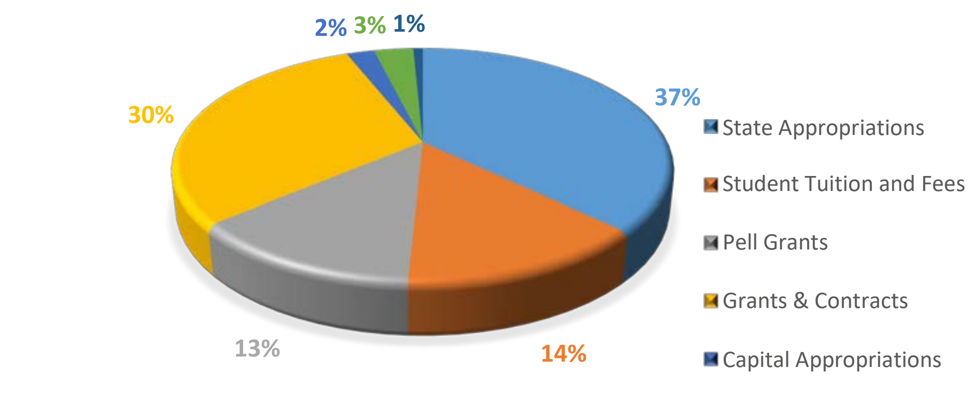
Pell Grant revenues generally follow enrollment trends. As the College's enrollment softened during FY 2018, so did the College's Pell Grant revenue.

In FY 2018, grant and contract revenues increased by $842,575 when compared with FY 2017. The College continued to serve students under the terms of contracted programs. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. Increasing Running Start enrollment levels as well as 3.0 percent increase in reimbursement rates contribute to the 10 percent increase in *Grant & Contract* revenue. As well, the College contracts with the Department of Corrections (DOC) to provide educational programming to offenders housed in the Stafford Creek Correctional Institute, which experienced a slight decrease (>1%) when compared to FY 2017.

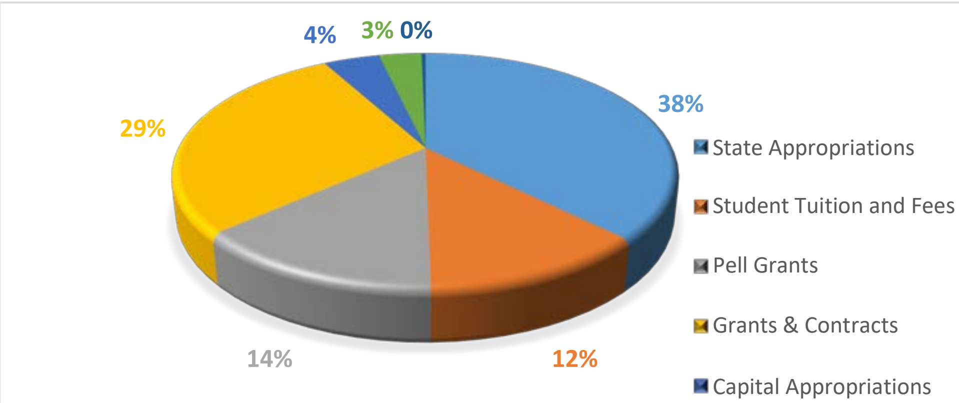
The College receives capital spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriation revenue on the financial statement is the amount expended in the current year. Expenses from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenses 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, 2017 and 2018 followed by a chart displaying the percentage of the total:

Revenue	FY2017	as a percent of total	FY2018	as a percent of total
State Appropriations	10,726,467	37%	11,140,610	37%
Student Tuition and Fees	3,517,713	12%	4,073,875	14%
Pell Grants	3,927,266	14%	3,910,217	13%
Grants & Contracts	8,194,480	29%	9,037,055	30%
Capital Appropriations	1,246,196	4%	651,468	2%
Auxiliary Enterprise Sales	946,358	3%	924,352	3%
Other Revenues	91,567	0%	223,709	1%
Total	28,650,047		29,961,287	



FY 2018 SELECTED ELEMENTS OF REVENUE



FY 2017

Expenses

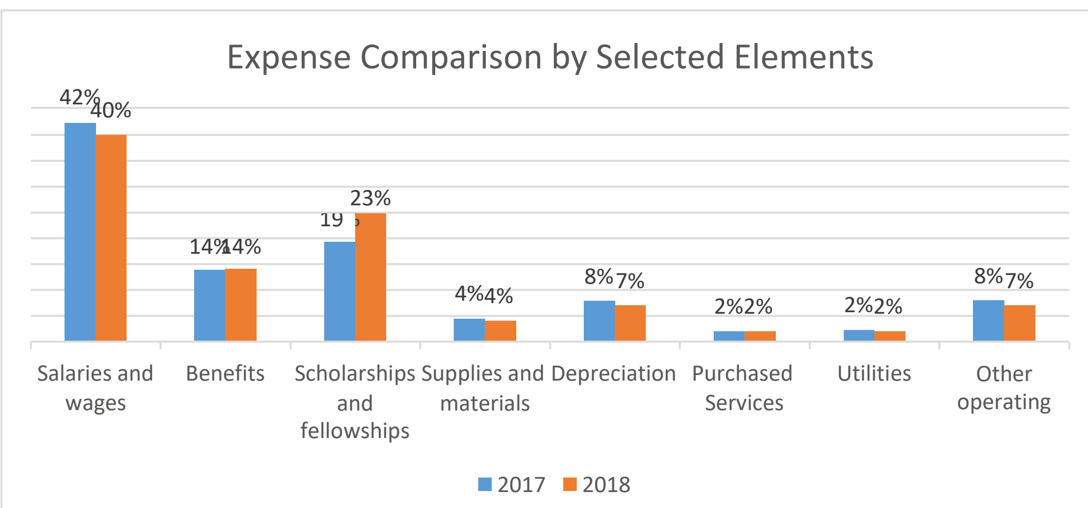
The College experienced a twelve percent increase in expenditures in FY 2018 when compared to 2017. The bulk of this increase, fourteen percent, is attributable to changes in *Salaries and Wages* and related compensation *Benefits*. The first change is related to changes in service levels provided by the College that resulted in investments in new faculty. The expansion in faculty helped launch two applied baccalaureate degrees, Organizational Management, and Forestry Management, implemented a new Medical Assistant degree offering in our allied health division, as well as expanded high demand vocational programs in welding. In addition, the state implemented cost of living increases for staff (2.0%) and faculty (2.3%). Further increases related to 'employer share' of health insurance and retirement continue to increase annually.

Supplies and materials and purchased services are lower in FY 2018 (3%). For the greater part of FY 2018, the College operated without a capital budget allocation from the state. Given the unequal distribution of capital in FY 2018 as compared to FY 2017, the decrease in *Supplies and Materials* can be attributed to this delay. While fluctuations are to be expected, this delay was anomalous to FY 2018.

