GRAYS HARBOR COLLEGE

2019 ANNUAL FINANCIAL REPORT

Fiscal Year Ended

June 30, 2019

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For information about the financial data included in this report, contact:
Assistant Dean for Financial Services
Grays Harbor College
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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

GRAYS HARBOR COLLEGE

Vision, Mission, and Strategic Priorities

Vision

Grays Harbor College inspires our students and enriches our community by providing growth through learning.

Mission

Grays Harbor College provides meaningful and engaging learning opportunities and support services to enhance the knowledge, skills and abilities of our students and support the cultural and economic needs of our community.

Strategic Priorities

- Enrich student learning
- Promote student, faculty and staff success
- Foster a diverse, equitable, and inclusive learning environment
- Ensure effective, efficient, and sustainable use of college resources
- Strengthen community connections and partnerships

Letter *to the* Board of Trustees

June 25, 2020

Dear Dr. Carthum, Chair

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 unmodified opinion on the Grays Harbor College financial statement for the year ended June 30, 2019. 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.

The Mission of the College is to provide meaningful and engaging learning opportunities and support services to enhance the knowledge, skills, and abilities of our students, and to support the cultural and economic needs of our community. We will continue to be successful in our mission in the coming years due to the dedication of our faculty and staff in inspiring and supporting students, our community, and each other.

Sincerely,

Kwabena Boakye
VP for Administrative Services

Sydni Yager
Controller/Asst. Dean for
Financial Services

Trustees *and* Administrative Officers

BOARD OF TRUSTEES

EXECUTIVE OFFICERS

Dr. James Minkler, Ph.D., President
Laura Brener, M.A., ABD, Vice President for Instruction (Interim)
Dr. Jennifer Alt, Ph.D., Vice President for Student Services
Kwabena Boakye, M.S., CPA, CIA, Vice President for Administrative Services
Darin Jones, M.H.R., Chief Executive for Human Resources
Andrew Glass, M.B.A., Chief Executive of Information Technology
Kristy Anderson, M.P.A., Chief Institutional Effectiveness, Research and Planning

Financial Section

Office of the Washington State Auditor
Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

June 25, 2020

Board of Trustees
Grays Harbor College
Aberdeen, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type actives and the aggregate discretely presented component units of the Grays Harbor College, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

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 unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for the Foundation, is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of the Grays Harbor College, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of 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 unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2019, 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.

As discussed in Note 19 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the College. Management's plans in response to this matter are also described in Note 19. 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 in the table of contents 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements as a whole. The Vision, Mission, and Strategic Priorities; Letter to the Board of Trustees; and Trustees and Executive Officers are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the College. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated June 25, 2020, 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.

Sincerely,

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

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, 2019 (FY 2019). 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.

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, vocational training, and associate degree programs 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, 2019, the College served 1469 state funded full-time equivalent (FTE) students, and 579 contract FTEs. Actual unduplicated state funded headcount totaled 2,534 students.

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

The College’s main campus is located in Aberdeen, Washington, and the College service district includes both Grays Harbor and Pacific counties with a total population of approximately 96,000. The College also has educational centers 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 Grays Harbor College Foundation. The College’s financial statements include the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the College as of June 30, 2019. 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.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* requires a college to report an organization that raises and holds economic resources for the direct benefit of a government unit. Under this requirement, the Grays Harbor College Foundation is a component unit of the College and their financial statements are discretely presented into this financial report.

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:

	2019	2018
Assets		
Current Assets	$ 8,661,853	$ 8,380,103
Capital Assets, net	73,770,339	$ 72,600,865
Other Assets, non-current	177,008	$ 2,348,839
Total Assets	82,609,201	$ 83,329,807
Deferred Outflows of Resources	$ 1,781,075	$ 1,106,706
Liabilities		
Current Liabilities	2,976,472	$ 4,295,395
Other Liabilities, non-current	13,743,346	$ 13,557,357
Total Liabilities	16,719,818	$ 17,852,752
Deferred Inflows of Resources	4,338,703	$ 2,227,800
Net Position		
Net Investment in Capital Assets	72,815,339	$ 72,599,739
Restricted	2,009,978	$ 383,393
Unrestricted	(11,481,928)	$ (8,627,172)
Total Net Position, as restated	$ 63,343,390	$ 64,355,960

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The modest increase of $281k of current assets in FY 2019 can be attributed to a combination of balance changes in current asset categories. Cash and cash equivalents decreased by approximately $3.6 million from the prior year, while accounts receivable increased by $1.7 million, and investments of $l.8 million were reclassified to current due to timing of maturity.

Net capital assets increased by a net of $1.17 million from FY 2018 to FY 2019. Assets increased due to construction in process of $2.14 million for design and planning services for the new Student Services building (SSIB), renovation costs of approximately $1.2 million for the upper parking lot, and capitalized equipment and improvements of approximately $350k. Increases were primarily offset by the removal/retirements of three campus buildings totaling

$1.6 million: the sale of the Whiteside Building in downtown Aberdeen, and the demolition of Buildings 200 and 300 to make way for the construction of the new SSIB. Additional information on capital assets can be found in Note 6 to the financial statements.

Non-current assets in the current year, other than net capital assets, consist of the long-term portion of investments. The decrease of approximately $2 million is the reclassification of long term investments to current assets.

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 $1,106,706 in FY 2018 and $1,781,075 in FY 2019 of pension and postemployment-related deferred outflows. The increase reflects the change in proportionate share.

Similarly, the increase in deferred inflows in 2019 reflects the increase in difference between actual and projected investment earnings on the state's pension plans and other post-employment benefits. The College recorded $2,227,800 in FY2018 and $4,327,068 in FY2019 of deferred inflows related to pension and postemployment-related plans.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificate of Participation (COP) debt, the current portion of pension and OPEB 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 $1.3 million decrease in current liabilities from FY 2018 to FY 2019 is due to several factors, including a significant decrease in amounts due to the State Treasurer at year end - $1.3 million due at June 30, 2018 compared to approximately $35,000 at June 30, 2019. The decrease is due to timing of amounts drawn down from the State and the related reconciling of year-end State allocations. In FY19 the current portion of pension and OPEB liabilities decreased approximately, $700,000 – please refer to Note 15 in the Notes to the Financial Statements for information regarding pension and OPEB liabilities. Unearned revenue decreased by approximately $150,000 from FY18. This revenue consists of summer tuition and fees paid in FY19 for classes beginning in July of the new year. This decrease is due to a trend in lower summer enrollments and partially a result of the Washington State Legislature not passing a budget until the end of June, causing a delay in the availability of state financial aid funds to pay summer quarter tuition. Decreases were offset by a $700,000 increase in accrued payroll primarily due to changes in accruals for faculty payments during the summer and additional staff added in FY19, and $30,000 in the current portion of Certificate of Participation payable.

Non-current liabilities had a modest increase of $186,000. Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees, pension and

OPEB liabilities, and the long-term portion of the Certificate of Participation (COP) debt. The College entered into COP debt of $955,000 in FY19 for renovation of the upper parking lot, and non-current debt of $925,000 is included in the total, with no COP debt in the prior year. The addition of the COP debt was offset by a decrease of $955,000 in the total of non-current pension and OPEB liabilities.

