GRAYS HARBOR COLLEGE

FISCAL YEAR 2014

FINANCIAL REPORT

Public Art installation: "Clearing" by Jill Anhalt. Schermer Building, Grays Harbor College.

GRAYS HARBOR COLLEGE
2014 Financial Statements
and
Required Supplementary Information

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Trustees and Administrative Officers

Washington State Auditor's Office

INDEPENDENT AUDITOR'S REPORT

June 21, 2016

Grays Harbor College
Aberdeen, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Grays Harbor College, Grays Harbor County, Washington, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements.

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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the Grays Harbor College Foundation, which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Grays Harbor College Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Grays Harbor College 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 opinion.

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of the Grays Harbor College, as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of the Grays Harbor College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2014, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 opinions on the financial statements that collectively comprise the College's basic financial statements as a whole. The listing of Trustees and Administrative Officers is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic 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 have also issued our report dated June 21, 2016 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.

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

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, 2014 (FY 2014). The 2014 report constitutes the college's inaugural audited financial statements. As a result, comparisons included in this discussion were made with unaudited information for the fiscal year ended June 30, 2013 (FY 2013), where available.

This overview provides readers with an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the College's financial statements and accompanying note disclosures.

Reporting Entity

Grays Harbor College is one of thirty-four public community and technical colleges in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs. The College confers associates degrees, certificates and high school diplomas. The college also serves Running Start students (dual enrollments) through contracts with local school districts, and provides basic skills and vocational training to Stafford Creek Correctional Center through a contract with the State of Washington Department of Corrections. For the fiscal year ending June 30, 2014, the College served 1,667 state funded FTE students (Full Time Equivalent), and 582 contract funded FTEs. Actual headcount for 2014 totaled 4,342 for state and contract funded students.

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

Using the Financial Statements

The financial statements presented in this report encompass the College and its discretely presented component unit. The College's financial statements include the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the College at a moment in time, at year-end. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over a period of time. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health as a whole.

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

Statement of Net Position

The Statement of Net Position provides information about the College's financial position, and presents the College's assets, deferred outflows, liabilities, deferred inflows and net position at year-end and includes all assets and liabilities of the College. A condensed comparison of the Statement of Net Position as of June 30, 2014 and 2013 is as follows:

Condensed Statement of Net Position

Condensed Statement of Net Position As of June 30th	**FY 2014**	**FY 2013** **(Unaudited)**
Assets		
Current Assets	11,567,308	11,181,284
Capital Assets, net	50,894,977	37,389,877
Other Assets, non-current	4,429,416	3,540,670
Total Assets	**$ 66,891,701**	**$ 52,111,831**
Deferred Outflows	**$ -**	**$ -**
Liabilities		
Current Liabilities	3,211,296	875,088
Other Liabilities, non-current	1,331,569	1,275,181
Total Liabilities	**$ 4,542,865**	**$ 2,150,269**
Deferred Inflows	**$ -**	**$ -**
Net Position	**$ 62,348,835**	**$ 49,961,562**

Current assets consist primarily of cash, short term investments, various accounts receivables and inventories. The significant increase of current assets in FY 2014 can be attributed primarily to the increase of cash and cash equivalents due to timing of receipts.

Net capital assets increased by approximately $13.5 million from FY 2013 to FY 2014. After taking into consideration current depreciation expense of approximately $1.5 million, the majority of the increase is the result of the construction in process of the Schermer Instructional Building which is expected to be completed in fall 2015.

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

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

The increase in current liabilities from FY 2013 to FY 2014 is primarily due to approximately $1.6 million in construction payables related to construction of the Schermer Instructional Building. This building was not under construction as of June 30, 2013.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees

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:

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

Restricted:

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

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

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

Condensed Net Position As of June 30th	**FY 2014**	**FY 2013** **(Unaudited)**
Invested in Capital Assets, net of related debt	$50,894,977	$37,389,877
Restricted		
Expendable	$2,308,805	$1,825,212
Unexpendable	$0	$0
Non-Restricted	$9,145,053	$10,746,473
Total Net Position	**$62,348,835**	**$49,961,562**

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 2014. The objective of the statement is to present the revenues received, both operating and non-operating, and the expenses paid 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 statement of revenues, expense and changes in net position is presented below. A single year is presented as part of this inaugural set of financial statements. Future years will include comparative information.

