Washington State Auditor's Office

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Financial Statements Audit Report

Valley Communications Center

King County

For the period January 1, 2014 through December 31, 2015

Published November 14, 2016

Report No. 1017905

Washington State Auditor's Office

November 14, 2016

Board of Appointed Representatives
Valley Communications Center
Kent, Washington

Report on Financial Statements

Please find attached our report on the Valley Communications Center's financial statements.

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

Sincerely,

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

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

Valley Communications Center
King County
January 1, 2014 through December 31, 2015

Board of Appointed Representatives
Valley Communications Center
Kent, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Valley Communications Center, King County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated November 3, 2016. As discussed in Note 13 to the financial statements, during the year ended December 31, 2015, the Center implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented,

or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

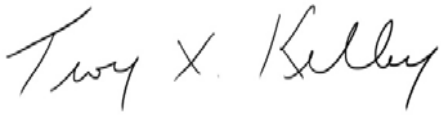
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

November 3, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Valley Communications Center
King County
January 1, 2014 through December 31, 2015

Board of Appointed Representatives
Valley Communications Center
Kent, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Valley Communications Center, King County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the Center'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 Center'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, the financial statements referred to above present fairly, in all material respects, the financial position of the Valley Communications Center, as of December 31, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 13 to the financial statements, the 2014 financial statements have been restated for implementation of new accounting guidance adopted during the year ended December 31, 2015, the Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

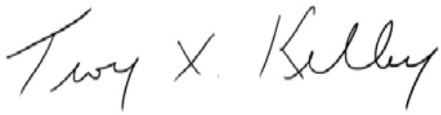
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 16 and pension plan information on pages 45 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our

inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2016 on our consideration of the Center'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 Center's internal control over financial reporting and compliance.



TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

November 3, 2016

FINANCIAL SECTION

Valley Communications Center
King County
January 1, 2014 through December 31, 2015

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015 and 2014

BASIC FINANCIAL STATEMENTS

Comparative Statement of Net Position – 2015 and 2014
Comparative Statement of Revenues, Expenses and Changes in Fund Net Position – 2015 and 2014
Comparative Statement of Cash Flows – 2015 and 2014
Notes to Financial Statements – 2015 and 2014

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 and PERS 2/3 – 2015 and 2014
Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2015 and 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Valley Communications Center (VCC) discussion and analysis is designed to:

- Assist the reader in focusing on significant financial issues
- Provide an overview of VCC's financial activity
- Identify changes in VCC's financial position (ability to meet future year's challenges)
- Identify any material deviations from the approved budget

The Management Discussion and Analysis is designed to focus on the current year's activities, resulting changes, and currently known facts. Therefore, it should be read in conjunction with Valley Communications Center's financial statements.

Financial Highlights

- The assets of Valley Communications Center exceeded its liabilities at the close of 2015 by $23.9 million. Of this amount, $11.9 million is invested in capital assets and $10.6 million has been restricted for equipment replacement needs.

- VCC recognized $8 million in pension obligations during 2015, which caused a negative $2.6 million balance in the unrestricted portion of net positon that is used to meet VCC's ongoing operating activities and obligations.

- Overall net position increased by $2.7 million from last year due to an increase in charges for services from member and contact agencies.

- The VCC's financial position is strong and has further improved this year, as evident by the increase in the net position. Increased efficiencies in the operating fund and the continuation of the rolling replacement of critical equipment has reduced the need to spend large amounts for unexpected repairs or emergency purchases.

- VCC remains sensitive to the financial pressures its member and contract agencies are facing. When creating the VCC budget, rates are established to ensure fund equity balance does not accumulate. Unexpected fund balances are applied towards large, unexpected equipment and facility costs.

Overview of the Financial Statements

VCC's financial statements are presented in two parts:

1. Financial Statements
2. Notes to the Financial Statements

Other supplementary information in addition to the basic financial statements is also contained in this report. This section of the management's discussion and analysis is intended to introduce and explain the basic financial statements.

Fund Financial Statements

The Fund Financial Statements are the traditional reporting format for governments. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. VCC only has one fund type; proprietary fund.

Proprietary funds are used by governments to account for their business-type activities and use the same basis of accounting utilized in private industry. Business-type activities provide specific goods or services to a group of customers that are paid for by fees charged to those customers. There is a direct relationship between the fees paid and the services rendered.

VCC has one type of proprietary fund; an Enterprise fund. Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

Statement of Net Position

The statement of net position serves as a useful indicator of VCC's financial position. VCC's net position, assets plus deferred outflows in excess of liabilities and deferred inflows, on December 31, 2015 totaled $23.9 million. Following is a condensed version of the statement of net position that compares net position for years 2015, 2014, and 2013.

NET POSITION (IN THOUSANDS)

	2015	2014	2013
Current and other assets	$ 22,262	$ 19,188	$ 17,683
Capital assets, net	11,940	12,326	13,320
Total assets	**34,202**	**31,514**	**31,003**
Deferred Outflows of Resources	**947**	**428**	**-**
Current liabilities	1,286	910	1,026
Noncurrent liabilities	8,692	7,018	707
Total liabilities	**9,978**	**7,928**	**1,733**
Deferred Inflows of Resources	**1,232**	**2,759**	**-**
Net position			
Invested in capital assets	11,940	12,326	13,320
Restricted	14,594	12,961	12,185
Unrestricted	(2,595)	(4,032)	3,765
Total net position	**$ 23,939**	**$ 21,255**	**$ 29,270**

Total Assets

VCC's total assets continue to increase from year-to-year. The increase is mostly due to an increase in cash equivalent operating funds and reserves. VCC is required to accumulate reserves for equipment replacement, 800MHz radio system, and for the self-insured Health and

Welfare Benefits Program. In 2015, VCC's current assets increased $3.1 million; 16% compared to an 8.5% increase in prior year.

VCC's net capital assets decreased 3.1% in 2015 compared to a 7.5% decrease in prior year, as projects were capitalized and depreciated. There were 3 work in progress projects at the end of 2015 totaling $149,255, compared to no projects at year end 2014 and a $4.8 million for 2013. Work in progress projects accumulate costs similarly to regular capital assets, but do not accumulate depreciation until the project status is complete. During 2015, eCBD Enhancement (Tiburon) CAD project, HVAC Remediation project, and Console Furniture project were in work in progress, while during 2014 CAD project, 2 New Paging Sites project 2013, and Generator Connection project were removed from work in progress and capitalized. These projects are further discussed in Note 4.B of the accompanying notes to the financial statements.

Deferred Outflows of Resources

During 2015, the Center implemented GASB Statement No. 68 for pensions and restated 2014. The 121.3% increase in deferred outflows from 2014 to 2015 is due to an increase in deferred pension contributions, difference between expected and actual plan experience, and changes in assumptions. Deferred outflows for pension are further discussed in Note 5 of the accompanying notes to the financial statements.

Total Liabilities

The 25.8% increase in liabilities from 2014 to 2015 is primarily attributed to an increase in pension obligations. Implementation of GASB Statement No. 68 resulted in a recognition of PERS 1 and PERS 2/3 plans pension obligations for 2015 and 2014. The pension obligation increased $1.8 million; 27.9% from 2014 to 2015. Pension obligations are further discussed in Note 5 of the accompanying notes to the financial statements.

The accounts and payroll payable increased $313 thousand; 48% in 2015, compared to a decrease of 44.2% for 2014, due to higher benefits payable and more invoices from vendors being paid after 2015 year-end.

Beginning October 2015, the Center became fully insured for medical and prescription benefits moving away from the partial self-insurance for healthcare benefits started in October 2011. The Center reported IBNR of $182 thousand, $254 thousand, and $259 thousand as of December 31 of 2015, 2014, and 2013, respectively. Deposits payable include a $157 thousand paid by Sprint Nextel Corporation towards the Rebanding Project during 2011, which is expected to be completed in 2016. At December 31, 2015, $136 thousand remains outstanding in deposits payable.

Deferred Inflows of Resources

During 2015, the Center implemented GASB Statement No. 68 for pensions and restated 2014. The 55.4% decrease in deferred inflows from 2014 to 2015 is due to a decrease in net difference between projected and actual investment earnings on pension plans' investments. Deferred inflows for pension are further discussed in Note 5 of the accompanying notes to the financial statements.