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 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 funds for the College are institutional aid and student fees for technology purchases, debt service for the parking lot Certificate of Participation, and the new Student Services and Instructional Building.

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.

Condensed Net Position As of June 30th	**FY 2019**	**FY 2018**
Net investment in capital assets	$72,815,339	$72,599,739
Restricted		
Nonexpendable - Middleton Endowment - Library	$10,000	$10,000
Expendable - Student Fees and Institutional Aid	$1,999,978	$373,393
Unrestricted	$ (11,481,928)	$ (8,627,172)
Total Net Position	**$63,343,390**	**$64,355,960**

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 2019. 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, 2019 and 2018 is presented on the next page:

For the Year Ended June 30, 2019 and 2018

	2019	2018
Operating Revenues		
Student tuition and fees, net	5,074,676	4,073,875
Auxiliary enterprise sales	905,474	924,352
Grants and contracts	10,090,004	9,037,056
Other operating revenues	646,904	82,740
Total operating revenues	**16,717,058**	**14,118,023**
Non-Operating Revenues		
State appropriations	11,381,360	11,140,610
Federal Pell grant revenue	3,955,684	3,910,217
Other non-operating revenues	38,324	140,969
Total non-operating revenues	15,375,368	**15,191,796**
Total revenues	**32,092,426**	**29,309,819**
Operating Expenses		
Salaries and Benefits	19,267,739	18,167,903
Scholarships	8,167,319	7,873,758
Depreciation	2,362,835	2,410,222
Other operating expenses	5,746,256	5,134,028
Total operating expenses	**35,544,149**	**33,585,912**
Non-Operating Expenses		
Building fee remittance	492,116	505,549
Other non-operating expenses	134,078	112,106
Total non-operating expenses	**626,194**	**617,655**
Total expenses	**36,170,343**	**34,203,567**
Excess (deficiency) before capital contributions	**(4,077,917)**	**(4,893,749)**
Capital appropriations and contributions	**3,065,347**	**651,468**
Change in Net position	**(1,012,570)**	**(4,242,280)**
Net Position		
Net position, beginning of year	64,355,960	77,891,994
Prior period adjustments or Cumulative effect of a change in accounting principle	-	(9,389,130)
Prior Period Adjustment, Capital		68,100
Prior Period Adjustment, immaterial adjustments		27,277
Net position, beginning of year, as restated	-	68,598,240
Net position, end of year	**63,343,390**	**64,355,960**

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 2019, the SBCTC allocated funds to each of the 34 colleges based on three-year average FTE actuals. Additionally, the Supplemental Budget also reduced the general fund by the amount set aside specifically for Pension Stabilization. This method of allocation will continue in FY2020.

Enrollments at the College have trended downward over the last several years and the trend continued in FY19. Since enrollments decreased slightly in FY 2019, the College's increase in tuition and fee revenue is primarily attributable to the 2.2% increase in tuition rates, along with changes in mix such as fewer ABE enrollments, and the increase in new baccalaureate enrollments with higher tuition rates. Student fee revenue also increased with students voting in additional parking fees to service Certificate of Participation (COP) debt associated with the parking lot renovation.

Pell grant revenues generally follow enrollment trends. While the College's enrollment softened during FY 2019, the College's Pell Grant revenue actually increased slightly, primarily due to the large percentage of students eligible for this program, and the efforts by the College to identify eligible students.

In FY 2019, grant and contract revenues increased by approximately $1 million when compared with FY 2018. The increase in revenue was due to new three new USDA grants for various programs, an increase in Running Start revenues due to increases in the number of enrolled students and also a 3% increase in reimbursement rates for that program. 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. The College also continues to contract with the Department of Corrections to provide educational programming to offenders housed in the Stafford Creek Correctional Institution.

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 the years ending June 30, 2019 and 2018. As noted above, the major increases are in the categories of tuition and fees, grants, and also in the increase in capital appropriations related to design and engineering work on the new Student Services building (SSIB).

Revenues	FY2019	percent of total	FY2018	percent of total
State Appropriations	11,381,360	32%	11,140,610	37%
Student Tuition and Fees	5,074,676	14%	4,073,875	14%
Pell Grants	3,955,684	11%	3,910,217	13%
Grants & Contracts	10,090,004	29%	9,037,055	30%
Capital Appropriations	2,963,990	8%	651,468	2%
Auxiliary Enterprise Sales	905,474	3%	924,352	3%
Other Revenues	662,305	2%	223,709	1%
Total	**35,033,493**	**100%**	**29,961,287**	**100%**

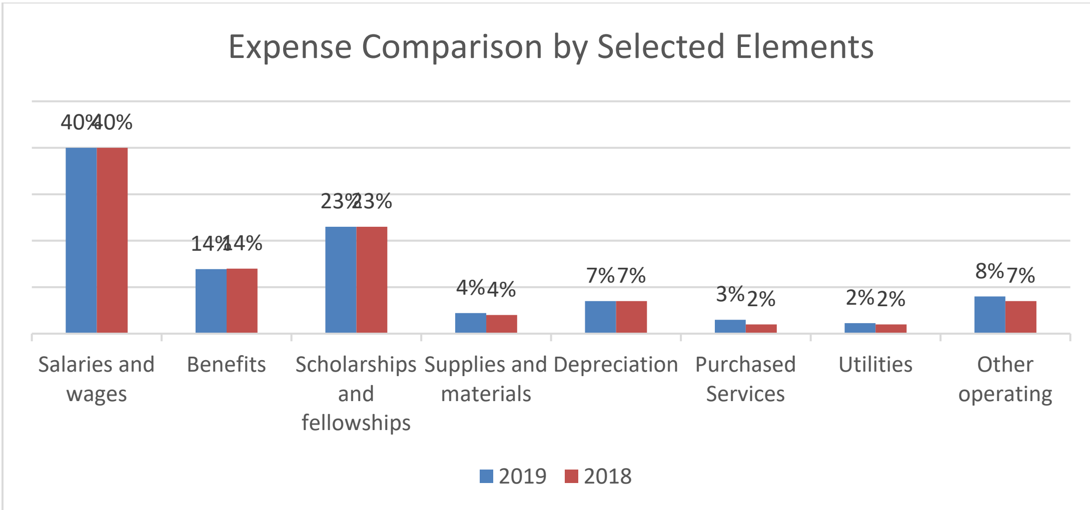
Expenses

The College experienced a 6% increase in total expenditures in FY19 compared to FY18. The majority of this increase is attributed to salaries, wages and related benefits. Salary costs increased as a result of a 2% wage increase in both July 1, 2018 and January 1, 2019 by the legislature. Several new positions were also funded to meet program needs in several areas, particularly Instruction, Academic Support, and Student Services. Benefit costs increased accordingly with more employees and higher wages. Utility costs decreased due to the sale of one building and the demolition of two other buildings on campus to prepare for the new Student Services Building, and depreciation decreased as well due to the buildings taken out of service. Purchased services increased from the prior year by $211,000 for several reasons, one being expenditures for accommodations services that can vary significantly year to year due to student needs, and other costs spread throughout functional areas.

Comparison of Selected Operating Expenses

Operating expenses, for FY19 and FY18 are noted below, by natural classification, with comparative percentages for both years.