Condensed Statement of Revenue, Expenses and Changes in Net Position As of June 30th	**FY 2014**
Operating Revenues	11,486,749
Operating Expenses	25,955,386
Net Operating Loss	(14,468,637)
Non-Operating Revenues	13,582,742
Non-Operating Expenses	$ -
Gain (Loss) Before Other	(885,894)
Capital Appropriations	13,273,168
Increase (Decrease) in Net Position	12,387,273
Net Position, Beginning of the Year	49,961,562
Net Position, End of the Year	62,348,835

Revenues

Continuing a trend that began midway through fiscal year 2009, the College's state operating appropriations decreased multiple times up through FY 2013. 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. System-level appropriations hit their height in FY 2009 and as of FY 2013 had been reduced by almost 24%. In FY 2014, the Legislature reinstated a small portion of the previous cuts.

In the future, the SBCTC will roll out a new funding allocation model that will affect how state funding is allocated to the 34 institutions it oversees. The new model has been developed to give different weights to different types of programs, and allocate percentage of funding for student outcomes.

Over this same period, the Legislature and SBCTC instituted increases in tuition rates to partially offset the reduction in state appropriations. Enrollments decreased slightly in FY 2014 compared to FY 2013, and tuition revenue remained approximately the same. Tuition collections will vary depending on enrollment fluctuations, tuition increases, and the mix of state funded, contract, and/or Adult Basic Education (ABE) enrollments. The College serves some students and offers some programs on a fee-only basis, as allowed by law.

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

Expenses

Faced with severe budget cuts over the past five years, the College has continuously sought opportunities to identify savings and efficiencies. Over time, the College decreased spending and services and was subject to various state spending freezes and employee salary reductions.

More recently, in FY 2014, salary and benefit costs increased as result of student success and retention initiatives, resulting in adding new positions and adjustments in salaries to reflect added duties. Another important change was fully funding faculty increments with turnover savings realized in the prior year, and the restoration of the 3% salary cut to classified staff that occurred in the prior year.

Capital Assets and Long-Term Debt Activities

The community and technical college system submits a single prioritized request to the Office of Financial Management and the Legislature for appropriated capital funds, which includes major projects, minor projects, repairs, emergency funds, alternative financing and major leases. The primary funding source for college capital projects is state general obligation bonds. In recent years, declining state revenues significantly reduced the state's debt capacity and are expected to continue to impact the number of new projects that can be financed.

At June 30, 2014, the College had invested $50,894,977 in capital assets, net of accumulated depreciation. This represents an increase of approximately $13.5 million from last year, as shown in the table below.

Asset Type	June 30, 2014	June 30, 2013 (unaudited)	Change
Land	$177,724	$177,724	$0
Construction in Progress	$15,520,424	$0	$15,520,424
Buildings, net	$33,898,741	$35,788,861	($1,890,120)
Other Improvements and Infrastructure, net	$493,245	$521,334	($28,089)
Equipment, net	$679,246	$765,563	($86,317)
Library Resources, net	$125,597	$136,394	($10,797)
Total Capital Assets, Net	**$50,894,977**	**$37,389,876**	**$13,505,101**

The increase in net capital assets of approximately $13.5 million can primarily be attributed to the start of construction in July 2013 of the Schermer Instructional building that will house all science, math, art, and nursing programs. This new building will be ready for occupancy in fall of 2015. For additional information regarding capital assets, please refer to the Notes to the Financial Statements.

Economic Factors That Will Affect the Future

Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. More recently, when creating the 2013 – 2015 biennial budget, the state Legislature re-invested in community and technical colleges. They continued this trend with a supplemental budget that included community colleges as a key partner in an investment in aerospace training. As a result, the net reduction of community college funding between FY 2009 and expected funding levels by the end of FY 2015 will have been a little over 15 percent. These investments in community colleges allowed the Legislature to keep FY 2014 tuition flat for resident, non-resident and baccalaureate students. It's unclear how much opportunity there may be for additional investments in community and technical colleges in the next few years, as state budget writers continue to grapple with court-mandated basic education obligations.