Net Position

The largest component of VCC's net position is restricted. The $14.6 million as of December 31, 2015, $12.9 million as of December 2014, and $12.2 million as of December 31, 2013 represents restricted net position. These funds are restricted for purposes such as equipment replacement and the 800 MHz radio system. Each year, funds are set aside for the replacement of assets deemed critical to emergency response. As these assets are due to be replaced, this money is

available for the purchase of this mission critical equipment. A large portion of these funds, $1.9 million as of December 31, 2015, $2.5 million as of December 31, 2014, and $3.1 million as of December 31, 2013, is reserved specifically for the new CAD replacement project. In November 2009, a vendor was awarded the contract and milestone payments began in December 2009. The new system went live on March 18, 2014 with milestone payments continued into 2015 for system acceptance, availability testing, and future enhancements in the next couple of years.

The second largest component of net position is its investment in capital assets. These capital assets, $11.9 million as of December 31, 2015, $12.3 million as of December 31, 2014, and $13.3 million as of December 31, 2013 are comprised of buildings, land, and communication equipment that are used to provide services to public safety agencies and citizens. These assets are critical to our operations and as a result, are not for sale and therefore are not available to fund current and future VCC obligations.

VCC's remaining net position is negative. The unrestricted net position is generally available for continuing operations; however, with implementation of GASB Statement No. 68, which led to recognition of an $8 million pension obligation, the unrestricted net positon was brought into negative. There was a 35.6% decrease in the negative unrestricted net position from 2014, compared to a 207.1% decrease from 2013, as pension obligations were first recognized in 2014.

Statement of Revenues, Expenses and Changes in Fund Net Position

The condensed statement of changes in net position, which follows, shows that net position increased by $2.7 million during 2015 and decreased by $8 million during 2014. The increase in 2015 is primarily due to the increased revenues from member and contact agencies for charges for services, as contributions and rates were increased. The decrease in 2014 reflected an $8 million change in accounting principal – GASB 68 pension obligation recognition.

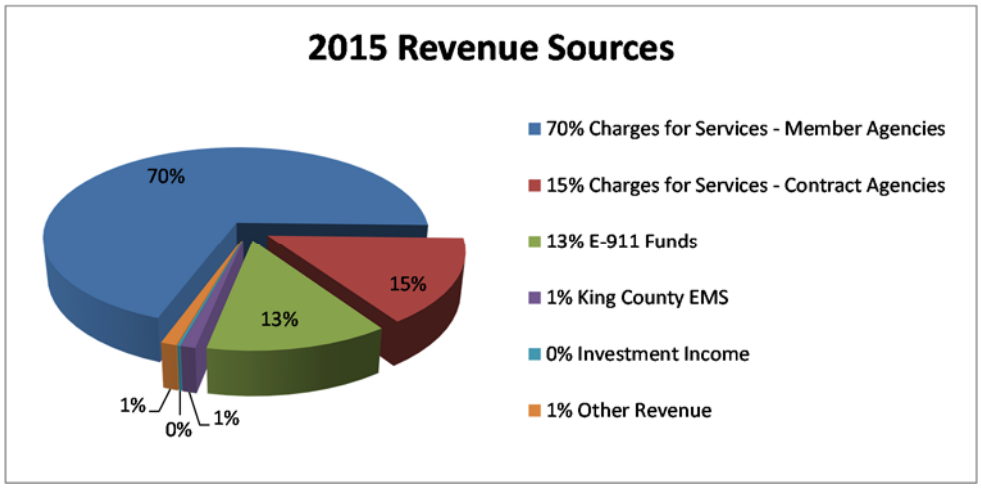
CHANGES IN NET POSITION (IN THOUSANDS)

	2015	2014	2013
Program revenue			
Charges for service	$ 15,572	$ 13,588	$ 12,680
Intergovernmental	2,610	2,495	2,501
General revenue			
Other nonoperating revenue	108	88	101
Total revenue	**18,290**	**16,171**	**15,282**
Operating expenses	15,645	15,439	14,248
Nonoperating expenses	-	22	202
Total expenses	**15,645**	**15,461**	**14,450**
Excess (deficiency) before contributions	**2,645**	**710**	**832**
Capital contributions	39	29	-
Change in net position	**2,684**	**739**	**832**
Beginning net position - Jan 1	21,255	29,270	28,438
Changes in Accounting Principles-GASB 68	-	(8,755)	-
Ending net position - Dec 31	**$ 23,939**	**$ 21,255**	**$ 29,270**

Revenues

Total revenue increased in 2015 by 13.1% with a 14.6% increase in charges for services compared to a 2014 total revenue increase of 5.8% with a 7.2% increase in charges for services. Valley Communications Center's funding formula is designed to charge fees for services to customer agencies to cover budgeted expenses; as expenses increase from year to year, so do charges for services. The Center's intergovernmental revenues, which includes E-911 escrow account distributions, EMS performance and training revenue, and KC reimbursements slightly increased from 2014 to 2015 and was relatively stable in 2014 and 2013.

VCC's revenues are generated primarily through charges for services. The following chart depicts VCC's revenue sources in further detail:



Expenses

Total expenses increased slightly by 1.2% in 2015 and 7.0% in 2014, which is directly attributed to an increase of 0.3% and 7.1% in 2015 and 2014, respectively, in personal services. In the three years presented, VCC's bargaining units had COLA and step increases. In 2015, total wages increased $51 thousand, a 0.5% increase compared to an $812 thousand, a 9.3% increase in 2014, of which $309 thousand is directly related to CAD project wages and overtime expenses. The total benefits and payroll taxes remained relatively stable since 2013, which is mostly due to the change/reduction in medical contribution rates as VCC's switched to AWC for medical coverage in October 2015 and pension expense offsets/reductions due to implementation of GASB Statement No 68 of $291 thousand and $144 thousand in 2015 and 2014, respectively. The other operation and maintenance expense increased 6% in 2015 and incidentally decreased 6.1% in 2014, as VCC continued to emphasize frugal spending.

Long-Term Debt

At year-end, VCC had no outstanding debt. The Administration Board elected not to use a portion of the net position balance to help fund the member cities debt obligation to the Valley Communications Center Development Authority in 2015 or 2014. The debt service contribution was $180 thousand in 2013.

Budgetary Highlights

The 2015-2016 biennial budget was approved (Resolution 119) for $51.9 million in total uses, with a $34.1 million in operating expenses, which is a 23.1% increase from combined 2013-2014 actual operating expenses. The increase was attributed mostly to personnel cost (salary and benefits) increases and professional services.

During 2015, there was a $3.8 million increase in appropriations between the original and current 2015-2016 biennial budget. These expenses were funded with accumulated fund net position balance resulting from 2014 savings. Following are the main components of the budget amendment (Resolution 122):

- $923,000 transfer to equipment replacement for data center and furniture console; funded with operating funds
- $800,000 transfer to equipment replacement; funded with 2016 contribution placement
- $673,000 for HVAC data center remediation; funded from operating funds transferred to equipment replacement
- $486,111 CAD project system implementation contract; funded with equipment replacement funds
- $250,000 for furniture console expansion; funded with operating funds transferred to equipment replacement
- $219,718 for CAD technical services project management contracting services; funded with equipment replacement funds
- $130,476 for SAN infrastructure; funded with equipment replacement funds
- $109,711 for thin clients software and hardware; funded with equipment replacement funds
- $44,000 for asphalt and concrete repair & maintenance; funded with operating funds
- $42,000 for atrium windows; funded with operating funds
- $27,000 for chiller valve replacement; funded with equipment replacement funds
- $26,068 for paging sites (2 new 2013 sites: Lakeland); funded with operating funds
- $25,000 for HVAC data center remediation study; funded with operating funds
- $20,006 for MS office licensing; funded with equipment replacement funds

The CAD project, SAN infrastructure, thin clients, chiller valve replacement, 2 new paging sites project, HVAC data center remediation study, and MS office licensing were budgeted for in 2014. The 2015-2016 biennial budget adjustment carried-forward the unspent funds from the prior year to allow VCC to finish these projects in 2015.

Actual 2015 revenues were mostly stable compared to budget with a 1% decrease due to lower than budgeted employee paid healthcare premiums, as VCC had vacant positions and premiums were not increased to the level budgeted, and a 1.2% decrease in intergovernmental E-911 distributions. The decrease was partially offset by a 3.6% increase in charges for services, due to higher call volumes.

Actual 2015 expenses were 20.6% less than amended budget, which is mostly due to lower professional services, as some projects were delayed; lower benefit costs, as the Center had vacant positions and changed to AWC for medical coverage; and delay in capital outlays for equipment replacement, including CAD project. Personal services were 7.8% below budget and other operation and maintenance costs were 38% under budget due to savings in professional services and operating supplies, as VCC had delayed some projects until next year and continued to spend frugally.