Expenses	FY2019	percent of total	FY2018	percent of total
Salaries and wages	14,328,467	40%	13,502,759	40%
Benefits	4,939,273	14%	4,665,144	14%
Scholarships and fellowships	8,167,319	23%	7,873,758	23%
Supplies and materials	1,363,392	4%	1,298,341	4%
Depreciation	2,362,834	7%	2,410,222	7%
Purchased Services	958,575	3%	747,082	2%
Utilities	642,810	2%	678,806	2%
Other operating	2,781,479	8%	2,409,798	7%
Total	**35,544,149**	**100%**	**33,585,912**	**100%**

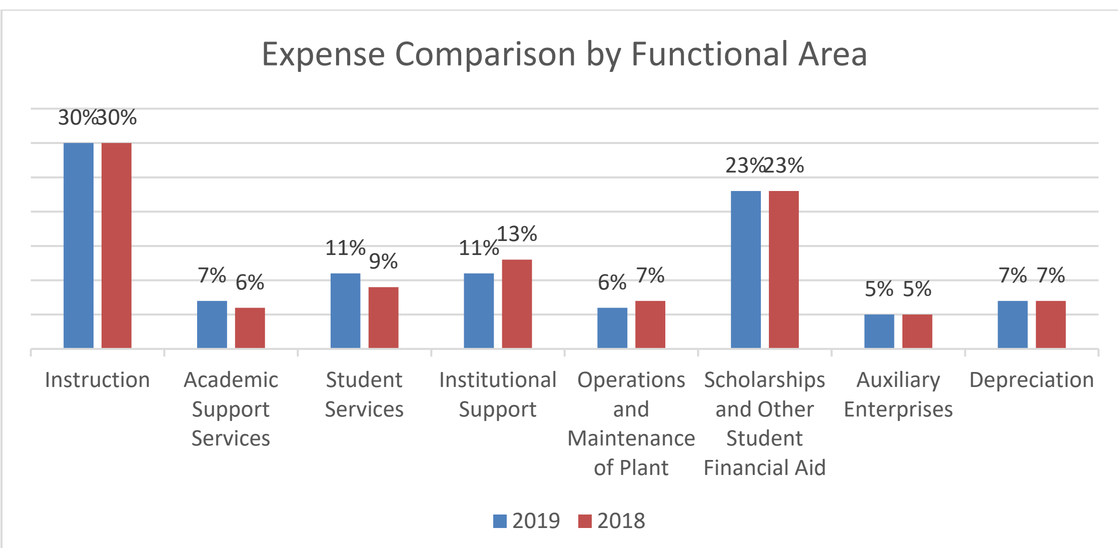

Expense Comparison by Selected Elements
40%
40%
14%
14%
23%
23%
4%
4%
7%
7%
3%
2%
2%
2%
8%
7%
Salaries and wages
Benefits
Scholarships and fellowships
Supplies and materials
Depreciation
Purchased Services
Utilities
Other operating
2019
2018


STUDENT SUPPORT CENTER
COUNSELING-ADVISING-TESTING
DISABILITY SUPPORT
Welcome Center
ADMISSIONS • REGISTRATION • RECORDS • FINANCIAL AID
EXIT
BOOKSTORE

Comparison of Selected Operating Expenses by Functional Area

Operating expenses for FY19 and FY18 are noted below by function classification, with comparative percentages for each year.

Expenses by Functional Classification	**FY2019**	**percent of total**	**FY2018**	**percent of total**
Instruction	10,771,879	30%	10,049,250	30%
Academic Support Services	2,312,213	7%	1,955,652	6%
Student Services	3,905,886	11%	3,059,343	9%
Institutional Support	4,016,795	11%	4,201,697	13%
Operations and Maintenance of Plant	2,105,076	6%	2,320,159	7%
Scholarships and Other Student Financial Aid	8,299,245	23%	7,811,086	23%
Auxiliary Enterprises	1,770,220	5%	1,778,504	5%
Depreciation	2,362,835	7%	2,410,222	7%
Total	**35,544,149**	**100%**	**33,585,912**	**100%**



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 affect the number of new projects that can be financed. During the current fiscal year, the College had one of the four community college projects that were funded through a Certificate of Participation (COP). The COP of $955,000 funded significant improvements to the upper parking lot on the main campus in Aberdeen. Revenue from a fee increase in FY2018 has been accumulating to begin the debt service payments in FY19.

At June 30, 2019, the College had an investment in capital assets of $73,770,340, net of accumulated depreciation. This represents an increase of $1,169,475 from last year, as shown in the table below.

Asset Type	June 30, 2019	June 30, 2018	Change
Land	$177,724	$177,724	$0
Construction in Progress	$2,469,505	$331,688	$2,137,817
Buildings, net	$68,697,126	$70,990,654	$ (2,293,528.00)
Other Improvements and Infrastructure	$1,676,425	$499,496	$1,176,929
Equipment, net	$599,642	$454,127	$145,515
Library Resources, net	$149,918	$147,176	$2,742
Total Capital Assets, Net	**$73,770,340**	**$72,600,865**	**$1,169,475**

The increase in net capital assets can be attributed to the continued design and engineering on the new Student Services and Instructional Building (SSIB) scheduled to replace the current HUB building. Construction funding for the SSIB is anticipated in the 21-23 biennium. Related construction in process balances increased by approximately $2.1 million during FY19. The increase in construction in process was offset by several building disposals during the current year. The Whiteside Building in downtown Aberdeen was sold to a third party, and buildings 200 and 300 on campus were demolished to make way for the new SSIB. Additional information on capital assets can be found in Note #6 of the Notes to the Financial Statements.

At June 30, 2019, the College had $955,000 in outstanding debt. This represents an increase of $955,000 from last year, as shown in the table below. The College entered into a Certificate of Participation (COP) for the upper parking lot improvements in FY19, the first time the College has entered into a COP for capital assets.

	June 30, 2019	June 20, 2018	Change
Certificates of Participation	955,000	-	955,000
Total	**$ 955,000**	**$ -**	**$ 955,000**

Additional information of notes payable, long-term debt and debt service schedules can be found in Notes 12, 13 and 14 of the Notes to the Financial Statements.

Economic Factors That May Affect the Future

Beginning FY 2016, the Legislature enacted the Affordable Education Act, which reduced lower division tuition by 5% at the College, and reduced the upper division tuition rate by 16% rate in fiscal year 2017. The Legislature did backfill a portion of this loss; however, this will further reduce the amount of tuition collected by the College in the future. In FY 2017, the State Board for Community and Technical Colleges elected to move to a new allocation model, changing how the state allocated funds are distributed to each college. The new model is based on performance in several key indicators, from general enrollments to enrollments in high cost programs, as well as student completion and achievement points. The model is based on a three-year rolling average of enrollments and completions, comparative to other institutions in the state. Due to a continued decrease in enrollment, it is estimated that the College will likely see a decrease in state operating appropriations in future years.

In response to the possibility of decreased state appropriations and the trend in declining enrollment, the college is continuously seeking opportunities to increase enrollment and offer the necessary support to increase success for students. This includes implementing the Guided Pathways process to assist students in navigating through the educational course offerings and degrees in a more seamless process. The State is providing specific funds to support the Guided Pathways program. The College also continues working and collaborating with community partners to identify potential programs that could improve our course offerings, increase student retention, and remain relevant for education.