Comparison of Selected Operating Expenses

Operating expenses, for 2017 and 2018 are noted below, by natural classification, followed by a bar chart that shows the comparative percentages for 2017 and 2018:

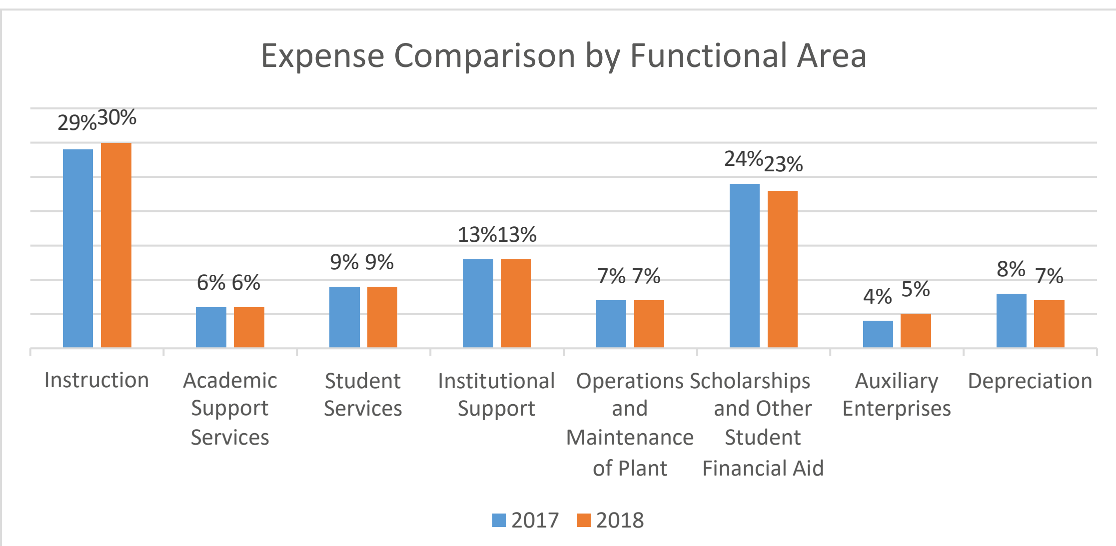
Expenses	**FY2017**	**as a percent of total**	**FY2018**	**as a percent of total**
Salaries and wages	12,813,144	42%	13,502,759	40%
Benefits	4,205,153	14%	4,665,144	14%
Scholarships and fellowships	5,828,233	19%	7,873,758	23%
Supplies and materials	1,344,123	4%	1,298,341	4%
Depreciation	2,367,315	8%	2,410,222	7%
Purchased Services	600,649	2%	747,082	2%
Utilities	686,502	2%	678,806	2%
Other operating	2,416,572	8%	2,409,798	7%
Total	**30,261,691**		**33,585,912**	



Comparison of Selected Operating Expenses by Functional Area

Operating expenses for 2017 and 2018 are noted below by functional classification, followed by a bar chart that shows the comparative percentages of each functional area of operating expenses for FY 2017 and FY 2018.

Expenses by Functional Classification	FY2017	as a percent of total	FY2018	as a percent of total
Instruction	8,638,753	29%	10,049,250	30%
Academic Support Services	1,716,672	6%	1,955,652	6%
Student Services	2,843,685	9%	3,059,343	9%
Institutional Support	4,055,889	13%	4,201,697	13%
Operations and Maintenance of Plant	2,032,287	7%	2,320,159	7%
Scholarships and Other Student Financial Aid	7,287,500	24%	7,811,086	23%
Auxiliary Enterprises	1,319,590	4%	1,778,504	5%
Depreciation	2,367,315	8%	2,410,222	7%
Total	**30,261,691**		**33,585,912**	



Capital Assets and Long-Term Debt Activities

The community and technical college system submits a single prioritized request to the Office of Financial Management and the Legislature for appropriated capital funds, which includes major projects, minor projects, repairs, emergency funds, alternative financing and major leases. The primary funding source for college capital projects is state general obligation bonds. In recent years, declining state revenues significantly reduced the state's debt capacity and are expected to continue to impact the number of new projects that can be financed. As mentioned above in the discussion of institution expenditures, the state of Washington failed to approve a capital budget for FY 2018. In FY 2019 the College will be acquiring debt, through a Certificate of Participation (COP), of $1.1 million to improve the upper parking lot. Revenue from a fee increase in FY 2016 has been accumulating to begin debt service payments in FY 2019.

As of June 30, 2018, the College had invested $72,600,865 in capital assets, net of accumulated depreciation. This represents a decrease of $1,823,591 from last year, as shown in the table below.

Asset Type	June 30, 2018	June 30, 2017	Change
Land	$177,724	$177,724	$0
Construction in Progress	$331,688	$159,358	$172,330
Buildings, net	$70,990,654	$72,849,948	($1,859,294)
Other Improvements and Infrastructure, net	$499,496	$530,030	($30,534)
Equipment, net	$454,127	$578,393	($124,266)
Library Resources, net	$147,176	$129,002	$18,174
Total Capital Assets, Net	**$72,600,865**	**$74,424,455**	**($1,823,591)**

The decrease in net capital assets can be attributed to depreciation. Additional information on capital assets can be found in Note #6 of the Notes to the Financial Statements.

Economic Factors That May Affect the Future

The College continues to explore and expand into new program areas, which is changing the enrollment patterns of the College as well as setting different revenue goals. The College environment is moving from one of upheaval (e.g., 100% turnover of president and senior staff since FY 2016). As the administration settles down, the College should see growth in new enterprises, as well as making improvements in the delivery in current services designed to improve College fiscal stability.

On the side of uncertainty, funding from the state continues to be a primary requirement for the success of the College, and while there is no current threat of reduced subsidization from the state, the confidence once held that the state will support the College's operational needs in times of crises no longer exists. Finally, while the state continues to increase the rates of pay for College employees, the state appropriations provided to fund COLAs are approximately 65% of the need.

Grays Harbor College
Statement of Net Position
June 30, 2018

Assets	
Current assets	
Cash and cash equivalents	$ 6,609,043
Accounts receivable	1,573,432
Inventories	197,629
Total current assets	8,380,103
Non-Current Assets	
Restricted cash and cash equivalents	375,519
Long-term investments	1,973,320
Non-depreciable capital assets	509,412
Capital assets, net of depreciation	72,091,453
Total non-current assets	74,949,703
Total assets	**83,329,807**
Deferred Outflows of Resources	
Deferred outflows related to pensions	966,965
Deferred outflows related to OPEB	139,739
Total deferred outflows of resources	1,106,705
Liabilities	
Current Liabilities	
Accounts payable	150,958
Due to State Treasurer	1,331,930
Accrued liabilities	1,314,918
Compensated absences, short term	224,728
Unearned revenue	386,217
Total Pension Liability, short term	19,869
OPEB liability, short term	866,776
Total current liabilities	4,295,395
Non-Current Liabilities	
Compensated absences	1,273,460
Net pension liability	3,255,816
Total pension liability	1,064,920
OPEB liability	7,963,161
Total non-current liabilities	13,557,357
Total liabilities	**17,852,752**
Deferred Inflows of Resources	
Deferred inflows related to pensions	949,396
Deferred inflows related to OPEB	1,278,403
Total deferred inflows of resources	2,227,800
Net Position	
Net Investment in Capital Assets	72,599,739
Restricted for:	
Nonexpendable	10,000
Expendable	373,393
Unrestricted (deficit)	(8,627,172)
Total Net Position	**$ 64,355,960**

The footnote disclosures are an integral part of the financial statements.