Closer to home, the College continues to exercise fiscal caution in budgeting and spending, considering the decreases overall in enrollment since the economy has stabilized after the recession, and demographic shifts in the area. Typical of most community and technical colleges in the state, enrollment increases significantly in a recession as workers retrain and go back to school, and decrease when the economy strengthens and more jobs become available. The College has undertaken initiatives over the last few years to increase enrollment and retain students, and these initiatives take time to show progress.

The College will continue to focus on economic areas within our control: enrollment and retention, understanding and budgeting for the impact of the new allocation model, and continued fiscal caution in budgeting and spending.

Grays Harbor College
Statement of Net Position
June 30,2014

Assets		
Current assets		
Cash and cash equivalents		7,690,811
Short-term investments		250,247
Accounts Receivable, net		1,865,028
Due from State Treasurer		1,621,208
Inventories		140,013
	Total current assets	11,567,308
Non-Current Assets		
Restricted Cash and Cash Equivalents		1,789,036
Long-term investments		2,198,610
Long-term investments, restricted		441,770
Capital assets, net of depreciation		50,894,977
	Total non-current assets	55,324,393
	Total assets	**66,891,701**
Deferred Outflows of Resources		-
Total Deferred Outflows of Resources		-
Liabilities		
Current Liabilities		
Accounts Payable		1,720,769
Accrued Liabilities		1,243,281
Compensated absences		687
Deposits Payable		2,032
Unearned Revenue		244,527
	Total current liabilities	3,211,296
Noncurrent Liabilities		
Compensated Absences		1,331,569
	Total non-current liabilities	1,331,569
	Total liabilities	**4,542,865**
Deferred Inflows of Resources		
Total Deferred Inflows of Resources		
Net Position		
Net Investment in Capital Assets		50,894,977
Restricted for:		
Expendable		2,238,208
Student Loans		70,597
Unrestricted		9,145,053
Total Net Position		**62,348,835**
Total Liabilities and Net Position		**66,891,701**

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

Grays Harbor College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

Operating Revenues	
Student tuition and fees, net	3,266,087
Auxiliary enterprise sales	957,338
State and local grants and contracts	6,641,023
Federal grants and contracts	330,962
Other operating revenues	291,339
Total operating revenue	11,486,749
Operating Expenses	
Operating Expenses	1,820,265
Salaries and wages	11,123,249
Benefits	3,454,769
Scholarships and fellowships	5,637,351
Supplies and materials	1,342,872
Depreciation	1,517,747
Purchased services	567,164
Utilities	491,968
Total operating expenses	25,955,386
Operating income (loss)	(14,468,637)
Non-Operating Revenues & Expenses	
State appropriations	9,176,842
Federal Pell grant revenue	4,346,181
Investment income, gains and losses	59,719
Capital appropriations	13,273,168
Net non-operating revenues & expenses	26,855,910
Increase (Decrease) in net position	12,387,273
Net Position	
Net position, beginning of year	49,961,562
Net position, end of year	62,348,835

Grays Harbor College
Statement of Cash Flows
For the Year Ended June 30, 2014

Cash flow from operating activities	
Student tuition and fees	3,247,931
Grants and contracts	7,210,687
Payments to vendors	(167,672)
Payments for utilities	(456,634)
Payments to employees	(11,044,813)
Payments for benefits	(3,443,585)
Auxiliary enterprise sales	955,216
Payments for scholarships and fellowships	(5,637,351)
Other receipts (payments)	(2,948,842)
Net cash used by operating activities	(12,285,063)
Cash flow from noncapital financing activities	
State appropriations	9,691,281
Pell grants	4,346,181
Net cash provided by noncapital financing activities	14,037,462
Cash flow from capital and related financing activities	
Capital appropriations	12,707,940
Purchases of capital assets	(13,115,417)
Net cash used by capital and related financing activities	(407,477)
Cash flow from investing activities	
Purchase of investments	232,938
Income of investments	59,719
Net cash provided by investing activities	292,657
Increase in cash and cash equivalents	1,637,580
Cash and cash equivalents at the beginning of the year	7,842,268
Cash and cash equivalents at the end of the year	9,479,847
Reconciliation of Operating Loss to Net Cash used by Operating Activities	
Operating Loss	(14,468,637)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	1,517,747

Changes in assets and liabilities

Receivables , net	(1,210,481)
Inventories	92,981
Accounts payable	1,608,473
Accrued liabilities	180,824
Deferred revenue	8,990
Compensated absences	(14,961)
Net cash used by operating activities	(12,285,063)