Reversing the trend in declining enrollment and related revenue issues are the most critical factors Grays Harbor College faces in the future. The College community is dedicated and focused on identifying strategies and initiatives that will increase enrollment in the short and long term.

Grays Harbor College
Statement of Net Position
June 30, 2019

Assets		
Current assets		
Cash and cash equivalents	$	1,364,681
Restricted cash		1,999,978
Short-term investments		1,805,832
Accounts receivable		3,308,390
Inventories		182,972
Total current assets		8,661,853
Non-Current Assets		
Long-term investments		177,008
Non-depreciable capital assets		2,647,229
Capital assets, net of depreciation		71,123,111
Total non-current assets		73,947,348
Total assets		**82,609,201**
Deferred Outflows of Resources		
Deferred outflows related to pensions		1,174,098
Deferred outflows related to OPEB		606,977
Total deferred outflows of resources		1,781,075
Liabilities		
Current Liabilities		
Accounts payable		250,448
Accrued liabilities		2,075,716
Compensated absences, current portion		236,525
Unearned revenue		212,801
Certificates of participation payable, current portion		30,000
Total pension liability, current portion		26,624
OPEB liability, current portion		144,358
Total current liabilities		2,976,472
Non-Current Liabilities		
Compensated absences		1,340,308
Long-term liabilities		1,074,258
Net pension liability		2,341,584
Total pension liability		1,269,385
OPEB liability		7,717,811
Total non-current liabilities		13,743,346
Total liabilities		**16,719,818**
Deferred Inflows of Resources		
Deferred inflows related to pensions		1,272,853
Deferred inflows related to OPEB		3,054,215
Total deferred inflows of resources		4,327068
Net Position		
Net Investment in Capital Assets		72,815,339
Restricted for:		
Nonexpendable		10,000
Expendable		1,999,978
Student Loans		-
Unrestricted (deficit)		(11,481,928)
Total Net Position	**$**	**63,343,390**

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, 2019

Operating Revenues	
Student tuition and fees, net of scholarship discounts and allowances	$ 5,074,676
Auxiliary enterprise sales	905,474
State and local grants and contracts	8,959,953
Federal grants and contracts	1,130,051
Other operating revenues	646,904
Total operating revenue	16,717,058
Operating Expenses	
Salaries and wages	14,328,467
Benefits	4,939,273
Scholarships and fellowships	8,167,319
Supplies and materials	1,363,392
Depreciation	2,362,834
Purchased services	958,575
Utilities	642,810
Other operating expenses	2,781,479
Total operating expenses	35,544,149
Operating income (loss)	(18,827,091)
Non-Operating Revenues (Expenses)	
State appropriations	11,381,360
Federal Pell grant revenue	3,955,684
Investment income, gains and losses	38,324
Building fee remittance	(492,116)
Innovation fund remittance	(115,774)
Interest on indebtedness	(18,304)
Other revenues (expenses)	(4,620)
Net non-operating revenue (expenses)	**14,749,174**
Loss before capital appropriations	(4,077,917)
Capital Contributions	
Capital appropriations	2,963,990
Capital gifts	101,357
Increase (Decrease) in net position	(1,012,570)
Net Position	
Net position, beginning of year	64,355,960
Net position, end of year	$ **63,343,390**

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

Grays Harbor College

Statement of Cash Flows

For the Year Ended June 30, 2019

Cash flows from operating activities	
Student tuition and fees	$ 4,095,362
Grants and contracts	10,030,706
Payments to vendors	(2,182,776)
Payments for utilities	(644,287)
Payments to employees	(13,705,862)
Payments for benefits	(5,026,445)
Auxiliary enterprise sales	924,411
Payments for scholarships and fellowships	(8,167,319)
Other receipts (payments)	(1,914,686)
Net cash used by operating activities	(16,590,896)
Cash flows from noncapital financing activities	
State appropriations	**9,582,300**
Pell grants	3,955,684
Building fee remittance	(472,591)
Innovation fund remittance	(106,707)
Net cash provided by noncapital financing activities	12,958,686
Cash flows from capital and related financing activities	
Proceeds of capital debt	148,185
Capital appropriations	2,435,885
Purchases of capital assets	(3,537,262)
Principal paid on capital debt	955,000
Interest paid	(18,304)
Net cash used by capital and related financing activities	(16,497)
Cash flows from investing activities	
Purchase of investments	(9,521)
Income of investments	38,324
Net cash provided by investing activities	28,804
Increase in cash and cash equivalents	(3,619,903)
Cash and cash equivalents at the beginning of the year	6,984,562
Cash and cash equivalents at the end of the year	3,364,659

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss	(18,827,091)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	2,362,834
Changes in assets and liabilities	
Receivables, net	(797,974)
Inventories	14,657
Other assets	171,604 -
Accounts payable	99,490
Accrued liabilities	726,237
Unearned revenue	(173,416)
Compensated absences	78,645
Pension liability adjustment	(245,882)
Net cash used by operating activities	$ (16,590,896)

Significant Noncash Transactions	
Capital assets acquired through gifts	101,357

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

GRAYS HARBOR COLLEGE FOUNDATION

STATEMENT! OF FINANCIAL POSITION

June 30, 2019

ASSETS

	2019
CURRENT ASSETS:	
Cash and cash equivalents	$ 354,732
Investments	8,692,636
Promises to give--current	570,052
Total current assets	9,617,420
OTHER ASSETS:	
Long-term investments	2,696,546
Assets held for investment	42,876
Other long-term assets	40,605
Total other assets	2,780,027
Total assets	$ 12,397,447

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	$ 978
NET ASSETS:	
Net assets without donor restrictions:	
Board designated	367,802
Undesignated	332,839
Total net assets without restrictions	700,641
Net assets with donor restrictions:	
Restricted for specified purpose	6,532,862
Restricted in perpetuity	5,162,966
Total net assets with donor restrictions	11,695,828
Total net assets	12,396,469
Total liabilities and net assets	$ 12,397,447

GRAYS HARBOR COLLEGE FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended June 30, 2019

	2019			
	Without Donor Restrictions	With Donor Restrictions		
		Specified Purpose	In Perpetuity	Total
SUPPORT AND REVENUE:				
Gifts and contributions	$ 57,004	$ 991,591	$ -	$ 1,048,595
Investment income--net	113,630	746,121	-	859,751
Special event revenue--net	55,704	50	-	55,754
In-kind contributions	10,845	-	-	10,845
Income from other long-term assets	4,567	-	-	4,567
Gain (loss) on sale of other investments	(41,172)	-	-	(41,172)
Net assets released from restrictions -- satisfied by expenditures for specified purposes	843,804	(843,804)	-	-
Total support and revenue	1,044,382	893,958	-	1,938,340
FUNCTIONAL EXPENSES:				
Program services--				
Awards, grants and scholarships	645,746	-	-	645,746
Other college support	155,922	-	-	155,922
Total program services	801,668	-	-	801,668
Fundraising	22,347	-	-	22,347
Management and general	70,223	-	-	70,223
Total expenses	894,238	-	-	894,238
INCREASE IN NET ASSETS	150,144	893,958	-	1,044,102
NET ASSETS, beginning	550,497	5,638,904	5,162,966	11,352,367
NET ASSETS, ending	$ 700,641	$ 6,532,862	$ 5,162,966	$ 12,396,469

