Washington State Auditor's Office

Financial Statements Audit Report

Valley Communications Center Development Authority

King County

Audit Period
January 1, 2009 through December 31, 2010

Report No. 1006984

Issue Date
January 17, 2012

Washington
Brian Sonntag
State Auditor

Washington State Auditor
Brian Sonntag

January 17, 2012

Board of Directors
Valley Communications Center Development Authority
Kent, Washington

Report on Financial Statements

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

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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King County
January 1, 2009 through December 31, 2010

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

Valley Communications Center Development Authority
King County
January 1, 2009 through December 31, 2010

Board of Directors
Valley Communications Center Development Authority
Kent, Washington

We have audited the basic financial statements of the Valley Communications Center Development Authority, King County, Washington, as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated December 2, 2011. The Authority has not presented all of the management's discussion and analysis information that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the basic financial statements.

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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures 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 Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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 Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of the Agency'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*.

This report is intended for the information and use of management and the Board of Directors. 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.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 2, 2011

Independent Auditor's Report on Financial Statements

Valley Communications Center Development Authority
King County
January 1, 2009 through December 31, 2010

Board of Directors
Valley Communications Center Development Authority
Kent, Washington

We have audited the accompanying basic financial statements of the Valley Communications Center Development Authority, King County, Washington, as of and for the years ended December 31, 2010 and 2009, as listed on page 5. These financial statements are the responsibility of the Agency's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Valley Communications Center Development Authority, as of December 31, 2010 and 2009, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Agency'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Authority has not presented the management's discussion and analysis information that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the basic financial statements.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 2, 2011

Financial Section

Valley Communications Center Development Authority
King County
January 1, 2009 through December 31, 2010

BASIC FINANCIAL STATEMENTS

Valley Communications Center
Development Authority

Statement of Net Assets
For the Year Ending December 31, 2010

		2010
ASSETS		
Current Assets:		
Cash	$	-
Due from Other Governments		5,220,000
Unamortized Bond Insurance		-
TOTAL ASSETS	**$**	**5,220,000**
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable		-
Accrued Interest Payable		15,746
Current portion of Special Obligation Bonds		980,000
Total Current Liabilities		**995,746**
Non-current Liabilities:		
Special Obligation Bonds		4,240,000
Unamortized Discount on Bonds		(34,613)
Unamortized Premium on Bonds		313,469
Total Non-current Liabilities		**4,518,856**
TOTAL LIABILITES	**$**	**5,514,602**
NET ASSETS		
Unrestricted		(294,602)
TOTAL NET ASSETS	**$**	**(294,602)**

The Accompanying Notes Are An Integral Part of This Statement

Valley Communications Center
Development Authority

Statement of Net Assets

For the Year Ending December 31, 2009

	2009
Assets	
Current Assets	
Cash	-
Due from Other Governments	6,265,000
Unamortized Bond Insurance	19,017
Total Assets	6,284,017
Liabilities and Net Assets	
Current Liabilities	
Accounts Payable	-
Accrued Interest Payable	27,867
Current portion of Special Obligation Bonds	920,000
Total Current Liabilities	947,867
Non-current Liabilities	
Special Obligation Bonds	5,345,000
Unamortized Discount on Bonds	(27,437)
Unamortized Premium on Bonds	45,261
Total Non-current Liabilities	5,362,824
Total Liabilities	6,310,691
Net Assets	
Unrestricted	(26,674)
Total Net Assets	(26,674)

The Accompanying Notes Are An Integral Part of This Statement

Valley Communications Center
Development Authority

Statement of Revenue, Expenses, and Changes in Net Assets
For the Year Ended December 31, 2010

		2010
Operating Revenues		
Debt Service Interest (collected from Member Cities)	$	171,932
Premium Amortized		107,955
Total Operating Revenues		279,887
Operating Expenses		
Debt Service Interest (paid on behalf of Member Cities)		159,811
Issuance Costs Amortized		34,359
Debt Service Insurance		19,017
Total Operating Expenses		213,187
Net Operating Income(Loss)	**$**	**66,700**
Non-Operating Revenue (Expense)		
Premium on Bonds Issued		(376,163)
Costs of Issuance		41,535
Non-Operating Revenue Net of Expenses		(334,628)
Net Income (Loss)		**(267,928)**
Net Assets		
Beginning Net Assets - January 1		(26,674)
Ending Net Assets December 31	**$**	**(294,602)**

The Accompanying Notes Are An Integral Part of This Statement

Valley Communications Center
Development Authority

Statement of Revenue, Expenses, and Changes in Net Assets

For the Year Ended December 31, 2009

	2009
Operating Revenues	
Debt Service Interest Rev	378,150
Original Issue Premium	7,872
Total Operating Revenues	386,022
Operating Expenses	
Bank Charges	-
Debt Service Interest	374,504
Debt Service Insurance	3,307
Discount Amortized	4,771
Total Operating Expenses	382,583
Net Operating Income(Loss)	**3,439**
Non-Operating Revenue (Expense)	
Construction Funds	-
Interest Revenue	-
Non-Operating Revenue Net of Expenses	-
Net Income (Loss)	3,439
Net Assets - January 1	(30,113)
Prior Period Adjustment	-
Net Assets December 31	(26,674)