Other Potentially Significant Matters

Labor Agreements

In September 2011, the Valley Communications Center Employees Association signed their contract for 2011-2015. The contract called for no wage increase for 2012, an increase of 1.5% for 2013, an increase of 2% for 2014, and an increase of 3% for 2015. On July 30, 2015, the Employee Association signed the

memorandum of understanding calling for a 2% increase effective October 1, 2015, an increase of 2.5% for 2017, and an increase of 2.5% for 2018. The contract was signed January 15, 2016 incorporating above increases, increasing CTO premiums to 2.5% from 1.5%, and adding a $0.40 shift differential premium for certain shift work effective January 1, 2016.

In September 2011, the Valley Communications Supervisory Guild (VCSG) signed their contract for 2011-2015. The contract calls for no wage increase for 2012, an increase of 1% - 3%, depending on CPI-W, for 2013, an increase of 2% - 4% for 2014, and an increase of 3% for 2015. On July 29, 2015, the Supervisory Guild signed the memorandum of understanding calling for a 2.75% increase effective October 1, 2015, an increase of 2.75% for 2017, and an increase of 2.75% for 2018. The contract was signed February 9, 2016 incorporating above increases and adding a $0.40 shift differential premium for certain shift work effective January 1, 2016.

Economic Factors and Next Year's Rates

- The CPI-U for the Seattle-Tacoma-Bremerton continued to fluctuate throughout 2015 and was at 2.2% annual increase as of December 2015 from December 2014.
- Member and contract agencies continue to see increases in sales tax and property tax revenues, which translate into some improvements in their public safety budgets.
- Public Employees Retirement System (PERS) rates increased to 11.18% July 2015 from 9.21%, which has been in place since September 2013. Further increases are expected to around 13%, based on the Office of the State Actuary projections.
- To gain economies-of-scale and increase overall public safety value, King County is evaluating distribution of excise taxes to fund equipment, projects, and communication centers.
- Puget Sound Emergency Radio Network (PSERN) regional effort is underway as a replacement for the current King County Emergency Trunked Radio System (KCETRS).

All of these factors were taken into account when VCC prepared its 2015-2016 biennial budget, which reflects a 4.8% increase in operating expenses in 2016 from prior year, disregarding capital expenses, transfers, and contributions. The 2016 contract agency rate per call remained the same, while the average cost-per-call increased 8% for member agencies. However, member agencies are not charged on a cost per call basis, and their actual overall contribution increased 15% from 2015 to 2016. The difference in percentages for contribution versus cost per call is due to the 6% increase in call volume, which brought down the cost per call percentage.

To keep 2016 contribution increase at a minimum, the Administration Board approved to continue allocating E-911 escrow funds to be used to fund 12 call receiver positions (reduction of 3 positions from 2015) and 3 administrative IT positions; and to continue allocating E-911 funds for equipment to equipment replacement reserve. An estimated $2.5 million in ending operating working capital remains available for use into 2016.

VCC does not currently have any restrictions, commitments or other limitations that would significantly affect the availability of fund resources for future use.

Requests for Information

This financial report is designed to provide a general overview of Valley Communications Center's finances. Questions concerning this report, or requests for additional information, may be addressed to the Finance Manager, Valley Communications Center, 27519 108th Avenue SE, Kent, WA 98030.

Valley Communications Center
Comparative Statement of Net Position
For the Periods Ending December 31, 2015 and 2014

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,917,918	$ 9,301,924
Receivables:		
Accounts	8,010	8,441
Interest	447	366
Due from other governments	624,412	430,240
Restricted assets:		
Cash and cash equivalents	10,711,389	9,447,335
Total current assets	22,262,176	19,188,305
Noncurrent assets:		
Capital assets not being depreciated:		
Land	218,915	218,915
Work in progress	149,255	-
Capital assets being depreciated:		
Buildings	8,224,990	8,224,990
Other improvements	1,099,854	1,099,854
Equipment	17,901,066	16,889,385
Less accumulated depreciation	(15,653,537)	(14,107,135)
Total noncurrent assets	11,940,544	12,326,009
TOTAL ASSETS	**34,202,719**	**31,514,314**
DEFERRED OUTFLOWS OF RESOURCES		
Pension	946,974	427,991
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**946,974**	**427,991**
LIABILITIES		
Current liabilities:		
Accounts payable	216,323	102,756
Payroll payable	752,319	553,281
Claims incurred but not reported	181,513	254,400
Deposits payable	136,322	-
Total current liabilities	1,286,477	910,437
Noncurrent liabilities:		
Deposits payable	-	138,744
Compensated absences	656,889	599,581
Pension obligations	8,034,716	6,279,921
Total noncurrent liabilities	8,691,605	7,018,246
TOTAL LIABILITIES	**9,978,082**	**7,928,683**
DEFERRED INFLOWS OF RESOURCES		
Pension	1,232,375	2,758,931
TOTAL DEFERRED INFLOWS OF RESOURCES	**1,232,375**	**2,758,931**
NET POSITION		
Invested in capital assets	11,940,544	12,326,009
Restricted for:		
Equipment replacement	10,577,847	9,447,335
800 MHz radio	4,016,146	3,513,675
Unrestricted	(2,595,300)	(4,032,328)
TOTAL NET POSITION	**$ 23,939,236**	**$ 21,254,691**

The notes to financial statements are an integral part of this statement.

Valley Communications Center
Comparative Statement of Revenues, Expenses and Changes in Fund Net Position
For the Periods Ending December 31, 2015 and 2014

	2015	2014
Operating revenues:		
Charges for services - member agencies	$ 12,774,468	$ 10,877,406
Charges for services - contract agencies	2,753,487	2,660,110
Other charges for services	44,392	50,411
Intergovernmental revenue	2,610,101	2,494,858
Total operating revenues	18,182,449	16,082,785
Operating expenses:		
Personal services	12,297,254	12,256,452
Other operation and maintenance	1,756,755	1,657,966
Depreciation	1,590,965	1,524,584
Total operating expenses	15,644,973	15,439,003
Operating income (loss)	**2,537,476**	**643,782**
Nonoperating revenues (expenses):		
Investment interest	33,491	20,429
Leasehold revenue	64,914	63,483
Other miscellaneous revenue	9,449	4,017
Gain (loss) on disposition of capital assets	-	(21,526)
Total nonoperating revenues (expenses)	107,854	66,402
Income (loss) before contributions	**2,645,329**	**710,185**
Capital contributions	39,216	28,965
Change in net position	**2,684,545**	**739,150**
Total net position - January 1	21,254,691	29,270,166
Changes in Accounting Principles - GASB 68	-	(8,754,625)
Total net position - December 31	**$ 23,939,236**	**$ 21,254,691**

The notes to financial statements are an integral part of this statement.

Valley Communications Center
Comparative Statement of Cash Flows
For the Periods Ending December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Receipts from customers	$ 17,988,707	$ 16,076,044
Payments to suppliers	(1,645,609)	(1,742,753)
Payments to employees	(12,404,539)	(12,399,562)
Net cash provided (used) by operating activities	**3,938,559**	**1,933,728**
Cash flows from capital and related financing activities:		
Purchases of capital assets	(1,166,283)	(523,252)
Leasehold revenue	64,914	63,483
Other receipts (payments)	9,449	4,017
Net cash provided (used) by capital and related financing activities	**(1,091,921)**	**(455,752)**
Cash flows from investing activities:		
Interest on investments	33,409	20,702
Net Cash provided (used) by investing activities	**33,409**	**20,702**
Net increase (decrease) in cash and cash equivalents	**2,880,048**	**1,498,679**
Cash and cash equivalents - January 1	18,749,259	17,250,580
Cash and cash equivalents - December 31	**$ 21,629,307**	**$ 18,749,259**

Reconciliation of operating Income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	2,537,476	643,782
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,590,965	1,524,584
Changes in assets and liabilities:		
(Increase) decrease in receivables	431	1,302
(Increase) decrease in due from other governments	(194,172)	(8,044)
Increase (decrease) in accounts payable	113,568	(81,320)
Increase (decrease) in payroll payable	199,038	(29,648)
Increase (decrease) in claims incurred but not reported	(72,887)	(4,895)
Increase (decrease) in deposits payable	(2,422)	(3,467)
Increase (decrease) in compensated absences	57,308	35,197
Increase (decrease) in pension obligations and deferred outflows/inflows	(290,744)	(143,764)
Total adjustments	**1,401,084**	**1,289,946**
Net cash provided (used) by operating activities	**$ 3,938,559**	**$ 1,933,728**
Schedule of noncash investing, capital and related financing activities		
Contributions of capital assets	$ 39,216	$ 28,965

The notes to financial statements are an integral part of this statement.