Grays Harbor College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2018

Operating Revenues	
Student tuition and fees, net	$ 4,073,875
Auxiliary enterprise sales	924,352
State and local grants and contracts	8,099,471
Federal grants and contracts	937,585
Other operating revenues	82,740
Total operating revenue	14,118,023
Operating Expenses	
Travel, non-capitalized equipment and other misc expenses	829,267
Repairs	484,090
Dues and subscriptions	310,512
Rentals	171,288
Facility Services	303,048
Software Licenses and maintenance	170,820
Printing and postage	140,773
Salaries and wages	13,502,759
Benefits	4,665,144
Scholarships and fellowships	7,873,758
Supplies and materials	1,298,341
Depreciation	2,410,222
Purchased services	747,082
Utilities	678,806
Total operating expenses	33,585,912
Operating income (loss)	(19,467,889)
Non-Operating Revenues (Expenses)	
State appropriations	11,140,610
Federal Pell grant revenue	3,910,217
Investment income, gains and losses	140,969
Building fee remittance	(505,549)
Innovation fund remittance	(112,107)
Net non-operating revenue (expenses)	**14,574,141**
Income or (loss) before capital appropriations	(4,893,749)
Capital Contributions	
Capital appropriations	651,468
Increase (Decrease) in net position	(4,242,280)
Net Position	
Net position, beginning of year	77,891,994
Cummulative effect of change in accounting principle	(9,389,130)
Prior period adjustment, Capital	68,100
Prior period adjustment, various immaterial errors	27,277
Net position, beginning of year, as restated	68,598,240
Net position, end of year	$ 64,355,960

The footnote disclosures are an integral part of the financial statements.

Grays Harbor College
Statement of Cash Flows
For the Year Ended June 30, 2018

Cash flows from operating activities	
Student tuition and fees	$ 4,174,729
Grants and contracts	8,424,785
Payments to vendors	(2,733,789)
Payments for utilities	(670,093)
Payments to employees	(13,419,293)
Payments for benefits	(4,316,168)
Auxiliary enterprise sales	945,882
Payments for scholarships and fellowships	(7,873,758)
Other receipts (payments)	(1,602,114)
Net cash used by operating activities	(17,069,819)
Cash flows from noncapital financing activities	
State appropriations	12,088,720
Pell grants	3,910,217
Building fee remittance	(506,554)
Innovation fund remittance	(112,105)
Net cash provided by noncapital financing activities	15,380,278
Cash flows from capital and related financing activities	
Capital appropriations	488,206
Purchases of capital assets	(347,951)
Net cash used by capital and related financing activities	140,255
Cash flows from investing activities	
Purchase of investments	(8,338)
Income of investments	140,969
Net cash provided by investing activities	132,631
Increase in cash and cash equivalents	(1,416,655)
Cash and cash equivalents at the beginning of the year	8,401,217
Cash and cash equivalents at the end of the year	6,984,562
Reconciliation of Operating Loss to Net Cash used by Operating Activities	
Operating Loss	(19,467,889)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	2,410,222
Changes in assets and liabilities	
Receivables, net	97,717
Inventories	(17,676)
Other assets	95
Accounts payable	(116,217)
Accrued liabilities	(408,753)
Unearned revenue	137,247
Compensated absences	(13,282)
Pension liability adjustment	308,718
Net cash used by operating activities	$ (17,069,819)

The footnote disclosures are an integral part of the financial statements.

GRAYS HARBOR COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
J une 30, 2018 and 2017

ASSETS

	2018	2017
CURRENT ASSETS:		
Cash and cash equivalents	$ 125,160	$ 639,418
Investments	8,459,810	7,865,202
Promises to give--current	53,500	82,965
Total current assets	8,638,470	8,587,585
OTHER ASSETS:		
Long-tenn investments	2,571,983	2,275,958
Assets held for investment	l 05,876	105,876
Other long-tenn assets	36,038	23,967
Total other assets	2,713,897	2,405,801
Total assets	$ 11,352,367	$ 10,993,386

LIABILITIES AND NET ASSETS

	2018	2017
CURRENT LIABILITIES:		
Accounts payable	$	$ 15,500
NET ASSETS:		
· Unrestricted--		
Board designated	400,802	318,550
Undesignated	149,695	228,052
Total unrestricted	550,497	546,602
Temporarily restricted	5,638,904	5,332,766
Permanently restricted	5,162,966	5,098,518
Total net assets	11,352,367	10,977,886
Total liabilities and net assets	$ 11,352,367	$ 10,993,386

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

GRAYS HARBOR COLLEGE FOUNDATION

STATEMENTS OF ACTIVITIES

for the year ended June 30, 2018 with comparative totals for the year ended June 30, 2017

	2018				2017
	Unrestricted	Temporarily Restircred	Permanently Restricted	Total	Total
SUPPORT AND REVENUE					
Giftsand contributions	$ 39,146	$ 435,768	$ 7,076	$ 481,990	$ 747,811
Investment income	31,492	628,505		659,997	858,146
Special event revenue--net			57,372	57,372	63,661
In-kindcontirbutions	,8018			8,018	7,585
Loss on prior year promises togive					(29,752)
Gain on sale of other investments	74,593			74,593	
Net assets released fromrestricrions	758,135	(758,135)			
Total support and revenue	911,384	306,138	64,448	1,281,970	1,647,45I
FUNCTIONAL EXPENSES:					
Program services--					
Awards, grants and scholarships	587,307			587,307	585,765
Othercollege support	176,377			176,377	183,236
Total program services	763,684			763,684	769,001
Fundraising	18,743			18,743	18,596
Management and general	125,062			125,062	116,212
Total expenses	907,489			907,489	903 809
INCREASE IN NET ASSETS	3,895	306,138	64,448	374,481	743,642
NET ASSETS, beginning as originally reported	542,235	5,166,957	5,268,694	10,977,886	10,234,244
Prior period correction (see Note 0 .)	4,367	165,809	(170,176)		
NETASSETS, beginning, as restated	546,602	5,332,766	5,098,518	10,977,886	
NET ASSETS, end ing	$ 550,497	$ 5,638,904	$ S.162,966	S I1,352,367	$ 10,977,886

171eaccompanying notes are an integral part of these financial stateinents.

GRAYS HARBOR CQLLEGE FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended June 30, 2018 with comparative totals for the year ended June 30,2017

	2018							2017
	Proiram Services				SuE rt Services			
	Awa rds, Grants and Scholarshie s	Other College Sue rt	Total Program Services	Fundraising	Management and General	Total Sup port Services	Total	Total
EXPENSES:								
Grants and allocations	$ 579,049	$ 173,9 10	$ 7 5 2,959	$	$	$	$ 752,959	$ 757,990
Salaries, wages and -benefits	8,258	2,467	10,725	10,725	50,760	61,485	72,210	72,637
Lnvestme nt management fee.s					49,438	49,438	49,438	43,630
Insurance					3,342	3,342	3,342	1,362
0m ce expense					3,373	3,373	3,373	2,46S
In-kindexpense				8,018		8,018	8,018	7,585
Miscellaneous					8,835	8,835	8,835	6,768
Professional fees					9,314	9,314	9,314	11;372
Tota lexpenses	$ 587,307	$ 176,377	$ 763,684	$ 18,743	$ 12 5,062	$ 14 3,805	$ 907 ,489	903 ,809

The accompanying notes are an integralpart of these financia l s tate ments.