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

GRAYS HARBOR COLLEGE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2019

	2019						
	Program Services			Support Services			
	Awards, Grants and Scholarships	Other College Support	Total Program Services	Fundraising	Management and General	Total Support Services	Total
EXPENSES:							
Grants and allocations	$ 636,834	$ 153,832	$ 790,666	$ -	$ -	$ -	$ 790,666
Salaries, wages and benefits	8,912	2,090	11,002	11,002	50,361	61,363	72,365
Insurance	-	-	-	-	2,376	2,376	2,376
Office expense	-	-	-	-	906	906	906
In-kind expense	-	-	-	10,845	-	10,845	10,845
Miscellaneous	-	-	-	500	6,976	7,476	7,476
Professional fees	-	-	-	-	9,604	9,604	9,604
Total expenses	$ 645,746	$ 155,922	$ 801,668	$ 22,347	$ 70,223	$ 92,570	$ 894,238

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

GRAYS HARBOR COLLEGE FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended June 30, 2019

	2019
CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase in net assets	$ 1,044,102
Adjustments to reconcile increase in net assets to net cash used by operating activities--	
Unrealized and realized gains on investments	(545,785)
Dividends and interest reinvested in investments	(364,933)
Contributions and earnings restricted for investment in endowments	-
Gain (loss) on sale of other investments	41,172
Noncash income--limited partnership	(4,567)
(Increase) decrease in--	
Promises to give	(516,552)
Increase (decrease) in--	
Accounts payable	978
Net cash used by operating activities	(345,585)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale of investments	2,103,979
Proceeds from sale of other investments	21,828
Purchase of investments	(1,550,650)
Net cash provided (used) by investing activities	575,157
CASH FLOWS FROM FINANCING ACTIVITIES:	
Contributions and earnings restricted for investment in endowments	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	229,572
CASH AND CASH EQUIVALENTS, at beginning of year	125,160
CASH AND CASH EQUIVALENTS, at end of year	$ 354,732
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:	
Noncash proceeds from sale of other investments--notes receivable held by limited partnership (see Note G.)	$ -

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

Notes to the Financial Statements

June 30, 2019

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 that is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.
The Foundation's financial statements are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2019, the Foundation distributed approximately *$636,834* to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at Grays Harbor College, 1620 Edward P. Smith Drive, Aberdeen WA, 360-538-4243.

Basis of Presentation

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

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

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, 2019, 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. The Foundation is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code.

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 net position, expendable –** 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 principle..
>
> **Unrestricted net position –** 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, 2019 are $1,249,989.

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. For FY19, the building fee remittance was $492,116 and the innovation fund remittance was $115,774.

Use of Estimates
Allowances for uncollectible accounts are estimated based on aging and historical data on collection of various receivables. Actual results could differ from these estimates, though the College believes these allowances are adequate.

Note 2 - Accounting and Reporting Changes

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.

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

Note 3 - Deposits and Investments

Deposits
Cash and cash equivalents include bank demand deposits and petty cash held at the College. As of June 30, 2019, the carrying amount of the College's cash and equivalents was $3,364,659 as represented in the table below:

Cash and Cash Equivalents		June 30, 2019
Petty Cash and Change Funds	$	7,775
Bank Demand and Time Deposits		3,356,884
Total Cash and Cash Equivalents	**$**	**3,364,659**

Cash and cash equivalents include restricted cash and cash equivalents of $1,999,978 at June 30, 2019. The majority of the restricted balances comes from the collection of student self-assessed fees for their contribution towards the construction of the athletic multi-purpose field project.

Custodial Credit Risks—Deposits

Custodial credit risk is the risk that in the event of the failure of the depository financial institution, the College would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The College's deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All of the College's securities are registered in the College's name by the custodial bank. As a result, custodial credit risk for such investments is not applicable.

Investments – Operating Funds

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

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, 2019, $1,982,841 of the College's operating fund investments, held by Bank of the Pacific is exposed to custodial credit risk as follows:

	Investment Maturities (in Years)				
Investment Type	**Fair Value**	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10**
Time Certificate of Deposits	1,982,841	1,982,841	-	-	-
Total Investments	**1,982,841**	**1,982,841**	**-**	**-**	**-**

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, 2019, accounts receivable were as follows:

Accounts Receivable		**Amount**
Student Tuition and Fees	$	679,891
Due from the Federal Government		273,994
Due from Other State Agencies		1,759,776
Due from Other Governments		629,332
Auxiliary Services		-
Other		4,461
Subtotal		3,347,454
Less Allowance for Uncollectible Accounts		(39,064)
Accounts Receivable, net	**$**	**3,308,390**

Note 5 – Inventories

Inventories as of June 30, 2019, were as follows:

Inventories	Method	Amount
Merchandise Inventories (FIFO)		182,972
Inventories		**$ 182,972**

Note 6 - Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2019 is presented as follows. The current year depreciation expense was $2,362,834.

Capital Assets	**Beginning Balance**	**Additions/ Transfers**	**Retirements**	**Ending Balance**
Capital assets, non-depreciable				
Land	$ 177,724	$ -	$ -	$ 177,724
Construction in progress	331,688	2,137,817	-	2,469,505
Total capital assets, non-depreciable	509,412	2,137,817	-	2,647,229
Capital assets, depreciable				
Buildings	92,010,027	59,060	(1,624,030)	90,445,057
Other improvements and infrastructure	901,017	1,214,219	-	2,115,236
Equipment	3,344,635	286,512	(23,319)	3,607,828
Library resources	279,578	41,495	(37,026)	284,047
Total capital assets, depreciable	96,535,257	1,601,286	(1,684,375)	96,452,168
Less accumulated depreciation				
Buildings	21,019,373	2,155,346	(1,426,788)	21,747,931
Other improvements and infrastructure	401,521	37,291	-	438,812
Equipment	2,890,508	134,795	(17,253)	3,008,050
Library resources	132,402	37,763	(37,026)	133,139
Total accumulated depreciation	24,443,804	2,365,195	(1,481,067)	25,327,932
Total capital assets, depreciable, net	72,091,453	(763,909)	(203,308)	71,124,236
Capital assets, net	**$ 72,600,865**	**$ 1,373,908**	**$ (203,308)**	**$ 73,771,465**

Note 7 - Accounts Payable and Accrued Liabilities

Accrued liabilities as of June 30, 2019, were as follows:

Accounts Payable and Accrued Liabilities		Amount
Amounts Owed to Employees	$	1,942,337
Accounts Payable		250,448
Due to Other Agencies		133,379
Total	**$**	**2,326,164**

Note 8 - Unearned Revenue

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

Unearned Revenue		Amount
Summer Quarter Tuition & Fees	$	212,801
Total Unearned Revenue	$	212,801

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. The college finances these costs by assessing all funds a monthly payroll expense for unemployment compensation for all employees. Payments made for claims from July 1, 2018 through June 30, 2019, were $8,715.

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 $916,790 and accrued sick leave totaled $660,043 at June 30, 2019.

Accrued annual and sick leave are categorized as non-current liabilities, with the current portion listed separately on the financial statements.