Valley Communications Center
Notes to Financial Statements
January 1, 2014 through December 31, 2015

NOTE 1 – Summary of Significant Accounting Policies

Valley Communications Center (VCC), a 911 call receiving and dispatch operation, was established August 20, 1976, when an Interlocal Agreement was entered into by four participating municipal governments; the cities of Renton, Kent, Auburn and Tukwila, by the authority of the "Interlocal Cooperation Act" (R.C.W. 39.34). The duration of the initial agreement was five years, and thereafter automatically extending for consecutive two-year periods, unless terminated by one or more of the participating cities. Any such termination must be in writing and served upon the other cities on or before July 1 in any one year, and such termination shall then become effective on the last day of such year.

On August 4, 1999 the Administration Board of Valley Communications Center voted to include the City of Federal Way as a full participating member city effective January 1, 2000. A new Interlocal Agreement pursuant to RCW 39.34, et seq., was executed by the five participating municipal corporations; the cities of Auburn, Federal Way, Kent, Renton, and Tukwila on April 17, 2000. The agreement reaffirmed Valley Communications Center as a governmental administration agency pursuant to RCW 39.34.030 (3) (b). The Administration Board governs VCC and VCC's powers include, but are not limited to the following:

a. Recommend action to the legislative bodies of the participating members;

b. Review and approve budget expenditures;

c. Establish policies for expenditures of budget items for the Center;

d. Review and adopt a personnel policy for the Valley Com Center;

e. Establish a fund or special fund or funds as authorized by RCW 39.34.030 for the operation of the Valley Com Center;

f. Conduct regular meetings as may be designated by the Administration Board;

g. Determine what services shall be offered and under what terms they shall be offered;

h. Enter into agreements with third parties for goods and services necessary to fully implement the purposes of this agreement;

i. Establish rates for services provided to other members, subscribers or participating agencies;

j. Direct and supervise the activities of the Operations Board and the Center Director;

k. Incur debt in the name of the Center to make purchases or contract for services necessary to fully implement the purposes of this agreement;

l. Enter into agreements with, and receive and distribute funds, from any federal, state, or local agencies;

m. Receive all funds allocated to the Center from its members;

n. To purchase, take, receive, lease, take by gift, or otherwise acquire, own, hold, improve, use and otherwise deal in and with real or personal property, or any interest therein, in the name of Valley Communications Center;

o. To sell, convey, mortgage, pledge, lease, exchange, transfer and otherwise dispose of all of its property and assets;

p. To sue and be sued, complain and defend, in all courts of competent jurisdiction in the Center's name;

q. To make and alter by-laws for the administration and regulation of its affairs;

r. Enter into contracts with future participating members and subscribers to provide communications services;

s. To hold radio frequency licenses to enable the Center to operate radio communications and dispatch systems to meet its public safety responsibilities;

t. Any and all other acts necessary to further Valley Communication Center's goals and purpose.

The duration of the agreement was for five (5) years from its effective date, January 1, 2000 and shall automatically be extended for an additional five (5) year period unless terminated as provided. However, the agreement shall not be terminated until all bonds issued by the Valley Communications Center Development Authority have been paid and retired.

Any member city may withdraw its membership and terminate its participation in the agreement by providing written notice and serving that notice on the other member cities on or before December 31 in any one year. After providing notice the member's withdrawal shall become effective on the last day of the year following delivery and service of appropriate notice to all other member cities.

Three (3) or more member cities may, at any one time, by written notice provided to all member cities, call for a complete termination of Valley Communications Center and the agreement. Upon an affirmative supermajority vote (majority plus one) by the member cities, VCC shall be directed to complete business and a date will be set for final termination, which shall be at least one (1) year from the date of the vote to terminate the agreement.

In the event any member city fails to budget and provide the required annual membership funding for VCC, the remaining member cities may, by majority vote, immediately declare the underfunding city to be terminated from this agreement and to have forfeited all its rights under the agreement. The remaining member cities may, at their option, withdraw VCC's emergency communications support with that City or, alternatively enter into a Contracting Agency Agreement under terms and conditions as the remaining member cities accept.

In August 1993, VCC entered into an Interlocal Cooperation Agreement with the sub-regions of King County, Seattle, and Eastside Public Safety Communications Agency (EPSCA). This agreement governs the development, acquisition and installation of the 800 MH_z Emergency Radio Communications System funded by a $57 million King County levy approved in November 1992.

This agreement provides that upon voluntary termination of any sub-region's participation in the System, it surrenders its radio frequencies, relinquishes its equipment and transfers any unexpended levy proceeds and associated equipment replacement reserves to another sub-region or consortium of sub-regions.

In accordance with this agreement, the participating cities of VCC have no equity interest in VCC's 800 MH_z Radio System or the fund net position balance of $5,604,669 and $5,310,911 as of December 31, 2015 and 2014, respectively.

On July 30, 2009, VCC entered into an Interlocal Cooperative Agreement with King County for the purpose of establishing joint project in support of the regional emergency radio communications system. This agreement defined the preventative and restorative maintenance and repair services to be provided by King County on reimbursement basis for the VCC owned portion of jointly implemented and maintained part of the regional system.

In June 2015, VCC entered into an Implementation Agreement with King County for the new public safety radio system, referred to as the Puget Sound Emergency Radio Network System or PSERN System, financed through a $273 million voter approved funding measure for the purpose of establishing the terms under which to undertake certain activities necessary to implement the PSERN System. King County is the lead agency for planning, procurement, financing, and implementation of PSERN System and for creation of a new non-profit corporation, to be responsible for the ownership, operations, maintenance and on-going upgrading/replacement of the PSERN System during its useful life.

The financial statements of VCC have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles of the Center are described below.

A. REPORTING ENTITY

In 1985 Valley Communications Center (hereafter referred to as VCC), was determined to be a joint venture of the cities of Renton, Kent, Auburn and Tukwila. Shares of equity are included in the financial statements of said cities, beginning in 1985. Commencing January 1, 2000 the City of Federal Way was included as a participant in the joint venture. The shares of equity are now included in the financial statements of Auburn, Federal Way, Kent, Renton, and Tukwila. The purpose of the joint operation is to provide improved consolidated emergency communications (dispatch) services on a 24-hour basis for police, fire, and medical aid, to the five participating cities (or resulting member agencies) and to the several subscribing/contract agencies which include King County Fire Districts #2, #20, #43, #44, #47; City of Pacific Police Department; City of Algona Police Department; City of Des Moines Police Department; City of Black Diamond Police Department; Vashon Island Fire Department; King County EMS Units, and SCORE. Separate agreements between Valley Com and the subscribing agencies have been executed which set forth conditions of services and rates charged.

Valley Com is served by an Administration Board composed of the Mayors or designated representatives of the five participating cities of Auburn, Federal Way, Kent, Renton, and Tukwila. The Administration Board is authorized to establish bylaws that govern procedures of the Board and VCC's general operations. Principal functions of the Board include:

- Review and approval of Valley Communications Center's budget (note: VCC's budget is also distributed to each member and contract agency for incorporation into each entity's budget).
- Appointment and supervision of the Director.
- Approval of administrative and personnel policies.
- Review and approval of contracts and agreements.
- Review and approval of disbursement of funds by VCC.
- Approval or disapproval of recommendations from the Director and the Operations Board.
- Setting of the long term strategic vision for the organization.

In addition, an Operations Board provides recommendations and consists of members from each member agency's police and fire departments, including the directors of said departments or their designees. Also on the Operations Board, is an appointed representative of the police and fire contract agencies. The Operations Board performs the following functions:

- Responsible for operational policies and procedures.
- Assists staff and the Administration Board with strategic planning.
- Makes recommendations on the selection of the Director.
- Members serve on supporting groups including the Finance Committee and The Advisory Committee on Technology (ACT).

The member agencies are billed for their assessments on a bi-monthly basis. Payments are to be received in February, April, June, August, October, and December. Contract agencies are billed on a monthly basis for dispatch services based on the actual billable calls. Payments to vendors are from invoices and are certified by the Director or designee. The Director or designee also approve payroll.

B. MEASUREMENT FOCUS AND FINANCIAL STATEMENT PRESENTATION

The accounts of VCC are organized on an activity basis, with a set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses. VCC's resources are allocated to and accounted for in a fund, as reported in the financial statements, for the years 2015 and 2014, included in this Annual Report. Following is a description of the proprietary fund type used by VCC.