GRAYS HARBOR COLLEGE FOUNDATION

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2018 and 2017

		2018		2017
CASH FLOWS FROM OPERATING ACTIVITIES:				
Increase in net assets	$	374,481	$	743,642
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities--				
Unrealized and realized gains on investments		(319,432)		(559,735)
Loss on prior year promises to give				29,752
Dividends and interest reinvested in investments		(340,565)		(298,411)
Contributions and earnings restricted for investm nt in endowments		(64,448)		(221,424)
Gain on sale of other investments		(74,593)		
(Lncrease) decrease in--				
Promises to give		29,465		1,152,928
Increase (decrease) in--				
Accounts payable		(15,500)		500
Net cash provided (used) by operating activities		(410,592)		847,252
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sale of investments		1,469,629		1,058,684
Proceeds from sale of other investments		62,522		84,476
Purchase of investments		(1,700,265)		(1,748,421)
Net cash used by investing activities		(168,114)		(605,261
CASH FLOWS FROM FINANCING ACTIVITIES:				
Contributions and earnings restricted for investment in endowments		64,448		221,424
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(514,258)		463,415
CASH AND CASH EQUIVALENTS, at beginning of year		639,418		176,003
CASH AND CASH EQUIVALENTS, at end of year	$	125,160	$	639,418
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITJES:				
Noncash proceeds from saleof other investments- notes receivable held by limited partnership (see Note G.)	$	36,038	$	

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

Notes to the Financial Statements

June 30, 2018

These notes form an integral part of the financial statements.

Note 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

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

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

The Foundation's financial statements are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2018, the Foundation distributed approximately $189,452.28 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 Grays Harbor College, 1620 Edward P. Smith Drive, Aberdeen, WA, (360)538-4243.

Basis of Presentation

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

Net Effect of a Change in Accounting Principle

The college recorded a reduction to the beginning net position balance as a result of implementing GASB Statement No. 75. The net position has been restated as follows:

Net Position as previously reported at June 30, 2017		$77,891,994
Cumulative effect of change in accounting principle-GASB 75:		
OPEB Liability	(9,389,130)	
Prior Period Adjustment		
Due to capital	68,100	
Various immaterial errors	27,277	
Total changes and adjustment		(9,293,794)
Net Position, as restated, July 1, 2017		$68,598,240

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 U.S. Generally Accepted Accounting Principles (GAAP) 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, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets. The College records all cash, cash equivalents, and investments at fair value.

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

Accounts Receivable

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

Inventories

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

Capital Assets

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at acquisition value at the date of the gift. GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of $1,000,000 or more, buildings and improvements with a unit cost of $100,000 or more, library collections with a total cost of $5,000 or more and all other assets with a unit cost of $5,000 or more are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington’s Office of Financial Management. Useful lives are generally 3 to 7 years for equipment; 15 to 50 years for buildings and 20 to 50 years for infrastructure and land improvements.

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, 2018, no assets had been written down.

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

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

Pension Liability

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

Beginning fiscal year 2017, the College also reports its share of the pension liability for the State Board Retirement Plan in accordance with GASB 73 Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68 (Accounting and Financial Reporting for Pensions). The reporting requirements are similar to GASB 68 but use current fiscal yearend as the measurement date for reporting the pension liabilities.

OPEB Liability

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

Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

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

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

Net Position

The College's net position is classified as follows.

- *Net Investment in Capital Assets*. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Restricted for Nonexpendable*. This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.
- *Restricted for Loans*. The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- *Restricted for Expendable*. These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.

- *Unrestricted*. These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

Classification of Revenues and Expenses
The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating Revenues. This includes activities that are directly related to the principal operations of the College, such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) federal, state and local grants and contracts that primarily support the operational/educational activities of the 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 are not directly related to the ongoing operations of the College, such as gifts and contributions, state appropriations, investment income and Pell Grants received from the federal government.

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

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, 2018 are $996,547.

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

Building and Innovation Fee Remittance
Tuition collected includes amounts remitted to the Washington State Treasurer's office to be held and appropriated in future years. The Building Fee portion of tuition charged to students is

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

Note 2 - Accounting and Reporting Changes

Reporting Changes

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB).* The scope of this Statement addresses accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to employees of state and local governmental employers. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. The College has implemented this pronouncement during the 2018 fiscal year.

Due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for postemployment Benefits Other than Pensions (OPEB),* the College has a deficit unrestricted net position of $8,627,172. This new accounting standard requires the College to recognize its portion of the State's total OPEB liability, reducing net position by a substantial amount. Additional information regarding GASB Statement No. 75 can be found in Note 15.

In March 2017, the GASB issued Statement No. 85, Omnibus 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits. The College took into consideration this guidance as it implemented GASB Statement No. 75 for OPEB.

Prior Period Adjustment
Beginning net position was restated by $9,389,130 in fiscal year 2018 as a result of implementing GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB).*

Accounting Standard Impacting the Future
In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations,* to addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The effective date of this Statement is fiscal year 2019. The College is in the process of reviewing its assets to ensure compliance with this reporting requirement.

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

Note 3 - Cash and Investments

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

As of June 30, 2018, the carrying amount of the College's cash and equivalents was $6,984,562 as represented in the table below.

Cash and Cash Equivale nts		June 30, 2018
Petty Cash and Change Funds	$	7,775
Bank Demand and Time Deposits		6,976,787
Total Cash and Cash Equivale nts	**$**	**6,984,562**

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

Investment Maturities	Fair Value	1 - 5 Years
Time Certificate of Deposits	1,973,320	1,973,320
Total Investments	**1,973,320**	**1,973,320**

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, 2018, $1,973,320 of the College's operating fund investments, held by the Bank of the Pacific is exposed to custodial credit risk as follows.

Investments Exposed to Custodial Risk	Fair Value
The Bank of the Pacific - Certificates of Deposit	1,973,320
Total Investments Exposed to Custodial Risk	**$ 1,973,320**

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, 2018 were $0.

Note 4 - Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenses made according to sponsored agreements. At June 30, 2018, accounts receivable were as follows:

Accounts Receivable	Amount
Student Tuition and Fees	$ 262,643
Due from the Federal Government	450,583
Due from Other State Agencies	877,833
Auxiliary Enterprises	-
Other	5,785
Subtotal	1,596,844
Less Allowance for Uncollectible Accounts	(23,413)
Accounts Receivable , net	**$ 1,573,432**

Note 5 – Inventories

Inventories as of June 30, 2018, were as follows:

Inventories	Method	Amount
Merchandise Inventories	FIFO	197,629
Inventories		**$ 197,629**

Note 6 - Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2018 is presented as follows. The current year depreciation expense was $2,410,222