Grays Harbor College Foundation (Component Unit)
Statement of Financial Position
June 30, 2014

ASSETS

CURRENT ASSETS:		2014
Cash and cash equivalents	$	212,602
Investments		6,347,951
Accounts receivable		-
Promises to give – current		340,969
Total current assets		6,901,522
OTHER ASSETS:		
Long-term investments		2,060,690
Long-term promises to give		1,800
Assets held for investment		63,000
Other long-term assets		108,443
Total other assets		2,233,933
Total assets	$	9,135,455

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$	15,508
NET ASSETS:		
Unrestricted--		
Board designated		191,197
Undesignated		843,880
Total unrestricted		1,035,077
Temporarily restricted		3,698,111
Permanently restricted		4,386,759
Total net assets		9,119,947
Total liabilities and net assets	$	9,135,455

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

Grays Harbor College Foundation (Component Unit)
Statement of Activities
For the year ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:				
Gifts and contributions	$ 307,458	$ 181,630	$ 42,667	$ 531,755
Investment Income	95,308	1,024,859	-	1,120,167
Special event revenue--net	-	49,786	-	49,786
In-kind contributions	7,950	-	-	7,950
Loss on sale of assets	-	-	-	-
Other income	-	12,936	-	12,936
Loss on prior year promises to give		(50,000)		(50,000)
Net assets released from restrictions	495,410	(495,410)	-	-
Total revenues and support	906,126	723,801	42,667	1,672,594
FUNCTIONAL EXPENSES:				
Program services--				
Awards, grants and scholarships	510,663	-	-	510,663
Other college support	198,700	-	-	198,700
Total program services	709,363	-	-	709,363
Fundraising	7,950	-	-	7,950
Management and general	99,029	-	-	99,029
Total expenses	816,342	-	-	816,342
INCREASE IN NET ASSETS	89,784	723,801	42,667	856,252
NET ASSETS, beginning	945,293	2,974,310	4,344,092	8,263,695
NET ASSETS, ending	$ 1,035,077	$ 3,698,111	$ 4,386,759	$ 9,119,947

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

1. Summary of Significant Accounting Policies

Financial Reporting Entity

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

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

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

The Foundation's financial statements are discretely presented in this report. 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, 2014, the Foundation distributed approximately $709,363 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 college follows all GASB pronouncements. 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.

New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), which improves accounting and financial reporting by state and local governments for pensions. This statement also supersedes GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as GASB Statement No. 50, *Pension Disclosures*. GASB 68 is effective for fiscal years beginning after June 15, 2014.

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.

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, if probable of collection.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

During the course of operations, numerous transactions occur between funds for goods provided and services rendered. For the financial statements, interfund 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.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand and bank demand deposits. For reporting purposes, cash equivalents consist of all highly liquid investments with an original maturity date of ninety days or less. 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 other charges for services provided to students, faculty and staff. This also includes amounts due from federal, state and local governments or private sources as allowed under the terms of grants and contracts. Accounts receivable are shown net of estimated uncollectible amounts.

Inventories

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

Capital Assets

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. 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 range from 15 to 50 years for buildings and improvements, 3 to 50 years for improvements other than buildings, 7 years for library resources, and 2 to 10 years for most equipment.

In accordance with GASB Statement 42, the college reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2014, 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. The College has recorded summer quarter tuition and fees as unearned revenue.

Tax Exemption

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

Net Position

The College's net position is classified as follows.

- *Net Investment in Capital Assets*. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Restricted for Nonexpendable*. This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument

that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.

- *Restricted for Loans*. The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- *Restricted for Expendable*. These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
- *Unrestricted*. These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

Classification of Revenues

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

Operating Revenues. This includes activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) most federal, state and local grants and contracts.

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

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, 2014 are $2,786,948.

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.

Operating Expenses

Operating expenses include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation. All other revenue and expenses of the College are reported as non-operating revenues and expenses including state general appropriations, Federal Pell grant revenues, investment income and interest expense.

2. Cash and Investments

Cash and cash equivalents include bank demand deposits and petty cash held at the College. Approximately $1,395,000 of cash and investments consists of student assessed fees restricted for the future construction of a new Student Union Building. Approximately $199,000 of cash consists of student assessed fees restricted for technology purchases and upgrades, approximately $636,000 consists of cash restricted for institutional aid to students, and $70,597 is restricted for student loans.