Proprietary Fund Types

Proprietary funds are reported using the economic resources measurement focus and accrual basis of accounting. This means that all assets and all liabilities (whether current or noncurrent) associated with the activity are included on the statement of net position (balance sheet). The reported net position is segregated into net investment in capital assets, restricted, and unrestricted components. Proprietary fund statement of revenues, expenses, and changes in fund net position (income statement) present increases (revenues and gains) and decreases (expenses and losses) in fund net position. The proprietary fund measurement focus is upon the determination of financial position, net income, and cash flow.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of VCC is charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

VCC is comprised of one enterprise fund. For budgetary purposes, VCC's activities are tracked separately by: operating, equipment replacement, contingency, 800 MH_z Radio System, King County E-911 escrow, and healthcare insurance. Equipment replacement tracking was established by Resolution #14, amended by Resolution #34. These assets are reserved for equipment additions/replacements. 800 MH_z Radio System tracking was established to segregate the accounting associated with the 800 MH_z project's distribution and disbursement of levy proceeds for the development, implementation, and operation of the system. The King County E-911 escrow account was established to segregate the accounting for the excise tax revenues received from land line and cellular phone users that are in escrow for 911 call answering functions. The healthcare insurance tracking was established during 2011 to account for healthcare costs of VCC employees and their dependents, as VCC became partially self-insured.

Although budgeted and monitored separately, the six primary activities of VCC are reported as one enterprise fund.

C. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized and reported in the financial statements.

Accrual Basis of Accounting

The accrual basis of accounting is followed in Proprietary Funds. Revenues are recognized when earned and expenses are recognized when incurred.

The member agencies provide the majority of revenues to VCC. Financial participation is allocated among the member agencies based on each member agency's percent of dispatchable calls. The 2015 and 2014 assessments are based on the calls for services for periods of July 1, 2013 - June 30, 2014 and July 1, 2012 - June 30, 2013, respectively, corresponding with calls for services used for each year's budget.

The following is the 2015 and 2014 calls for services assessment distribution for the member agencies:

Member Agency	2015 Assessment	2014 Assessment
Auburn		
Police	$ 2,334,532	$ 1,823,509
Valley Regional Fire	339,692	295,433
Federal Way		
Police	1,941,437	1,742,959
South King Fire	548,363	470,064
Kent		
Police	2,709,571	2,391,058
Kent RFA	685,332	485,422
Renton	2,448,960	2,144,249
Tukwila	1,052,554	1,007,913
Totals	**$ 12,060,442**	**$ 10,360,607**

Earned but unbilled revenues at year-end are accrued and reported in the financial statements. Capital asset purchases are capitalized, and long term liabilities are accounted for. VCC maintains two checking accounts and payments are made by check, electronic fund transfers, and wires.

D. BUDGETARY INFORMATION

NCGA Statement No. 1 affirmed by GASB Statement No. 1 does not require, and the financial statements do not present, budgetary comparisons for the proprietary funds. The Center changed from annual to biennial budgets starting with the 2015 calendar/fiscal year.

Appropriated budgets are adopted as one fund. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control tool, the subsidiary ledgers monitor expenditures for individual functions and activities by object class.

VCC's budget procedures are in accordance with Section 8.0 of the Interlocal Agreement, as adopted April 17, 2000, and include:

1. Director established budget goals and strategy.

2. The Director submits a proposed budget to the Operations Board and Finance Committee on or before August 15th of each year, and the Boards submit their feedback.

3. The budget is submitted to the Administration Board by September 1st of each year.

4. The member cities are informed of the proposed budget and the required financial participation for the ensuing year. VCC may expend no funds until proper funds have been appropriated by each member city in their budget.

The Director is authorized to transfer budgeted amounts within the fund; however, any revisions that alter the total expenses of the fund, or that affect the number of authorized employee positions, must be approved by the Administration Board. VCC does not use encumbrance accounting.

The following are budget resolutions adopted for the 2015-2016 biennial budget and 2014 annual budget:

2015-2016 Biennial Budget		
Budget adopted by Resolution #119	$	51,869,064
Budget amendments adopted by Resolution #122		3,799,377
2015-2016 Budget as amended	**$**	**55,668,441**

2014 Annual Budget		
Budget adopted by Resolution #115	$	22,403,404
Budget amendments adopted by Resolution #116		1,210,044
2014 Budget as amended	**$**	**23,613,448**

E. CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes all monies in checking and savings accounts, petty cash funds, the Local Government Investment Pool, and the King County Residual Investment Pool.

It is VCC's policy to invest all temporary cash surpluses. As of December 31, 2015 all cash surpluses were invested in the Local Government Investment Pool (LGIP) and King County Residual Investment Pool. The Center considers all highly liquid investments (including restricted assets) to be cash equivalents.

The amounts reported as cash and cash equivalents also include modest compensating balances maintained with certain banks in lieu of payment for services rendered.

F. RECEIVABLES & DUE FROM OTHER GOVERNMENTS

Accounts receivable and due from other governments consist of amounts owed from organizations for services received, including amounts owed for which billings have not been prepared. Accrued interest due on investments is also included.

G. CAPITAL ASSETS AND DEPRECIATION

Capital assets, which include land, buildings, equipment and other improvements, are defined by VCC as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are reported at estimated fair market value at the date of donation. See Note 4 for additional information.

The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Work in progress costs are transferred to their respective capital asset categories upon completion.

Depreciation is charged to operations using the straight-line method based on the estimated useful life. The estimated useful lives of depreciable assets are as follows:

Buildings	25-50 years
Other Improvements	5-40 years
Equipment	3-20 years

H. COMPENSATED ABSENCES

VCC has two labor contracts with employees. Both contracts call for the accumulation of vacation, personal holiday, and sick leave. At termination of employment, employees may receive cash payments for accumulated vacation and personal holiday leave, based on current wages at termination.

The Employee Association contract states that the maximum accrued vacation and holiday leave carry over from one year to another is 180 hours. Twice per year, employees are given an option to sellback their accrued holiday hours up to 88 hrs. Sick leave maximum accrual is 960 hours. There is no payment for accrued sick leave at termination for Association employees. However, there is a provision for a partial payment upon retirement after 10 years of service, with a $4,500 maximum payout. The Association contract expired 12/31/2015 and replacement contract has substantially the same terms for compensated absences.

The Supervisor's Guild contract states that the maximum accrued vacation carry over from one year to another is 240 hours. Sick leave maximum accrual is 960 hours. There is no payment for accrued sick leave at termination for Guild employees. However, there is a provision for a partial payment upon retirement after 10 years of service, with a $4,500 maximum payout. The Guild contract expired 12/31/2015 and replacement contract has substantially the same terms for compensated absences with a maximum payout increase to $6,000.

Non-represented employees are covered under Administrative Employee Salary & Benefits standard operating procedures, which state that the maximum accrued vacation is 360 hours. Sick leave maximum accrual is 960 hours and upon termination sick leave may be compensated on a one-for-three basis to a maximum of 240 hours of unused sick leave payout.

Accumulated amounts of vacation, personal holiday, and sick leave are accrued as expenses when incurred in proprietary funds, and included in liabilities under the accrued payroll payable and compensated absences, as applicable.

I. PERSONNEL BENEFIT CONTRIBUTIONS

VCC contributes to personnel benefit plans. The plans include medical, dental, and vision; retirement; industrial insurance/worker's compensation, and unemployment compensation; Social Security (Medicare portion only); life insurance and disability. In November 1977, VCC's employees elected not to participate in the Federal Social Security System. Retirement, worker's compensation, unemployment compensation, and social security are established by federal/state regulations.

VCC participates in the State of Washington's Worker's Compensation program. Premiums are based on individual employer's reported hours and insurance rates based on each employer's risk classification and past experience. The premium is paid by employer and employee contributions.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. 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.

J. NET POSITION

Portions of net position are restricted for equipment replacement and 800 MHz radio use, as reflected in the financial statements as follows:

Net Position:	2015	2014
Invested in Capital Assets	$ 10,352,020	$ 10,528,773
Invested in Capital Assets (800 MHz)	1,588,524	1,797,236
Restricted for Equipment Replacement	10,577,847	9,447,335
Restricted for 800 MHz	4,016,145	3,513,675
Unrestricted	(2,595,300)	(4,032,328)
Total Net Position	**$ 23,939,236**	**$ 21,254,691**

K. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 – Stewardship, Compliance and Accountability

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations.

NOTE 3– Deposits and Investments

Valley Communications Center's bank deposits are entirely covered by the federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington

Public Deposit Protection Commission (PDPC). The deposits are not subject to additional legal or contractual provisions. VCC's deposits are the highest safety category, which are insured, registered, or held by the Center or its agent in the Center's name. The book value of deposits does not differ materially from the bank balance of deposits.

Cash in excess of anticipated needs for operations, including self insured healthcare benefits reserves, and equipment replacement is invested under the guidelines of RCW 35A.40.050 and the proceeds are returned to the investing source. Investments are held only in qualified institutions and reported at fair value. The Center, by state law, is authorized to purchase certificates of deposit issues by Washington State depositories that participate in PDPC, U.S. Treasury and Agency securities, banker's acceptances, and repurchase agreements.