Note 11 - Leases Payable

Operating Leases

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

As of June 30, 2019, the minimum lease payments under operating leases consist of the following:

Fiscal year	Operating Leases	
2020	$	31,148
2021		28,028
2022		17,652
2023		6,082
Total minimum lease payments	**$**	**82,910**

Note 12 - Notes Payable

In 2018, the College obtained financing in order to renovate the upper campus parking lot, through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $955,000. The students assessed themselves, on a quarterly basis, a mandatory fee to service the debt starting in 2019. The interest rate charged is 3.35725%.

Student fees related to the COP are accounted for in a dedicated fund, which is used to pay principal and interest.

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

Note 13 - Annual Debt Service Requirements

Future debt service requirements at June 30, 2019 are as follows:

Certificates of Participation						
Fiscal year	**Principal**		**Interest**		**Total**	
2020	$	30,000	$	47,000	$	77,000
2021		30,000		45,500		75,500
2022		30,000		44,000		74,000
2023		35,000		42,375		77,375
2024		35,000		40,625		75,625
2025-2029		205,000		174,375		379,375
2030-2034		255,000		116,875		371,875
2035-2039		335,000		43,625		378,625
Total	**$**	**955,000**	**$**	**554,375**	**$**	**1,509,375**

Note 14 - Schedule of Long Term Liabilities

	Balance outstanding 6/30/18	Additions	Reductions	Balance outstanding 6/30/19	Current portion
Certificates of Participation	$ -	$ 955,000	$ -	$ 955,000	$ 30,000
Compensation absences	1,498,188	825,705	747,060	1,576,833	236,525
Net pension liability	3,255,816	-	914,232	2,341,584	-
Total pension liability	1,084,790	211,219	-	1,296,009	26,624
OPEB liability	8,829,937	-	967,768	7,862,169	144,358
Total	**$ 14,668,731**	**$ 1,991,924**	**$ 2,629,060**	**$ 14,031,595**	**$ 437,507**

Note 15 - Retirement Plans

A. General

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

Basis of Accounting

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

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

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 and No. 73 for the College, for fiscal year 2019:

Aggregate Pension Amounts - All Plans		
Pension Liabilities	$	3,637,593
Deferred outflows of resources related to pensions	$	1,174,098
Deferred inflows of resources related to pensions	$	1,272,853
Pension Expense	$	(586,688)

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

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

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

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

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

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

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

Higher Education

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

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

PERS

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

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

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

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

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

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, capped at 60 percent. The AFC is the average of the member's 24 highest consecutive service months.

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

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

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

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

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

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

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

TRS

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

TRS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

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

<u>Benefits Provided.</u> TRS plans provide retirement, disability, and death benefits to eligible members.
TRS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) for each year of service credit, up to a maximum of 60 percent. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two.

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

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

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

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

Contributions
PERS and TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. The methods used to determine contribution requirements are established under state statute.

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

The employer contribution rates (expressed as a percentage of covered payroll) and actual contributions for the year ended June 30, 2019 were as follows:

	PERS 1	PERS 2/3*	TRS 1	TRS 2/3*
Contribution Rate	12.83%	12.83%	15.41%	15.41%
Actual Contributions	$ 206,621	$ 299,722	$ 94,766	$ 100,516

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

Actuarial Assumptions
The total pension liability was determined by an actuarial valuation as of June 30, 2017, with the results rolled forward to the June 30, 2018, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of the WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

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

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

The Office of the State Actuary (OSA) selected a 7.40 percent long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered CMAs and simulated expected investment returns provided by the WSIB. Refer to the 2017 Report on Financial Condition and Economic Experience Study on the OSA website for additional background on how this assumption was selected.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the following table:

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Fixed Income	20%	1.7%
Tangible Assets	7%	4.9%
Real Estate	18%	5.8%
Global Equity	32%	6.3%
Private Equity	23%	9.3%
Total	**100%**	

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

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

Discount rate

The discount rate used to measure the total pension liability was 7.40 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.50 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.40 percent future investment rate of return on invested assets was assumed for the test.

Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including PERS Plan 2/3 and TRS Plan 2/3 employers whose rates include a component for the PERS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40 percent on pension plan investments was applied to determine the total pension liability.

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

The following presents the net pension liability of the College calculated using the discount rate of 7.40 percent, as well as what the College's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.40 percent) or 1-percentage-point higher (8.40 percent) than the current rate.

Pension Plan	1% Decrease (6.40%)	Current Discount Rate (7.40%)	1% Increase (8.40%)
PERS 1	1,579,639	1,285,350	1,030,473
PERS 2/3	2,764,647	604,418	(1,166,719)
TRS 1	495,583	396,494	310,722
TRS 2/3	344,817	55,323	(179,845)

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

Pension Liabilities. At June 30, 2019, the College reported a total pension liability of $2,341,584 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	$1,285,350
PERS 2/3	$ 604,418
TRS 1	$ 396,494
TRS 2/3	$ 55,323

The College's proportionate share of pension liabilities for fiscal years ending June 30, 2018 and June 30, 2019 for each retirement plan are listed below:

Pension Plan	2017	2018	Change
PERS 1	0.030860%	0.028781%	-0.002079%
PERS 2/3	0.036853%	0.035400%	-0.001453%
TRS 1	0.013846%	0.013576%	-0.000270%
TRS 2/3	0.010015%	0.012291%	0.002276%

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

Pension Expense. For the year ended June 30, 2019 the College recognized pension expense as follows:

	Pension Expense
PERS 1	$ 11,683
PERS 2/3	$ 16,722
TRS 1	$ 34,181
TRS 2/3	$ 39,075
Total	**$ 101,661**

Deferred Outflows of Resources and Deferred Inflows of Resources. The following represent the components of the College's deferred outflows and inflows of resources as reflected on the Statement of Net Position, for the year ended June 30, 2019.

	PERS 1	
	Deferred Outflows	**Deferred Inflows**
Difference between expected and actual experience	-	-
Difference between expected and actual earnings of pension plan investments	-	51,080
Changes of assumptions	-	-
Changes in College's proportionate share of pension liabilities	-	-
Contributions subsequent to the measurement date	206,621	-
Totals	**$ 206,621**	**$ 51,080**

	PERS 2/3	
	Deferred Outflows	**Deferred Inflows**
Difference between expected and actual experience	74,086	105,823
Difference between expected and actual earnings of pension plan investments	-	370,899
Changes of assumptions	7,071	172,013
Changes in College's proportionate share of pension liabilities	65,451	51,618
Contributions subsequent to the measurement date	299,722	-
Totals	**$ 446,329**	**$ 700,352**

TRS 1				
	Deferred Outflows		Deferred Inflows	
Difference between expected and actual experience		-		-
Difference between expected and actual earnings of pension plan investments		-		16,956
Changes of assumptions		-		-
Changes in College's proportionate share of pension liabilities		-		-
Contributions subsequent to the measurement date		94,766		-
Totals	**$**	**94,766**	**$**	**16,956**

TRS 2/3				
	Deferred Outflows		Deferred Inflows	
Difference between expected and actual experience		25,998		4,085
Difference between expected and actual earnings of pension plan investments		-		46,788
Changes of assumptions		941		22,232
Changes in College's proportionate share of pension liabilities		40,439		11,770
Contributions subsequent to the measurement date		100,517		-
Totals	**$**	**167,895**	**$**	**84,875**

The $701,626 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, 2020.