As of June 30, 2014, the carrying amount of the College's cash and equivalents was $9,479,847 as represented in the table below.

Cash and Cash Equivalents	June 30, 2014
Petty Cash and Change Funds	$8,832
Bank Demand and Time Deposits	$9,471,015
Total Cash and Cash Equivalents	**$9,479,847**

As of June 30, 2014, investments consist of time certificates of deposit with local banks.

Investment Maturities	Fair Value	One Year or Less	1 - 5 Years
Time Certificate of Deposits	$ 2,890,627	$ 250,247	$ 2,640,380
Total Investments	**$ 2,890,627**	**$ 250,247**	**$ 2,640,380**

Custodial Credit Risks—Deposits

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

Interest Rate Risk—Investments

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

Concentration of Credit Risk--Investments

State law limits College operating investments to the highest quality sectors of the domestic fixed income market and specifically excludes corporate stocks, corporate and foreign bonds, futures contracts, commodities, real estate, limited partnerships and negotiable certificates of deposit. College policy does not limit the amount the College may invest in any one issuer. The College does not hold any investments in the domestic fixed income market at June 30, 2014.

3. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2014, accounts receivable were as follows.

Student Tuition and Fees	$	616,750
Due from the Federal Government	$	426,893
Due from Other State Agencies	$	748,740
Auxiliary Enterprises	$	68,151
Other	$	26,190
Subtotal	$	1,886,724
Less Allowance for Uncollectible Accounts	$	(21,696)
Accounts Receivable, net	**$**	**1,865,028**

4. Inventories

Inventories consist of merchandise inventories, primarily in the College bookstore. The balances as of June 30, 2014, are $140,013 at cost, using FIFO or the first in/first out method.

5. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2014 is presented as follows. The current year depreciation expense was $1,517,747.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 177,724			$ 177,724
Construction in progress		15,520,424		15,520,424
Total nondepreciable capital assets	177,724	15,520,424	0	15,698,148
Depreciable capital assets				
Buildings	48,996,396	260,851	(1,765,200)	47,492,047
Other improvements and infrastructure	778,746			778,746
Equipment	3,098,444	112,568	(26,456)	3,184,556
Library resources	979,357	25,878	(16,875)	988,360
Subtotal depreciable capital assets	53,852,943	399,297	(1,808,531)	52,443,709
Less accumulated depreciation				
Buildings	13,207,535	1,254,094	(868,326)	13,593,303
Other improvements and infrastructure	257,411	28,090		285,501
Equipment	2,332,881	198,885	(26,456)	2,505,310
Library resources	842,963	36,678	(16,875)	862,766
Total accumulated depreciation	16,640,790	1,517,747	(911,657)	17,246,880
Total depreciable capital assets	37,212,153	(1,118,450)	(896,874)	35,196,829

6. Unearned Revenue

Unearned revenue is comprised of receipts which have not yet met revenue recognition criteria, and consist of summer quarter tuition and fees. At June 30, 2014, the balance is $244,527.

7. Risk Management

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2013 through June 30, 2014, were $24,275.

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.

8. Accrued Leave Liabilities/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. Accrued annual and sick leave are categorized as non-current liabilities. The College has the following activity for vacation and sick leave balances for the year ended June 30, 2014.

	Balance	Additions	Reductions	Balance
Leave Type	**June 30, 2013**			**June 30, 2014**
Sick	$ 598,618	$ 158,749	$ 127,798	$ 629,569
Vacation	$ 676,563	$ 537,012	$ 511,578	$ 702,000
	$ 1,275,181	$ 695,761	$ 639,376	$ 1,331,569

9. Leases Payable

The College leases office equipment from various vendors. These leases are classified as operating leases. As of June 30, 2014, the minimum lease payments under operating leases consist of the following.

2014	23,340
2015	23,340
2016	14,453
2017	5,077
2018	292
Total minimum lease payments	$66,502

NPV has not been calculated due to immateriality.

10. Pension Plans

The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) plans are cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Services. The **State Board Retirement Plan (SBRP)** is a multiple employer defined contribution plan for the faculty and exempt administrative and professional staff of the state's public community and technical colleges. The plan includes supplemental payment, when required. The plan is administered by the State Board for Community and Technical Colleges (SBCTC).