VCC voluntarily invests in the Washington State Treasurer's LGIP. The amount is carried at cost, which approximates fair value. The LGIP is a 2a7-like unrated pool overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee, and the Washington State Auditor's Office. LGIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless does operate in a manner consistent with the SEC rule 2a7 of the Investment Company Act of 1940.

VCC's funds held in E-911 escrow are invested in the King County Residual Investment Pool. The pool is not registered with the SEC as an investment company and oversight is provided by the King County Executive Finance Committee (EFC) pursuant to RCW 36.29.020. The EFC, which reviews pool performance monthly, consists of the Chair of the County Council, the County Executive, the Director of the Office of Performance, Strategy and Budget, and the Director of the Finance and Business Operations Division, or their designees. All investments are subject to written policies adopted by the EFC and are reported at fair value.

VCC's deposits and investment position at fair value at the end of fiscal years 2015 and 2014 are:

	December 31, 2015		**December 31, 2014**	
Source	Operations	Restricted	Operations	Restricted
Petty Cash	$ 100		$ 100	
Checking	2,408,033	$ 856,741	1,677,695	$ 405,807
Savings	477,110	700,747	477,030	400,651
E-911 Escrow	976,131		1,100,858	
LGIP - Operations	1,317,435		1,056,994	
LGIP - Equipment Replacement		9,153,901		8,640,877
LGIP - Contingency	1,852,943		1,693,796	
LGIP - 800 MHz	3,531,026		3,025,860	
LGIP - Health Insurance	355,140		269,591	
Total	**$ 10,917,918**	**$ 10,711,389**	**$ 9,301,924**	**$ 9,447,335**

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction, the Center would not be able to recover the value of the investment or collateral securities. While VCC has investments that are exposed to custodial credit risk, the exposure is minimal.

NOTE 4– Capital Assets

A. CAPITAL ASSETS

Capital assets of proprietary funds are capitalized in the statement of net position. These assets are stated at cost or estimated cost when original cost is not available, or fair market value at the time received as in the case of donations. Depreciation expense is charged to operations of proprietary funds to allocate the cost of fixed assets over their estimated useful lives, using the straight–line method with useful lives of 3 to 60 years.

A summary of VCC's capital assets at December 31, 2015 and 2014 is shown below:

Asset Type	Beginning Balance 1/1/2015	Additions	Deletions	Ending Balance 12/31/2015
Capital Assets, non-depreciable				
Land	$ 218,915	-	-	$ 218,915
Work in Progress	-	$ 149,255	-	149,255
Non-depreciable assets, net	*218,915*	*149,255*	-	*368,170*
Capital Assets, depreciable				
Building	8,224,990		-	8,224,990
Other Improvements	1,099,854	-	-	1,099,854
Equipment	16,889,385	1,056,244	$ 44,563	17,901,066
Less: Accumulated Depreciation	(14,107,135)	(1,590,965)	$ (44,563)	(15,653,537)
Capital Assets, net	*12,107,094*	*(534,721)*	-	*11,572,373*
All Capital Assets, net	**$ 12,326,009**	**$ (385,466)**	**-**	**$ 11,940,544**

Asset Type	Beginning Balance 1/1/2014	Additions	Deletions	Ending Balance 12/31/2014
Capital Assets, non-depreciable				
Land	$ 218,915	-	-	$ 218,915
Work in Progress	4,803,139	$ 397,718	$ 5,200,857	-
Non-depreciable assets, net	*5,022,054*	*397,718*	*5,200,857*	*218,915*
Capital Assets, depreciable				
Building	8,160,384	64,605	-	8,224,990
Other Improvements	1,099,854	-	-	1,099,854
Equipment	11,884,062	5,290,751	285,428	16,889,385
Less: Accumulated Depreciation	(12,846,453)	(1,524,584)	(263,902)	(14,107,135)
Capital Assets, net	*8,297,848*	*3,830,772*	*21,526*	*12,107,094*
All Capital Assets, net	**$ 13,319,902**	**$ 4,228,490**	**$ 5,222,383**	**$ 12,326,009**

B. CONSTRUCTION COMMITMENTS

VCC's work in progress projects for 2015 and 2014 were as follows:

Project	1/1/2015	Additions	Deletions	12/31/2015
eCBD Enhancement (Tiburon) CAD Project	-	$ 39,216	-	$ 39,216
HVAC Remediation Project	-	108,526	-	108,526
Console Furniture Project	-	1,514	-	1,514
Total	**-**	**$ 149,255**	**-**	**$ 149,255**

Project	1/1/2014	Additions	Deletions	12/31/2014
CAD Project	$ 4,716,938	$ 282,562	$ (4,999,500)	-
2 New Paging Sites Project 2013	85,764	88,168	(173,932)	-
Generator Connection Project	438	26,988	(27,425)	-
Total	**$ 4,803,139**	**$ 397,718**	**$ (5,200,857)**	**-**

Outstanding Projects

As of December 31, 2015, VCC had the following outstanding work in progress projects:

eCBD Enhancement (Tiburon) CAD Project – 2015/2016 adopted biennial budget authorized an enhancement interface to the Tiburon CAD (Computer Aided Dispatch) system, as part of the CAD replacement project originally authorized in 2007. The CAD replacement project was funded with money set aside in the equipment replacement and VCC's E-911 escrow account. The new CAD system went live on March 18, 2014. The interface enhancement is in development and is funded by the King County Emergency Medical Services. As of December 31, 2015, $80,784 remains unspent in interface budget, while $1,875,708 remains unspent in CAD replacement project budget, including contingency.

HVAC Remediation Project – 2015/2016 adopted biennial budget authorized a remediation project for the VCC HVAC system to resolve temperature control, cooling capacity, humidification, and air flow issues funded by the equipment replacement funds. As of December 31, 2015, $1,364,474 in project budget remains unspent.

Console Furniture Project – 2015/2016 adopted biennial budget authorized purchase of new console furniture for the com room from the equipment replacement funds. As of December 31, 2015, $1,012,686 remains unspent.

Additional projects that were capitalized during 2014 include:

2 New Paging Sites Project 2013 – 2013 adopted budget authorized two additional paging sites funded by the equipment replacement funds. Lakeland Hills was selected as a new site and it was determined that an existing VCC site can be enhanced, instead of building another new site. Both sites went live during 2014; although Lakeland Hills site requires additional work in 2016 to establish it as a permanent site. As of December 31, 2015, $26,068 in project costs remain unspent.

Generator Connection Project – In 2013 budget adjustment, the Administration Board authorized a generator connection project to establish a means of connecting an external generator to the VCC building funded by the equipment replacement funds. The project was completed in 2014 and no funds remain unspent.

NOTE 5– Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions for the years 2015 and 2014:

Aggregate Pension Amounts - All Plans		
	2015	**2014**
Pension liabilities	$8,034,716	$6,279,921
Deferred outflows of resources	$946,974	$427,991
Deferred inflows of resources	$1,232,375	$2,758,931
Pension expense/expenditures	$684,940	$726,710

State Sponsored Pension Plans

Substantially all Valley Communications Center full-time and qualifying part-time/job share employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employee's Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 and 2014 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee**
January 2014 through June 2015	9.21%	6.00%
July 2015 through December 2015	11.18%	6.00%

The Center's actual contributions to the plan were $4,037 and $6,809 for the year ended December 31, 2015 and 2014, respectively.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18

percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 and 2014 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2**
January 2014 through June 2015	9.21%	4.92%
July 2015 through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

The Center's actual contributions to the plan were $971,344 and $863,618 for the year ended December 31, 2015 and 2014, respectively.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The 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, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

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, 2015 and 2014, are summarized in the table below. The inflation components used to create the table are 2.2% for 2015 and 2.7% for 2014 and represent the WSIB's most recent long-term estimate of broad economic inflation provided for each year.