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

Year ended June 30:	PERS 1	PERS 2/3	TRS 1	TRS 2/3
2020	2,235	(41,498)	1,697	8,033
2021	(11,166)	(119,189)	(3,510)	(9,351)
2022	(33,507)	(226,083)	(12,057)	(23,923)
2023	(8,641)	(83,127)	(3,085)	(3,665)
2024	-	(30,175)	-	2,920
Thereafter	-	(53,673)	-	8,488
Total Net Deferred (Inflows)/Outflows	**(51,080)**	**(553,757)**	**(16,956)**	**(17,498)**

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. The 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, 2019 were each $588,722.

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, 2019, supplemental benefits were paid by the SBCTC on behalf of the system in the amount of $1,818,000. The College's share of this amount was $21,349. 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 2019, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $33,958. 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, 2019, the Community and Technical College system accounted for $19,733,342 of the fund balance.

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

Salary increases 3.50%-4.25%
Fixed Income and Variable Income Investment Returns* 4.25%-6.50%
**Measurement reflects actual investment returns through June 30, 2018*

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

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

Material assumption changes during the measurement period include the discount rate decrease from 3.87 percent to 3.50 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 3.50 percent for the June 30, 2019, measurement date.

Pension Expense. Pension expense for the fiscal year ending June 30, 2019 was $34,629.

Proportionate Share (%)		**1.17408%**
Service Cost	$	33,478
Interest		40,495
Amortization of Differences Between Expected and Actual Experience		(44,090)
Amortization of Changes of Assumptions		4,997
Changes of Benefit Terms		-
Administrative Expenses		-
Other Changes in Fiduciary Net Position		-
Proportionate Share of Collective Pension Expense		**34,881**
Amortization of the Change in Proportionate Share of TPL		(252)
Total Pension Expense	**$**	**34,629**

<u>Proportionate Shares of Pension Liabilities</u>. The College's proportionate share of pension liabilities for fiscal year ending June 30, 2019 was 1.17%. 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 College's change in proportionate share of the total pension liability and deferred inflows and deferred outflows of resources are represented in the following table:

Proportionate Share (%) 2018	**1.24%**
Proportionate Share (%) 2019	**1.17%**
Total Pension Liability - Ending 2018	$ 1,084,790
Total Pension Liability - Beginning 2019	1,023,481
Total Pension Liability - Change in Proportion	(61,309)
Total Deferred Inflow/Outflows - 2018	438,729
Total Deferred Inflow/Outflows - 2019	413,933
Total Deferred Inflows/Outflows - Change in Proportion	(24,796)
Total Change in Proportion	**$ (86,105)**

<u>Plan Membership</u>. Membership in the State Board Supplemental Retirement Plan consisted of the following as of June 30, 2018, the most recent actuarial valuation date:

	Number of Participating Members			
Plan	**Inactive Members or Beneficiaries Currently Receiving Benefits**	**Inactive Members Entitled to But Not Yet Receiving Benefits**	**Active Members**	**Total Members**
SRP	5	11	61	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, 2019:

Schedule of Changes in Total Pension Liability

		Amount
Service Cost	$	33,478
Interest		40,495
Changes of Benefit Terms		-
Differences Between Expected and Actual Experience		76,348
Changes in Assumptions		143,556
Benefit Payments		(21,349)
Change in Proportionate Share of TPL		(61,309)
Other		-
Net Change in Total Pension Liability		211,219
Total Pension Liability - Beginning		1,084,790
Total Pension Liability - Ending	**$**	**1,296,009**

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 3.50 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 (2.50 percent) or 1 percentage point higher (4.50 percent) than the current rate:

	1% Decrease (2.50%)		Current Discount Rate (3.50%)		1% Increase (4.50%)
$	1,480,879	$	1,296,008	$	1,142,497

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

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

		Deferred Outflows of Resources		Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$	66,031	$	271,643
Changes of Assumptions		124,156	$	73,479
Changes in College's proportionate share of pension liability		68,301	$	-
Transactions Subsequent to the Measurement Date		-		-
Total	**$**	**258,488**	**$**	**345,122**

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

	State Board Supplemental Retirement Plan
2020	(27,708.60)
2021	(27,708.60)
2022	(27,708.60)
2023	(27,708.60)
2024	(8,356.92)
Thereafter	32,557.30

Note 16 - Other Post-Employment Benefits

Plan Description. In addition to pension benefits as described in Note 15, the College, through the Health Care Authority (HCA), administers a single employer defined benefit other postemployment benefit (OPEB) plan. Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life, and long-term disability.

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

The PEBB OPEB plan is administered by the state and is funded on a pay-as-you-go basis. In the state CAFR, the plan is reported in governmental funds using the modified accrual basis and the current financial resources measurement focus. For all proprietary and fiduciary funds, the OPEB plan is reported using the economic resources measurement focus and the accrual basis of accounting. The PEBB OPEB plan has no assets and 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 College consisted of the following:

Summary of Plan Participants
As of June 30, 2018

Active Employees*	186
Retirees Receiving Benefits**	69
Retirees Not Receiving Benefits***	2
Total Active Employees and Retirees	257

*Reflects active employees eligible for PEBB program participation as of June 30, 2018.
**Headcounts exclude spouses of retirees that are participating in a PEBB program as a dependent.
***This is an estimate of the number of retirees that may be eligible to join a post-retirement PEBB program in the future. No benefits are allowed to them unless they choose to join in the future. In order to do so, they must show proof of continuous medical coverage since their separation of employment with the State of Washington that meets the requirements set forth in Washington Administrative Code 182-12-205.

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

Benefits Provided. Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In calendar year 2017, the average weighted implicit subsidy was valued at $327 per adult unit per month, and in calendar year 2018, the average weighted implicit subsidy was valued at $347 per adult unit per month. In calendar year 2019, the average weighted implicit subsidy is projected to be $368 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 2017, the explicit subsidy was up to $150 per member per month, and it remained up to $150 per member per month in calendar years 2018. This was increased in calendar year 2019 up to $168 per member per month. It is projected to increase to $183 per member per month in calendar year 2020.

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

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

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

Required Premium*		
Medical	$	1,092
Dental		79
Life		4
Long-term Disability		2
Total		1,177
Employer contribution		1,017
Employee contribution		160
Total	$	1,177

*Per 2019 PEBB Financial Projection Model 7.0. Per capita cost based on subscribers; includes non-Medicare risk pool only. Figures based on CY2019 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, 2019, the state reported a total OPEB liability of $5.08 billion. The College's proportionate share of the total OPEB liability is $7,862,169. This liability was determined based on a measurement date of June 30, 2018.