For the year ending June 30, 2014, covered payroll for the three plans was $3,939,837 for PERS, $510,087 for TRS, and $5,849,656 for SBRP. Total covered payroll was $10,299,580.

PERS and TRS

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

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

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

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

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

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

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2012, 2013, and 2014 are as follows:

Contribution Rates at June 30						
	FY2012		FY2013		FY2014	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	7.08%	6.00%	7.21%	6.00%	9.21%
Plan 2	4.64%	7.08%	4.64%	7.21%	4.92%	9.21%
Plan 3	5 - 15%	7.08%	5 - 15%	7.21%	5 - 15%	9.21%
TRS						
Plan 1	6.00%	8.04%	6.00%	8.05%	6.00%	10.39%
Plan 3	5-15%	8.04%	5-15%	8.05%	5-15%	10.39%

The contributions required, in actual dollars, for the years 2012, 2013, and 2014, are as follows.

	2012		2013		2014	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$19,267	$20,260	$22,815	$27,387	$18,182	$36,998
Plan 2	$82,503	$120,784	$90,354	$140,669	$91,986	$173,623
Plan 3	$45,220	$48,648	$45,260	$55,155	$47,457	$71,251
TRS						
Plan 1	$6,256	$7,392	$6,541	$8,769	$6,300	$10,500
Plan 2	$2,648	$5,044	$3,340	$5,729	$8,267	$17,313
Plan 3	$4,698	$6,752	$6,848	$10,771	$13,487	$20,945

State Board Retirement Plan

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

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

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

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

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

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2014 were each $522,033.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2014, SBCTC did not pay any supplemental benefits on behalf of the college. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2014, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $28,546. As of June 30, 2014, the Community and Technical College system accounted for $5,008,355 of the fund balance.

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

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

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

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is $5,193,900, with an annual required contribution (ARC) of $507,447. The ARC represents the amortization of the liability for fiscal year 2014 plus the current expense for active employees, which is reduced by the current contributions of approximately $95,478. The College's net OPEB obligation (NOO) at June 30, 2014 was approximately $411,969. This amount is not included in the College's financial statements.

The College paid approximately $1.6 million for healthcare expenses in fiscal year 2014, which included its pay-as-you-go portion of the OPEB liability.

11. 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, 2014.

Expenses by Functional Classification		
Instruction	$	7,602,884
Academic Support Services		1,628,366
Student Services		2,851,048
Institutional Support		3,124,437
Operations and Maintenance of Plant		1,952,377
Scholarships and Other Student Financial Aid		5,637,351
Auxiliary enterprises		1,641,176
Depreciation		1,517,747
Total operating expenses	**$**	**25,955,386**

12. Commitments and Contingencies

There is a class action lawsuit, *Moore v. HCA*, filed against the State of Washington on behalf of certain employees alleging improper denial of healthcare benefits. Although the College has not been named as a defendant in the lawsuit, some of the class members are current or former employees of the College. Potentially, the state could assess the College with a material share of any amount paid in the event of a settlement or judgment. As of the end of fiscal year 2014, the parties have reached a settlement agreement with the plaintiffs to settle all matters related to this and related lawsuits. Final settlement is contingent on a) funding of the settlement by the legislature and b) final approval by the trial court if funding is provided. As such, the amount of loss cannot be reasonably estimated at this time.

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

As of June 30, 2014 the College has commitments of approximately $25,000,000 for various capital improvement projects that primarily involve construction and completion of the new Schermer Instructional Building.

13. Subsequent Events

Events or transactions that affect financial statements or disclosures sometimes occur subsequent to the financial statement period end, and the date the financial statements are issued. Management has evaluated for subsequent events from June 30, 2014 (the end of the period being audited), and June 21, 2016 (date of the issuance of the financial statements), and has identified an event for disclosure.

On March 29, 2016, the legislature passed the supplemental budget which included an appropriation to fund the settlement for the *Moore V. HCA* lawsuit. SBCTC's portion of this obligation is $32million, of which $19 million is funded by the legislature and the remaining $13 million will be allocated among the 34 colleges in the system. At this time, Grays Harbor College's potential share of this lawsuit has not been determined. There are no other known events that would require either adjustment to the financial records or any disclosures.

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