Asset Class	Target Allocation 2014-2015	% Long-Term Expected Real Rate of Return Arithmetic 2015	2014
Fixed income	20%	1.70%	0.80%
Tangible assets	5%	4.40%	4.10%
Real estate	15%	5.80%	5.30%
Global equity	37%	6.60%	6.05%
Private equity	23%	9.60%	9.05%
	100%		

Sensitivity of NPL

The table below presents the Center's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

Plan	2015		
	1% Decrease -6.50%	Current Discount Rate -7.50%	1% Increase -8.50%
PERS 1	$ 5,234,538	$ 4,299,406	$ 3,495,278
PERS 2/3	10,922,239	3,735,310	(1,767,453)
Total	**$ 16,156,777**	**$ 8,034,716**	**$ 1,727,825**

Plan	2014		
	1% Decrease -6.50%	Current Discount Rate -7.50%	1% Increase -8.50%
PERS 1	$ 5,138,668	$ 4,168,973	$ 3,336,586
PERS 2/3	8,805,215	2,110,948	(3,002,227)
Total	**$ 13,943,883**	**$ 6,279,921**	**$ 334,359**

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

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

At June 30, 2015 and 2014, the Center reported a total pension liability of $8,034,716 and $6,279,921, respectively, for its proportionate share of the net pension liabilities as follows:

Plan	Liability (or Asset)	
	2015	2014
PERS 1	$ 4,299,406	$ 4,168,973
PERS 2/3	3,735,310	2,110,948
Total	**$ 8,034,716**	**$ 6,279,921**

At June 30, the Center's proportionate share of the collective net pension liabilities was as follows:

Plan	Proportional Share				
	6/30/2015	6/30/2014	6/30/2013	Change 2015-2014	Change 2014-2013
PERS 1	0.082192%	0.082758%	0.080362%	-0.000566%	0.002396%
PERS 2/3	0.104541%	0.104432%	0.104456%	0.000109%	-0.000024%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans.

The collective net pension liability (asset) was measured as of June 30, 2015 and June 30, 2014, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014 and June 30, 2013, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2015 and 2014, the Center recognized pension expense as follows:

Plan	Pension Expense 2015	Pension Expense 2014
PERS 1	$ 221,908	$ 369,421
PERS 2/3	463,032	357,289
Total	**$ 684,940**	**$ 726,710**

PERS 1 plan pension expense includes PERS Plan 1 UAAL component.

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015 and 2014, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	2015		2014	
	Deferred Outflows or Resources	Deferred Inflows of Resources	Deferred Outflows or Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	-	$ 235,224	-	$ 521,307
Contributions subsequent to the measurement date	$ 236,480	-	$ 191,990	-
Total	**$ 236,480**	**$ 235,224**	**$ 191,990**	**$ 521,307**

PERS 2/3	2015		2014	
	Deferred Outflows or Resources	Deferred Inflows of Resources	Deferred Outflows or Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 397,064	-	-	-
Net difference between projected and actual investment earnings on pension plan investments	-	$ 997,151	-	$ 2,237,624
Changes of assumptions	6,018	-	-	-
Contributions subsequent to the measurement date	307,412	-	$ 236,001	-
Total	**$ 710,494**	**$ 997,151**	**$ 236,001**	**$ 2,237,624**

Deferred outflows of resources for 2015 related to pensions resulting from the Center's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Deferred outflows of resources for 2014 related to pensions resulting from the Center's contributions subsequent to the measurement date were recognized as a reduction of the net

pension liability in the year ended December 31, 2015. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be/were recognized in pension expense as follows:

Year Ended December 31:	PERS 1 2015	PERS 1 2014
2015		$ (130,326)
2016	$ (91,165)	(130,326)
2017	(91,165)	(130,326)
2018	(91,165)	(130,327)
2019	38,270	-
Total	**$ (235,224)**	**$ (521,307)**

Year Ended December 31:	PERS 2/3 2015	PERS 2/3 2014
2015		$ (559,406)
2016	$ (270,731)	(559,406)
2017	(270,731)	(559,406)
2018	(270,733)	(559,407)
2019	218,126	-
Total	**$ (594,069)**	**$ (2,237,624)**

NOTE 6– Risk Management

VCC is a member of the Washington Cities Insurance Authority (WCIA) since June of 1993.

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 179 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage offered by WCIA includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are $4 million per occurrence self insured layer, and $16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are $20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to $750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

VCC insures with WCIA under a liability program, property program, boiler and machinery program, crime/fidelity program, and specialized insurance for underground storage tank. Programs have various limits, sub-limits, and deductibles.

Health and Welfare – Fully Insured

Since October 2015, the Center obtains medical and prescriptions coverage for its employees through membership in the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of $1.5 million through Life Map, and Group Health ISL at $750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to

termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

The Center is fully insured for dental and vision benefits. Since 2012, the Center has dental insurance through Delta Dental of Washington and vision insurance through Vision Service Plan.

Health and Welfare – Self-Insured

The Center established a self-insured Health and Welfare Benefit Program on October 1, 2011 and moved away to a fully insured program through AWC Trust HCP on October 1, 2015. The Center self-insured for medical and prescription benefits through First Choice Health. Through most of 2014, VCC had a Health Review Committee and the program was administered by the Human Resources, with claims processed by Meritain Health, a third-party administrator. During 2015, the Center changed to EBMS, Inc for claims administration. Prior to October 2014, VCC had a stop-loss policy with HCC Life Insurance Company; however, since October 1, 2014 and through September 1, 2015, the Center insured with Symetra Life Insurance Company. The stop-loss policy provided individual deductible limits of $50,000 and a plan limit of $1,388,345 and $1,329,990 for expenses incurred from 10/1/14 through 9/30/15 and 10/1/13 through 9/30/14, respectively.

As of December 31, 2015 VCC had accrued claims liabilities, claims incurred but not reported (IBNR), of $181,513, which is a decrease from the amount estimated for 2014, as the self-insurance program was discontinued effective September 30, 2015. The IBNR for 2015 and 2014 was based on estimates by the Healthcare Actuaries.

Self-Insured Medical and Prescription Claims		
Item	**2015**	**2014**
Claims Liabilities at Beginning of Year	$ 254,400	$ 259,295
Claims expenses:		
Current year and changes in estimates	981,561	1,435,533
Claims payments	(1,054,448)	(1,440,428)
Claims Liabilities at End of Year	**$ 181,513**	**$ 254,400**

NOTE 7 – Leases

VCC is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property right or lease obligations, and therefore the results of the lease agreements are not reflected in the Center's statement of net position. For the year ended December 31, 2015 and December 31, 2014, the cost of such leases was $41,178 and $43,375, respectively.

VCC leases office equipment under a non-cancelable operating lease. The operating lease is effective May 2012 for 60 months. Total cost of operating lease was $22,732 and $22,017 for the years ended December 31, 2015 and 2014, respectively. The future minimum lease payments for this lease are as of December 31 of each year as follows:

Year	Amount
2016	$ 20,592
2017	$ 6,864
Total	**$ 27,456**

NOTE 8 – Long-Term Liabilities

During the years ended December 31, 2015 and 2014, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2015	Additions	Reductions	Ending Balance 12/31/2015	Due Within One Year
Deposits payable	$ 138,744		$ 138,744	-	-
Compensated absences	635,823	$ 1,237,703	1,167,194	$ 706,332	$ 49,443
Pension obligations	6,279,921	2,598,230	843,435	8,034,716	1,087,784
Total Noncurrent Liabilities	**$ 7,054,488**	**$ 3,835,933**	**$ 2,149,373**	**$ 8,741,048**	**$ 1,137,227**

	Beginning Balance 1/1/2014	Additions	Reductions	Ending Balance 12/31/2014	Due Within One Year
Deposits payable	$ 142,212	-	$ 3,468	$ 138,744	-
Compensated absences	608,828	$ 1,223,578	1,196,583	635,823	$ 36,242
Pension obligations	9,156,043	-	2,876,122	6,279,921	855,982
Total Noncurrent Liabilities	**$ 9,907,083**	**$ 1,223,578**	**$ 4,076,173**	**$ 7,054,488**	**$ 892,224**

See Note 1.H for additional information on compensated absences and Note 5 for pension obligations.