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

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

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

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

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

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

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

Discount Rate. Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.58 percent for the June 30, 2017 measurement date and 3.87 percent for the June 30, 2018 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, 2019, components of the calculation of total OPEB liability determined in accordance with GASB Statement No. 75 for the College are represented in the following table:

Grays Harbor College		
Proportionate Share (%)		**0.1548087467%**
Service Cost	$	491,555
Interest Cost		337,941
Differences Between Expected and Actual Experience		308,475
Changes in Assumptions*		(2,151,955)
Changes of Benefit Terms		-
Benefit Payments		(142,730)
Changes in Proportionate Share		188,946
Other		-
Net Change in Total OPEB Liability		(967,768)
Total OPEB Liability - Beginning		8,829,937
Total OPEB Liability - Ending	**$**	**7,862,169**

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

Sensitivity of the Total Liability to Changes in the Discount Rate. The following represents the total OPEB liability of the College, calculated using the discount rate of 3.87 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 (2.87 percent) or 1 percentage point higher (4.87 percent) than the current rate:

Discount Rate Sensitivity

1% Decrease	Current Discount Rate	1% Increase
$ 9,479,927	$ 7,862,169	$ 6,599,967

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

Health Care Cost Trend Rate Sensitivity

1% Decrease	Current Discount Rate	1% Increase
$ 6,454,079	$ 7,862,169	$ 9,734,661

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

For the year ending June 30, 2019, the College will recognize OPEB expense of $485,164. OPEB expense consists of the following elements:

Grays Harbor College		
Proportionate Share (%)		**0.1548087467%**
Service Cost	$	491,555
Interest Cost		337,941
Amortization of Differences Between Expected and Actual Experience		34,275
Amortization of Changes in Assumptions		(394,333)
Changes of Benefit Terms		-
Amortization of Changes in Proportion		15,726
Administrative Expenses		-
Total OPEB Expense	**$**	**485,164**

As of June 30, 2019, the deferred inflows and deferred outflows of resources for the College are as follows:

Grays Harbor College				
Proportionate Share (%)		**0.1548087467%**		
Deferred Inflows/Outflows of Resources		**Deferred Inflows**		**Deferred Outflows**
Difference between expected and actual experience	$	-	$	274,200
Changes in assumptions		2,999,437		-
Transactions subsequent to the measurement date		-		144,358
Changes in proportion		54,779		188,420
Total Deferred Inflows/Outflows	**$**	**3,054,216**	**$**	**606,978**

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, 2020. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense in subsequent years for the College as follows:

Proportionate Share (%)		**0.1548087467%**
2019	$	(344,332)
2020	$	(344,332)
2021	$	(344,332)
2022	$	(344,332)
2023	$	(344,332)
Thereafter	$	(869,936)

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

Proportionate Share (%) 2017		**0.1515655014%**
Proportionate Share (%) 2018		**0.1548087467%**
Total OPEB Liability - Ending 2017	$	8,829,937
Total OPEB Liability - Beginning 2018		9,018,883
Total OPEB Liability Change in Proportion		188,946
Total Deferred Inflows/Outflows - 2017		(1,076,059)
Total Deferred Inflows/Outflows - 2018		(1,099,085)
Total Deferred Inflows/Outflows Change in Proportion		(23,026)
Total Change in Proportion	**$**	**211,972**

Note 17 – Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summarizes operating expenses by program or function such as instruction, research, and academic support. The following table lists operating expenses by program for the year ending June 30, 2019.

Expenses by Functional Classification

Instruction	$	10,771,879
Academic Support Services		2,312,213
Student Services		3,905,886
Institutional Support		4,016,795
Operations and Maintenance of Plant		2,105,076
Scholarships and Other Student Financial Aid		8,299,245
Auxiliary enterprises		1,770,220
Depreciation		2,362,835
Total operating expenses	**$**	**35,544,149**

Note 18 - Commitments and Contingencies

As of June 30, 2019 the College has an outstanding commitment of approximately $547,000 for design and architectural services during the construction phase of the new Student Services building. Funding for construction has not been approved by the legislature, but is anticipated for the 21-23 biennium.

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

Note 19 - Subsequent Events

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures have been ordered to slow the spread of the virus. These measures include closing schools, colleges and universities, cancelling public events, and requiring people to stay home unless leaving for an essential function.

Management is currently in the process of developing a budget for fiscal year 2021 that will include the Governor's proposed fifteen per cent cut in State funding for 2021, and also the impact on tuition revenue due to the enrollment decline for Spring 2020, and projected decline for the next academic year.

The length of time the precautionary measures will be in place, and the full extent of the financial impact on the College is unknown at this time.

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%
2018	0.028781%	$ 1,285,369	$ 3,736,712	34.40%	63.22%
2019					
2020					
2021					
2022					
2023					

*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	0.033600%	$ 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%
2018	0.035400%	$ 604,423	$ 3,671,729	16.46%	95.77%
2019					
2020					
2021					
2022					
2023					

*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	0.013976%	$ 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%
2018	0.013576%	$ 396,500	$ 764,761	51.85%	66.52%
2019					
2020					
2021					
2022					
2023					

*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	0.853200%	$ 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%
2018	0.012291%	$ 55,324	$ 716,830	7.72%	96.88%
2019					
2020					
2021					
2022					
2023					

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

Pension Plan Information

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered 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%
2019	$ 208,923	$ 208,923	$ -	$ 4,009,234	5.21%
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Public Emplyees' Retirement System (PERS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered 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%
2019	$ 300,320	$ 300,320	$ -	$ 3,988,166	7.53%
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered 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	$ 56,459	$ 56,459	$ -	$ 764,761	7.38%
2019	$ 92,507	$ 92,507	$ -	$ 1,283,734	7.21%
2020					
2021					
2022					
2023					

Notes: These schedules will be built prospectively until they contain 10

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%
2019	$ 97,603	$ 97,603	$ -	$ 1,283,734	7.60%
2020					
2021					
2022					
2023					

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

State Board Supplemental Defined Benefit Plans

Grays Harbor College Fiscal Year Ended June 30	2017	2018	2019
Total Pension Liability			
Service Cost	$ 63,378	$ 47,624	$ 33,478
Interest	41,114	43,766	40,495
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(296,431)	(129,443)	76,348
Changes of assumptions	(70,006)	(43,791)	143,556
Benefit Payments	(10,595)	(16,177)	(21,349)
Change in Proportionate Share		70,808	(61,309)
Other		-	-
Net Change in Total Pension Liability	**(272,540)**	**(27,213)**	**211,219**
Total Pension Liability - Beginning	**1,384,543**	**1,112,003**	**1,084,790**
Total Pension Liability - Ending	**$ 1,112,003**	**$ 1,084,790**	**$ 1,296,009**
College's Proportion of the Pension Liability	1.169914%	1.244410%	1.174080%
Covered-employee payroll	$ 6,385,342	$ 7,009,203	$ 6,791,608
Total Pension Liability as a percentage of covered-employee payro	0.174149325	0.154766526	0.190825059

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

State Board Supplemental Defined Benefit Plans
Notes to Required Supplementary Information

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

Required Supplementary Information

Other Postemployment Benefits Information

Schedule of Changes in Total OPEB Liability and Related Ratios Measurement Date of June 30*				
Total OPEB Liability		**2019**		**2018**
Service cost	$	491,555	$	598,616
Interest cost		337,941		280,395
Difference between expected and actual experience		308,475		-
Changes in assumptions		(2,151,955)		(1,367,773)
Changes in benefit terms		-		-
Benefit payments		(142,730)		(142,894)
Changes in proportionate share		188,946		(71,511)
Other		-		-
Net Changes in Total OPEB Liability	$	(967,768)	$	(703,167)
Total OPEB Liability - Beginning	$	8,829,937	$	9,533,104
Total OPEB Liability - Ending	$	7,862,169	$	8,829,937
College's proportion of the Total OPEB Liability (%		0.15480875%		0.15156600%
Covered-employee payroll	$	12,081,256	$	11,825,467
Total OPEB Liability as a percentage of covered-employee payroll		65.077414%		74.668823%

*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.