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Capital assets, non-depreciable				
Land	$ 177,724	$ -	$ -	$ 177,724
Construction in progress	159,358	172,330	-	331,688
Total capital assets, non-depreciable	337,082	172,330	-	509,412
Capital assets, depreciable				
Buildings	91,916,017	94,010		92,010,027
Other improvements and infrastructure	901,017	-		901,017
Equipment	3,314,274	30,361		3,344,635
Library resources	246,766	51,147	(18,335)	279,578
Total capital assets, depreciable	96,378,074	175,518	(18,335)	96,535,257
Less accumulated depreciation				
Buildings	19,066,069	2,192,088	(238,784)	21,019,373
Other improvements and infrastructure	370,987	30,534		401,521
Equipment	2,735,880	154,627		2,890,508
Library resources	117,764	32,973	(18,335)	132,402
Total accumulated depreciation	22,290,700	2,410,222	(257,119)	24,443,804
Total capital assets, depreciable, net	74,087,374	(2,234,704)	238,784	72,091,453
Capital assets, net	**$ 74,424,455**	**$ (2,062,374)**	**$ 238,784**	**$ 72,600,865**

Note 7 - Accounts Payable and Accrued Liabilities

Accrued liabilities as of June 30, 2018, were as follows:

Accounts Payable and Accrue d Liabilitie s	Amount
Amounts Owed to Employees	$ 1,239,667
Accounts Payable	150,958
Amounts Due to the State Treasurer	1,331,930
Due to Other Agencies	69,369
Accrued Liabilities	5,881
Total	**$ 2,797,805**

Note 8 - Unearned Revenue

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

Unearned Revenue	Amount
FY19 Summer/Fall Quarter Tuition & Fees	$ 386,217
Total Unearned Revenue	$ 386,217

Note 9 - Risk Management

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

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

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

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2017 through June 30, 2018, were $14,011.

Note 10 - Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled $741,729.08 and accrued sick leave totaled $531,730.72 at June 30, 2018.

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

Note 11 - Leases Payable

Operating Leases
The College also has leases for office equipment with various vendors. These leases are classified as operating leases.

As of June 30, 2018, the minimum lease payments under operating leases consist of the following:

Fiscal year	**Operating Leases**
2019	29,322
2020	29,322
2021	25,205
2022	20,528
2023	27,651
2024-2028	107,288
Total minimum lease payments	**$ 239,316**

Note 12 - Schedule of Long Term Liabilities

	Balance outstanding 6/30/17	Additions	Reductions	Balance outstanding 6/30/18	Current portion
Compensation absences	1,511,470	-	238,010	**1,498,188**	224,728
Net pension liability	4,141,753	-	885,937	**3,255,816**	-
Total pension liability	1,112,003		47,083	**1,084,789**	19,869
OPEB liability	-	7,963,161	-	**8,829,937**	866,776
Total	**$ 6,765,226**	**$ 7,963,161**	**$ 1,171,030**	**$ 14,668,730**	**$ 1,111,373**

Note 13 - Pension Liability

Pension liabilities reported as of June 30, 2018 consists of the following:

Pe nsion Liability by Plan

PERS 1	$	1,464,312
PERS 2/3		1,280,448
TRS 1		418,626
TRS 2/3		92,430
SBRP		1,084,789
Total	**$**	**4,340,605**

Note 14 - Retirement Plans

A. General

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

For fiscal year 2018, the covered payroll for the College's retirement plans was as follows:

Covered Payroll by Plan

PERS	$	3,736,612
TRS		764,761
SBRP		7,009,203
Total Covered Payroll	**$**	**11,510,576**

Basis of Accounting

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

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

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 and No. 73 for Grays Harbor College, for fiscal year 2018:

Aggregate Pe nsion Amounts - All Plans

Pension Liabilities	$	4,340,605
Deferred outflows of resources related to pensions	$	966,965
Deferred inflows of resources related to pensions	$	949,396
Pension Expense	$	327,172

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

PERS and TRS

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

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

The college also has 4 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, 2018, 2017, and 2016 are as follows.

Contribution Rates at June 30

	FY2016		**FY2017**		**FY2018**	
PERS	Employee	College	Employee	College	Employee	College
Plan 1	6.00%	11.18%	6.00%	11.18%	6.00%	12.70%
Plan 2	6.12%	11.18%	6.12%	11.18%	7.38%	12.70%
Plan 3	5 - 15%	11.18%	5 - 15%	11.18%	5 - 15%	12.70%
TRS						
Plan 1	6.00%	13.13%	6.00%	13.13%	6.00%	15.20%
Plan 2	5.95%	13.13%	5.95%	13.13%	7.06%	15.20%
Plan 3	5-15%	13.13%	5-15%	13.13%	5-15%	15.20%

Required Contributions

	FY2016		FY2017		FY2018	
PERS	Employee	College	Employee	College	Employee	College
Plan 1	$ 18,172	$ 191,843	$ 4,256	$ 179,694	$ 3,893	$ 192,495
Plan 2	133,947	136,390	147,560	150,211	182,446	189,665
Plan 3	72,502	70,685	78,217	74,292	78,813	90,093
TRS						
Plan 1	6,489	43,517	6,606	47,524	2,876	56,549
Plan 2	7,092	8,010	6,416	7,246	13,515	15,376
Plan 3	$ 26,385	$ 24,572	$ 29,354	$ 28,637	$ 37,833	$ 40,557

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, 2017, the annual money-weighted rate of return on the pension investments, net of pension plan investment expenses, are as follows:

Pension Plan	Rate of Return
PERS Plan 1	13.84%
PERS Plan 2/3	14.11%
TRS Plan 1	14.45%
TRS Plan 2/3	14.10%

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, 2017, 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%	4.90%
Real Estate	15%	5.80%
Public Equity	37%	6.30%
Private Equity	23%	9.30%
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
Actuarially determined pension expense	$ 91,402	$ 178,045	$ 26,914	$ 33,231	$ 329,593
Amortization of change in proportionate share of liability	(94,466)	49,702	1,613	10,893	(32,258)
Total Pension Expens	**$ (3,064)**	**$ 227,747**	**$ 28,527**	**$ 44,124**	**$ 297,334**

Changes in Proportionate Shares of Pension Liabilities. The changes to the College's proportionate share of pension liabilities from 2016 to 2017 for each retirement plan are listed below:

	2016	2017	Change
PERS 1	0.032664%	0.03086%	-0.00180%
PERS 2/3	0.035428%	0.03685%	0.00142%
TRS 1	0.013798%	0.01385%	0.00005%
TRS 2/3	0.009661%	0.01001%	0.00035%

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 for each of the plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. Besides the discount rate, the actuarial assumptions used in the valuation are summarized in the Actuarial Section of DRS' Comprehensive Annual Financial Report (CAFR). The DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov. These assumptions reflect the results of OSA's 2007-2012 Experience Study and the 2015 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry age cost method), assumed interest and actual benefit payments.

- Inflation: 3.0% total economic inflation; 3.75% salary inflation
- Salary Increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.50%

Mortality rates were based on the RP-2000 report's "Combined Healthy Table" and "Combined Disabled Table." The Society of Actuaries published the document. OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout the member's lifetime.

Changes in methods and assumptions since the last valuation include:

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 and TRS Plan 1 is valued for legal order payees was improved.
- The average expected remaining service lives calculation was revised. It is used to recognize the changes in pension expense to no longer discount future years of service back to the present day.

<u>Discount Rate.</u> The discount rate used to measure the net 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 (in thousands).