NOTE 9 – Accounts Receivable & Due From Other Governments

Receivable balances for 2015 increased 4% from 2014. No material account balances are past due. Receivables at December 31, 2015 and 2014 were as follows:

Agency	2015	2014
Auburn School District	$ 120	$ 120
Cedar River Water District	345	330
City of Black Diamond Police	17,606	12,861
City of Covington	75	75
City of Algona	12,771	9,564
City of Auburn Parks	270	540
City of Auburn Police	13,889	10,327
City of Des Moines Police	60,005	101,619
City of Federal Way Police	2,878	2,892
City of Kent Police	21,524	15,868
City of Maple Valley	150	150
City of Pacific Police	32,518	16,283
City of Renton Fire and Police	17,909	14,877
City of Tukwila Fire, Police & P/W	9,526	8,755
Covington Water District	570	570
FBI - Dept of Justice Lease	7,259	7,048
Kent Fire RFA	6,245	4,081
Kent School District	5,385	5,385
King Co E-911 Program Office	37,300	2,690
King Co Emergency Management	48,542	225
King Co Fire District #2	64,186	63,006
King Co Fire District #20	16,875	7,984
King Co Fire District #43	19,426	10,155
King Co Fire District #44	13,289	14,328
King Co Fire District #47	772	984
King Co Medic One	111,763	105,176
North Highline Fire	7	162
Other - Refunds	96,693	10,178
Renton School Security	(76)	150
Soos Creek Water District	615	705
South Correctional Entity	753	247
South King Fire and Rescue	5	6
Tahoma School District	45	45
Valley Medical Center	75	75
Valley Regional Fire Authority	3,078	2,040
Vashon Island Fire & Life Safety	9,878	9,028
Total Receivables	**$ 632,422**	**$ 438,681**

NOTE 10 – Apportionment of Equity

The member cities share in the equity of VCC based on their respective percent of call distribution each year. 2015 and 2014 total calls reflect actual calls from July 2014 to June 2015 and July 2013 to June 2014, respectively. The equity as of December 31, 2015 and 2014 belonging to the five member cities is as follows:

Member City	Total Calls	% of Calls	2014 Equity Balance	2015 Distribution	2015 Equity Balance	Percent Equity
Auburn	92,008	23%	$ 3,298,133	$ 555,097	**$ 3,853,229**	21%
Federal Way	84,170	21%	2,350,496	507,809	**2,858,305**	16%
Kent	107,575	27%	4,889,877	649,015	**5,538,892**	30%
Renton	78,046	20%	3,474,017	470,862	**3,944,879**	22%
Tukwila	34,477	9%	1,931,257	208,004	**2,139,261**	12%
Total	396,276	100%	$ 15,943,780	$ 2,390,787	**$ 18,334,567**	100%

Member City	Total Calls	% of Calls	2013 Equity Balance	2014 Restated Distribution	2014 Equity Balance	Percent Equity
Auburn	82,276	22%	$ 4,959,646	$ (1,661,513)	**$ 3,298,133**	21%
Federal Way	76,602	21%	3,508,470	(1,157,974)	**2,350,496**	15%
Kent	104,448	28%	7,378,791	(2,488,913)	**4,889,877**	31%
Renton	75,345	20%	5,240,607	(1,766,590)	**3,474,017**	22%
Tukwila	32,383	9%	2,927,158	(995,901)	**1,931,257**	12%
Total	371,053	100%	$ 24,014,671	$ (8,070,891)	**$ 15,943,780**	100%

2014 Restated Distribution reflects GASB Statement No. 68 change in accounting principle adjustment.

NOTE 11 – Material Related Party Transactions

The Valley Communications Center Development Authority, hereafter referred to as the “Authority”, was formed by the City of Kent, pursuant to RCW 35.21.730 through 35.21.757, Resolution No. 1564 and Ordinance No. 3510 of the City of Kent. The Authority was formed to provide an independent legal entity to finance the acquisition, construction, and equipping of a new dispatch facility for the operations of the Valley Communications Center through the issuance and servicing of up to $12,758,000 of bonds, and to perform other functions specified in its charter. All bonded debt held by the Authority is the liability of Valley Communications Center/Valley Communications Center Development Authority’s member cities.

The Authority is an independent legal entity exclusively responsible for its own debts, obligations and liabilities. All liabilities incurred by the Authority shall be satisfied exclusively from the assets and credit of the Authority. No creditor or other persons shall have any recourse to the assets, credit, or services of the Valley Communication Center’s member cities on account of any debts, obligations, liabilities, acts or omissions of the Authority. The member cities are liable for all debt issued by the Authority.

Pursuant to RCW 35.21.730 through 35.21.757, Resolution No. 12 of the Authority, adopted March 5, 2010 provided for the issuance and sale of the Bonds and refunding a portion of the Authority’s outstanding bonds, in the amount of $5,325,000.

Since the creation of the Authority in 2000, Valley Communication Center has been responsible for billing and collecting the annual debt service payments from the Center/Authority's member cities. Once VCC has received the debt service payments from the member cities, Valley Communications Center remits the semi-annual debt service payments on behalf of the Authority to the US Bank (Bank of New York prior to 2015).

On April 5, 2010 a portion of the original 2000 General Obligation Bonds were refunded. Below is a summary of debt service due in 2015 and 2014 for the new 2010 Refunding Bonds. As of December 31, 2015 all bonds have been paid off.

Debt Service Obligation Valley Communications Development Authority			
	2010 Refunding Bonds		
	Interest	Principal	Total
6/1/2015	$ 22,000		$ 22,000
12/1/2015	22,000	$ 1,100,000	1,122,000
Total	**$ 44,000**	**$ 1,100,000**	**$ 1,144,000**
6/1/2014	$ 43,200		$ 43,200
12/1/2014	43,200	$ 1,060,000	1,103,200
Total	**$ 86,400**	**$ 1,060,000**	**$ 1,146,400**

NOTE 12 – Contingencies and Litigations

The Center has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probably that the Center will have to make payment. In the opinion of management, the Center's insurance policies and reserves are adequate to pay all known or pending claims.

NOTE 13– Accounting and Reporting Changes

The Center implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions in 2015 and financial statements presented for 2014 were restated, to the extent practical. The objective of the new GASB Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirement of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.

Changes made to comply with GASB Statement No. 68 are reported as an $8,754,625 adjustment/reduction to the beginning net position in 2014 due to changes in accounting principles. The deferred inflows of resources, deferred outflows of resources, pension obligations, and unrestricted net position on the VCC's comparative statement of net positon were restated, to the extent practical. The pension expense reflected under the personal services on the VCC's comparative statement of revenues, expenses, and changes in fund net position was also restated for 2014, to the extent practical. The reconciliation of operating income (loss) to net cash provided (used) by operating activities reported on the VCC's comparative statement of cash flows was also restated for 2014. Balances reported in the VCC's management's discussion and analyses for 2013 are not restated, as pension plan information was not available from the WA State Department of Retirement Systems, administrator of VCC's pension plans.

The 2014 financial information is rested to separate capital assets not being depreciated from capital assets being depreciated in the noncurrent assets section of the VCC's comparative statement of net position.

NOTE 14 – Subsequent Events

A class action lawsuit was filed by three current Valley Communications Center employees on March 17, 2016 in Washington State King County Superior Court. No accrual was made for possible loss contingency and an estimate of loss cannot be made yet given the timing of the filing. The Center firmly believes the assertions of lawsuit are for noncompensable and de minimis time.

END OF FOOTNOTES

A copy of this report is available at the offices of Valley Communications Center, 27519 108th Ave SE Kent, WA 98030.

Required Supplementary Information - State Sponsored Plans

Valley Communications Center
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2015
Last 2 Fiscal Years*

	2015	2014
Employer's proportion of the net pension liability	0.082192%	0.082758%
Employer's proportionate share of the net pension liability	$ 4,299,406	$ 4,168,973
Employer's covered employee payroll	$ 63,925	$ 81,458
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	6725.70%	5117.94%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	61.19%

Valley Communications Center
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2015
Last 2 Fiscal Years*

	2015	2014
Employer's proportion of the net pension liability	0.104541%	0.104432%
Employer's proportionate share of the net pension liability	$ 3,735,310	$ 2,110,948
Employer's covered employee payroll	$ 9,127,654	$ 9,027,111
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.92%	23.38%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	93.29%

Notes to Schedules:
The Center had one employee in PERS 1 plan. That employee retired in August 2015.
*Information is only available for the 2 years presented out of the 10-year trend required.

Required Supplementary Information - State Sponsored Plans

Valley Communications Center
Schedule of Employer Contributions
PERS 1
As of December 31, 2015
Last 2 Fiscal Years*

	2015	2014
Statutorily or contractually required contributions	$ 4,037	$ 6,809
Contributions in relation to the statutorily or contractually required contributions	$ (4,037)	$ (6,809)
Contribution deficiency (excess)	0	0
Covered employer payroll	$ 41,716	$ 73,928
Contributions as a percentage of covered employee payroll	9.68%	9.21%

Valley Communications Center
Schedule of Employer Contributions
PERS 2/3
As of December 31, 2015
Last 2 Fiscal Years*

	2015	2014
Statutorily or contractually required contributions	$ 971,344	$ 863,618
Contributions in relation to the statutorily or contractually required contributions	$ (971,344)	$ (863,618)
Contribution deficiency (excess)	0	0
Covered employer payroll	$ 9,338,235	$ 9,280,502
Contributions as a percentage of covered employee payroll	10.40%	9.31%

Notes to Schedules:
The Center had one employee in PERS 1 plan. That employee retired in August 2015.
*Information is only available for the 2 years presented out of the 10-year trend required.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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Toll-free Citizen Hotline	(866) 902-3900
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