Pension Plan	**6.50%**	**7.50%**	**8.50%**
PERS 1	$ 1,784	$ 1,464	$ 1,188
PERS 2/3	$ 3,450	$ 1,280	$ (497)
TRS 1	$ 521	$ 419	$ 330
TRS 2/3	$ 314	$ 92	$ (87)

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, 2018:

	PERS 1	
	Deferred Outflows	**Deferred Inflows**
Difference between expected and actual experience	-	-
Difference between expected and actual earnings of pension plan investments	-	54,644
Changes of assumptions	-	-
Changes in College's proportionate share of pension liabilities	-	-
Contributions subsequent to the measurement date	194,209	-
Totals	**$ 194,209**	**$ 54,644**

	PERS 2/3	
	Deferred Outflows	**Deferred Inflows**
Difference between expected and actual experience	129,740	42,112
Difference between expected and actual earnings of pension plan investments		341,337
Changes of assumptions	13,601	-
Changes in College's proportionate share of pension liabilities	103,519	-
Contributions subsequent to the measurement date	275,596	-
Totals	**$ 522,455**	**$ 383,449**

	TRS 1	
	Deferred Outflows	**Deferred Inflows**
Difference between expected and actual experience	-	-
Difference between expected and actual earnings of pension plan investments	-	17,735
Changes of assumptions	-	-
Changes in College's proportionate share of pension liabilities	-	-
Contributions subsequent to the measurement date	57,093	
Totals	**$ 57,093**	**$ 17,735**

	TRS 2/3	
	Deferred Outflows	**Deferred Inflows**
Difference between expected and actual experience	23,049	4,715
Difference between expected and actual earnings of pension plan investments		33,450
Changes of assumptions	1,089	-
Changes in College's proportionate share of pension liabilities	34,535	16,674
Contributions subsequent to the measurement date	54,851	-
Totals	**$ 113,524**	**$ 54,839**

The $581,749 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, 2019.

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

Year e nde d June 30:	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**
2019	(36,936)	(97,937)	(13,027)	(2,213)
2020	11,661	62,465	4,877	13,034
2021	(2,708)	(17,828)	(434)	(2,710)
2022	(26,662)	(128,964)	(9,151)	(14,699)
2023	-	19,858	-	2,171
Thereafter	-	25,816	-	8,251
Total	**$ (54,644)**	**$ (136,589)**	**$ (17,735)**	**$ 3,834**

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

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

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

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2018 were each $606,594 and $606,617 respectively.

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

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

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

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

The SRP pension benefits are unfunded. For the year ended June 30, 2018, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $1,300,000. The College's share of this amount was $16,177. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Higher Education Retirement Plan (HERP) Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During fiscal year 2018, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $18,455. This amount was not used as a part of GASB 73 calculations its status as an asset has not been determined by the Legislature. As of June 30, 2018, the Community and Technical College system accounted for $16,351,270.41 of the fund balance.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2016. Update procedures were used to roll forward the total pension liability to the June 30, 2018 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

Material assumption changes during the measurement period include the discount rate increase from 3.58 percent to 3.87 percent and the variable income investment return assumption dropping from 6.75 percent to 6.25 percent.

Discount Rate. The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.87 percent for the June 30, 2018, measurement date.

Pension Expense. For the year ended June 30, 2018, the components that make up pension expense for the College are as follows:

Proportionate Share (%)	**1.24%**
Service Cost	$ 47,624
Interest Cost	43,766
Amortization of Differences Between Expected and Actual Experience	(57,666)
Amortization of Changes of Assumptions	(15,269)
Changes of Benefit Terms	-
Administrative Expenses	-
Other Changes in Fiduciary Net Position	-
Proportionate Share of Collective Pension Expense	**18,455**
Amortization of the Change in Proportionate Share of TPL	11,383
Total Pension Expense	**$ 29,838**

Proportionate Shares of Pension Liabilities. The College's proportionate share of pension liabilities for fiscal year ending June 30, 2018 was 1.24%. The College's proportion of the total pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating College's. The changes to the College's proportionate share of the total pension liability from 2017 to 2018 for the SRP is listed below:

2017	2018	Change
1.169914%	1.244410%	0.074496%

Proportionate Share (%) 2017	**1.17%**
Proportionate Share (%) 2018	**1.24%**
Total Pension Liability - Ending 2017	$ 1,112,003
Total Pension Liability - Beginning 2018	1,182,811
Total Pension Liability - Change in Proportion	70,808
Total Deferred Inflow/Outflows - 2017	318,170
Total Deferred Inflow/Outflows - 2018	338,430
Total Deferred Inflows/Outflows - Change in Proportion	20,260
Total Change in Proportion	**$ 91,068**

Plan Membership. Membership in the State Board Supplemental Retirement Plan consisted of the following as of June 30, 2016, the most recent actuarial valuation date:

	Numbe r of Participating Membe rs			
Plan	**Inactive Members or Beneficiarie s Curre ntly Receiving Benefits**	**Inactive Members Entitled to But Not Yet Receiving Benefits**	**Active Members**	**Total Members**
SRP	2		75	77

Change in Total Pension Liability. The following table presents the change in total pension liability of the State Board Supplemental Retirement Plan at June 30, 2018, the latest measurement date for the plan:

Sche dule of Change s in Total Pe nsion Liability

Total Pe nsion Liability		**Amount**
Service Cost	$	47,624
Interest		43,766
Changes of Benefit Terms		-
Differences Between Expected and Actual Experience		(129,443)
Changes in Assumptions		(43,791)
Benefit Payments		(16,177)
Change in Proportionate Share of TPL		70,808
Other		-
Net Change in Total Pension Liability		(27,213)
Total Pe nsion Liability - Beginning	**$**	**1,112,003**
Total Pension Liability - Ending		1,084,790

Sensitivity of the Total Pension Liability to Changes in the Discount Rate. The following table presents the total pension liability, calculated using the discount rate of 3.87 percent, as well as what the employers' total pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.87 percent) or 1 percentage point higher (4.87 percent) than the current rate:

	(2.87%)		**(3.87%)**		**(4.87%)**
$	1,237,292	$	1,084,790	$	957,947

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the State Board Supplemental Retirement Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		De fe rred Outflows of Resources		**Defe rred Inflows of Resources**
Difference Between Expected and Actual Experience	$	-	$	345,585
Changes of Assumptions		-		93,144
Changes in College's proportionate share of pension liability		79,684		
Transactions Subsequent to the Measurement Date		-		-
Total	**$**	**79,684**	**$**	**438,729**

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

Future Pe nsion Expense	
2019	(61,551)
2020	(61,551)
2021	(61,551)
2022	(61,551)
2023	(61,551)
Thereafter	(51,288)

D. Defined Contribution Plans

Public Employees' Retirement System Plan 3

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

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

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

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

Teachers' Retirement System Plan 3

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

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

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

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

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

Note 15 - Other Post-Employment Benefits

The College implemented Statement No. 75 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension* for fiscal year 2018 financial reporting. In addition to pension benefits as described in Note 15, the College, through the Health Care Authority (HCA), administers a single employer defined benefit other postemployment benefit (OPEB) plan.

Plan Description. Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life, and long-term disability.

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

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

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

Summary of Plan Participants
As of June 30, 2017

Active Employees	121,518
Retirees Receiving Benefits*	32,107
Retirees Not Receiving Benefits**	6,000
Total Active Employees and Retirees	159,625

*Enrollment data for June, 2017 from Report 1: PEBB Total Member Enrollment for June 2017 Coverage report. PEBB Retirees only.
**This is an estimate of the number of retirees that may be eligible to join a post-retirement PEBB program in the future.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to the PEBB plan depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, Higher Education, Judicial, and LEOFF 2. However, not all employers who participate in these plans offer PEBB to retirees.

Benefits Provided. Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In calendar year 2016, the average weighted implicit subsidy was valued at $304 per member per month, and in calendar year 2017, the average weighted implicit subsidy is projected to be $328 per adult unit per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. The final amount is approved by the state Legislature. In calendar year 2016, the explicit subsidy was up to $150 per member per month, and it remained up to $150 per member per month in calendar years 2017 and 2018. This will increase in calendar year 2019 to up to $168 per member per month.

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

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

For calendar year 2017, the estimated monthly cost for PEBB benefits for each active employees (average across all plans and tiers) is as follows (expressed in dollars):

Required Premium*		
Medical	$	1,024
Dental		79
Life		4
Long-term Disability		2
Total		1,109
Employer contribution		959
Employee contribution		151
Total	$	1,110

*Per 2017 PEBB Financial Projection Model 8.0. Per capita cost based on subscribers; includes non-Medicare risk pool only. Figures based on CY2017 which includes projected claims cost at the time of this reporting.

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to: http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx

Total OPEB Liability

As of June 30, 2018, the state reported a total OPEB liability of $5.83 billion. The College's proportionate share of the total OPEB liability is $7,963,161. This liability was determined based on a measurement date of June 30, 2017.

Actuarial Assumptions. Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members (active employees and retirees) to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation Rate	3%
Projected Salary Changes	3.75% Plus Service-Based Salary Increases
Health Care Trend Rates*	Trend rate assumptions vary slightly by medical plan. Initial rate is approximately 7%, reaching an ultimate rate of approximately 5% in 2080
Post-Retirement Participation Percentag	65%
Percentage with Spouse Coverage	45%

*For additional detail on the health care trend rates, please see Office of the State Actuary's 2017 OPEB Actuarial Valuation Report.

In projecting the growth of the explicit subsidy, the cap is assumed to remain constant until 2019, at which time the explicit subsidy cap is assumed to grow at the health care trend rates. The Legislature determines the value of cap and no future increases are guaranteed, however based on historical growth patterns, future increases to the cap are assumed.

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

Most demographic actuarial assumptions, including mortality and when members are expected to terminate and retire, were based on the results of the 2007-2012 Experience Study Report. The post-retirement participation percentage and percentage with spouse coverage, were reviewed in 2017. Economic assumptions, including inflation and salary increases, were based on the results of the 2015 Economic Experience Study.

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

Actuarial Valuation Date	1/1/2017
Actuarial Measurement Date	6/30/2017
Actuarial Cost Method	Entry Age
Amortization Method	The recognition period for the experience and assumption changes is 9 years. This is equal to the average expected remaining service lives of all active and inactive members.
Asset Valuation Method	N/A - No Assets

In order to calculate the beginning total OPEB liability balance under GASB 75, the January 1, 2017 actuarial valuation was projected backwards to the measurement date of June 30, 2016, while the ending balance was determined by projecting the January 1, 2017 valuation forward to

June 30, 2017. Both the forward and backward projections reflect the plan's assumed service cost, assumed interest, and expected benefit payments.

Discount Rate. Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 2.85 percent for the June 30, 2016 measurement date and 3.58 percent for the June 30, 2017 measurement date.

Additional detail on assumptions and methods can be found on OSA's website: http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx

Changes in Total OPEB Liability

As of June 30, 2018, components of the calculation of total OPEB lability determined in accordance with GASB Statement No. 75 for the College are represented in the following table:

Grays Harbor College		
Proportionate Share (%)		**0.1515655014%**
Service Cost	$	598,616
Interest Cost		280,395
Differences Between Expected and Actual Experien		-
Changes in Assumptions*		(1,367,773)
Changes of Benefit Terms		-
Benefit Payments		(142,894)
Changes in Proportionate Share		(71,511)
Other		-
Net Change in Total OPEB Liability		(703,167)
Total OPEB Liability - Beginning		9,533,104
Total OPEB Liability - Ending	**$**	**8,829,937**

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

Changes in assumptions resulted from an increase in the Bond Buyer General Obligation 20-Bond Municipal Bond Index discount rate resulting in an overall decrease in total OPEB liability for the measurement date of June 30, 2017.

Sensitivity of the Total Liability to Changes in the Discount Rate. The following represents the total OPEB liability of the College, calculated using the discount rate of 3.58 percent as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

1% Decrease	Curre nt Discount Rate	1% Increase
$ 10,773,613	$ 8,829,937	$ 7,325,844

Sensitivity of Total OPEB Liability to Changes in the Health Care Cost Trend Rates. The following represents the total OPEB liability of the College, calculated using the health care trend rates of 7.00 percent decreasing to 5.00 percent, as well as what the total OPEB liability would be if it were calculated using health care trend rates that are 1 percentage point lower (6.00 percent decreasing to 4.00 percent) or 1 percentage point higher (8.0 percent decreasing to 6.00 percent that the current rate:

Health Care Cost Trend Rate Sensitivity

1% Decrease	Current Discount Rate	1% Increase
$ 7,133,374	$ 8,829,937	$ 11,106,876

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

For the year ending June 30, 2018, the College will recognize OPEB expense of $579,471. OPEB expense consists of the following elements:

GRAYS HARBOR COLLEGE

Proportionate Share (%)	**0.1515655014%**
Service Cost	$ 598,616
Interest Cost	280,395
Amortization of Differences Between Expected and Actual Experience	-
Amortization of Changes in Assumptions	(151,975)
Changes of Benefit Terms	-
Amortization of Changes in Proportion	(7,826)
Administrative Expenses	-
Total OPEB Expense	**$ 719,210**

As of June 30, 2018, the deferred inflows and deferred outflows of resources for the College are as follows:

GRAYS HARBOR COLLEGE		
Proportionate Share (%)	**0.1515655014%**	
Deferred Inflows/Outflows of Resources	**Deferred Inflows**	**Deferred Outflows**
Difference between expected and actual experience	$ -	$ -
Changes in assumptions	1,215,799	-
Transactions subsequent to the measurement date	-	139,739
Changes in proportion	62,605	-
Total Deferred Inflows/Outflows	**$ 1,278,404**	**$ 139,739**

Amounts reported as deferred outflow of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of total OPEB liability in the year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense in subsequent years for the College as follows:

GRAYS HARBOR COLLEGE	
Proportionate Share (%)	**0.1515655014%**
2019	$ (159,801)
2020	$ (159,801)
2021	$ (159,801)
2022	$ (159,801)
2023	$ (159,801)
Thereafter	$ (479,398)

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

GRAYS HARBOR COLLEGE		
Proportionate Share (%) 2016		**0.1527110359%**
Proportionate Share (%) 2017		**0.1515655014%**
Total OPEB Liability - Ending 2016	$	9,533,104
Total OPEB Liability - Beginning 2017		9,461,593
Total OPEB Liability Change in Proportion		(71,511)
Total Deferred Inflows/Outflows - 2016		143,974
Total Deferred Inflows/Outflows - 2017		142,894
Total Deferred Inflows/Outflows Change in Proportion		(1,080)
Total Change in Proportion	**$**	**(70,431)**

Note 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, 2018.

Expenses by Functional Classification		
Instruction		10,049,250
Academic Support Services		1,955,652
Student Services		3,059,343
Institutional Support		4,013,085
Operations and Maintenance of Plant		2,508,771
Scholarships and Other Student Financial Aid		7,811,086
Auxiliary enterprises		1,778,504
Depreciation		2,410,222
Total ope rating expe nse s	**$**	**33,585,912**

Note 17 - Commitments and Contingencies

The College has commitments for various capital improvement projects that include construction and completion of new buildings, renovations of existing buildings and parking lot improvements.

Note 18 –Subsequent Events

In 2015, the Board of Trustees for the College approved the sale of The Whiteside Building, 418 E First St, Aberdeen, WA 98520. In May 2017, the State Board for Community and Technical Colleges also approved the sale to a private investor. The sale is expected to be consummated prior to June 30, 2019 with a sale price of $140,000.

Also, in FY19 the College will be acquiring debt through a $1.1 million Certificate of Participation (COP) for parking lot improvements. Revenue from a fee increase in FY16 has been accumulating to begin debt service payments in FY19.

Although there is no major impact to the current financial statements, the College began demolition of two fully depreciated buildings on its main campus in May 2018. This demolition is in preparation for the Student Services Instructional Building that will be funded in the coming years.

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans

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

Schedule of Grays Harbor College's Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 1 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.033954%	$ 1,710,449	$ 3,295,503	51.90%	61.19%
2015	0.031287%	$ 1,636,601	$ 3,240,796	50.50%	59.10%
2016	0.032664%	$ 1,754,211	$ 3,630,757	48.32%	57.03%
2017	0.030860%	$ 1,464,312	$ 3,674,522	39.85%	61.24%

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

Cost Sharing Employer Plans

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

Schedule of Grays Harbor College's Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 2/3 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.033589%	$ 678,955	$ 2,897,653	23.43%	93.29%
2015	0.0336%	$ 1,202,012	$ 2,988,284	40.22%	89.20%
2016	0.035428%	$ 1,783,772	$ 3,327,880	53.60%	85.82%
2017	0.036853%	$ 1,280,448	$ 3,603,585	35.53%	90.97%

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

Cost Sharing Employer Plans

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

Schedule of Grays Harbor College's Share of the Net Pension Liability Teachers' Retirement System (TRS) Plan 1 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.013076%	$ 385,671	$ 485,076	79.51%	68.77%
2015	0.016342%	$ 517,738	$ 698,846	74.08%	65.70%
2016	0.013798%	$ 471,096	$ 596,576	78.97%	62.07%
2017	0.013847%	$ 418,626	$ 644,073	65.00%	65.58%

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

Cost Sharing Employer Plans

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

Schedule of Grays Harbor College's Share of the Net Pension Liability Teachers’ Retirement System (TRS) Plan 2/3 Measurement Date of June 30					
Fiscal Year	College’s proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College’s proportionate share of the net pension liability as a percentage of its covered payroll	Plan’s fiduciary net position as a percentage of the total pension liability
2014	0.008532%	$ 27,557	$ 380,076	7.25%	96.81%
2015	0.012215%	$ 103,070	$ 593,846	17.36%	92.48%
2016	0.009661%	$ 132,674	$ 488,426	27.16%	88.72%
2017	0.010015%	$ 94,430	$ 533,976	17.68%	93.14%

*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) Plan1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 153,096	$ 153,096	$ -	$ 3,295,503	4.65%
2015	$ 142,600	$ 142,600	$ -	$ 3,240,796	4.40%
2016	$ 191,843	$ 191,843	$ -	$ 3,630,757	5.28%
2017	$ 179,694	$ 179,694	$ -	$ 3,674,522	4.89%
2018	$ 194,209	$ 194,209	$ -	$ 3,736,612	5.20%

*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 payroll	Contributions as a percentage of covered payroll
2014	$ 143,975	$ 143,975	$ -	$ 2,897,653	4.97%
2015	$ 150,044	$ 150,044	$ -	$ 2,988,284	5.02%
2016	$ 207,075	$ 207,075	$ -	$ 3,327,880	6.22%
2017	$ 224,503	$ 224,503	$ -	$ 3,603,585	6.23%
2018	$ 279,758	$ 279,758	$ -	$ 3,671,729	7.62%

*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 payroll	Contributions as a percentage of covered payroll
2014	$ 26,858	$ 26,858	$ -	$ 485,076	5.54%
2015	$ 37,553	$ 37,553	$ -	$ 698,846	5.37%
2016	$ 43,517	$ 43,517	$ -	$ 596,576	7.29%
2017	$ 47,524	$ 47,524	$ -	$ 644,073	7.38%
2018	$ 56,549	$ 56,549	$ -	$ 764,761	7.39%

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

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions

Teachers' Retirement System (TRS) Plan 2/3

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 22,138	$ 22,138	$ -	$ 380,076	5.82%
2015	$ 33,798	$ 33,798	$ -	$ 593,846	5.69%
2016	$ 32,582	$ 32,582	$ -	$ 488,426	6.67%
2017	$ 35,883	$ 35,883	$ -	$ 533,976	6.72%
2018	$ 55,930	$ 55,930		$ 716,830	7.80%

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

Required Supplementary Information

State Board Supplemental Defined Benefit Plans

Schedules of Contributions

Schedule of Changes in the Total Pension Liability and Related Ratios State Board Supplemental Retirement Plan Fiscal Year Ended June 30*		
Total Pension Liability	**2017**	**2018**
Service cost	$ 63,379	$ 47,624
Interest	41,114	43,766
Changes of benefit terms		-
Differences between expected and actual experience	(296,431)	(129,443)
Changes of assumptions	(70,006)	(43,791)
Benefit payments	(10,595)	(16,177)
Change in proportionate share of TPL	-	70,808
Other		-
Net Change in Total Pension Liability	(272,540)	(27,213)
Total Pension Liability - Beginning	**1,384,543**	1,112,003
Total Pension Liability - Ending	$ 1,112,003	$ 1,084,790
College's proportion of the Total Pension Liability (%)		1.244410%
Covered-employee payroll		$ 7,009,203
Total Pension Liability as a percentage of covered-employee payroll		15.476652%

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

Higher Education Supplemental Defined Benefit Plans

Notes to Required Supplementary Information

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

Required Supplementary Information
Other Postemployment Benefits Information

Schedule of Changes in Total OPEB Liability and Related Ratios Fiscal Year Ended June 30		
Total OPEB Liability		**2018**
Service cost	$	598,616
Interest cost		280,395
Difference between expected and actual experience		-
Changes in assumptions		(1,367,773)
Changes in benefit terms		-
Benefit payments		(142,894)
Changes in proportionate share		(71,511)
Other		-
Net Changes in Total OPEB Liability	$	(703,167)
Total OPEB Liability - Beginning	$	9,533,104
Total OPEB Liability - Ending	$	8,829,937
College's proportion of the Total OPEB Liability (%)		0.151566%
Covered-employee payroll	$	11,825,467
Total OPEB Liability as a percentage of covered-employee payroll		74.668819%

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

Notes to Required Supplementary Information

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