The Accompanying Notes Are An Integral Part of This Statement

Valley Communications Center
Development Authority

Statement of Cash Flows
For the Year Ended December 31, 2010

		2010
Cash flows from operating activities:		
Cash paid for bank services	$	-
Cash paid for arbitrage services		-
Net cash provided by operating activities		**-**
Cash flows from capital and related financing activities:		
Contributions by municipalities and others		1,196,932
Bond principal payment		(1,025,000)
Bond interest payment		(171,932)
Capital expenditures		-
Net cash used for capital and related financing activities		**-**
Cash flows from investing activities:		
Interest and dividends on investments		-
Net Cash provided (used) by investing activities		-
Net Increase (decrease) in cash balances	**$**	**-**
Cash balance - January 1		-
Cash balance - December 31	**$**	**-**

Reconciliation of operating income to net cash provided:

Net operating (loss) income	$	66,700
Changes in Assets and Liabilities:		
Increase (decrease) in accounts receivable		(1,045,000)
(Increase) decrease in accounts payable		-
(Increase) decrease in unamortized bond insurance		-
Increase (decrease) in accrued interest payable		15,746
(Increase) decrease in special obligation bonds - external sour		1,045,000
(Increase) decrease in unamortized discount on bonds		6,923
Increase (decrease) in unamortized premium on bonds		(62,694)
Total Adjustments		**(40,025)**
Net Cash provided (used) by operating activities	**$**	**-**

The Accompanying Notes Are An Integral Part Of This Statement

Valley Communications Center
Development Authority

Statement of Cash Flows

For the Year Ended December 31, 2009

		2009
Cash flows from operating activities:		
Cash paid for bank services	$	-
Cash paid for arbitrage services		-
Net cash provided by operating activities		-
Cash flows from capital and related financing activities:		
Contributions by municipalities and others		1,253,150
Bond principal payment		(875,000)
Bond interest payment		(378,150)
Capital expenditures		-
Net cash used for capital and related financing activities		-
Cash flows from investing activities:		
Interest and dividends on investments		-
Net Cash provided (used) by investing activities		-
Net Increase (decrease) in cash balances	**$**	**-**
Cash balance - January 1		-
Cash balance - December 31	**$**	**-**
Reconciliation of operating income to net cash provided:		
Net operating (loss) income	$	3,439
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Changes in Assets and Liabilities:		
Increase (decrease) in accounts receivable		(875,000)
(Increase) decrease in accounts payable		-
(Increase) decrease in unamortized bond insurance		3,307
Increase (decrease) in accrued interest payable		(3,646)
(Increase) decrease in special obligation bonds - external sources		875,000
(Increase) decrease in unamortized discount on bonds		4,771
Increase (decrease) in unamortized premium on bonds		(7,872)
Total Adjustments		(3,439)
Net Cash provided (used) by operating activities	**$**	**0**

The Accompanying Notes Are An Integral Part Of This Statement

VALLEY COMMUNICATIONS CENTER
DEVELOPMENT AUTHORITY
Notes to Financial Statements
January 1, 2010 through December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

In accordance with Ordinances passed by each of the Member Cities, they are each obligated to contribute in equal shares to pay debt service on the Bonds, as the same shall become due and payable, and to pay administrative expenses with respect to the Bonds. Each Member City is obligated to pay one-fifth of the debt service on the Bonds, and its obligation is limited to its equal allocable share, without regard to the payment or lack thereof by any other jurisdiction. All payments with respect to the bonds will be made to Valley Communications Center in its capacity as administrator and servicer of the bonds issued by the Authority.

For the purpose of securing the exemption from federal income taxation for interest on obligations of the Authority, the Authority constitutes an authority and instrumentality of the Cities of Auburn, Federal Way, Kent, Renton and Tukwila (within the meaning of those terms in regulations of the United States treasury and rulings of the Internal Revenue service prescribed pursuant to Section 103 and Section 115 of the Internal Revenue Code of 1986 as amended.) For purposes of Section 265(b)(3)(C)(iii) of the Internal Revenue Code of 1986, as amended, the amount of each issue of obligations of the Authority shall be allocated in equal shares among each of the Cities.

Management of all Authority affairs resides in the Board. The Administration Board of Valley Communications Center, established pursuant to Section 4 of the Valley Communications Center Interlocal Agreement, dated April 17, 2000, including all amendments, shall act ex officio as the Board of the Authority.

The financial statements of Valley Communications Center Development Authority 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. Significant accounting policies are described in the following notes.

A. Reporting Entity

Valley Communications Center Development Authority, hereafter referred to as Authority, is a public authority organized pursuant to RCW 35.21.730 through 35.21.757 and ordinances of the Cities of Auburn, Federal Way, Kent, Renton, and Tukwila.

The purpose of the Authority is to provide an independent legal entity to finance the acquisition, construction, and equipping of a new facility for the operations of Valley Communications Center through the issuance and servicing of long term debt to finance the undertaking of technology and major capital improvements essential to maintain the Center's functionality. Additional improvements may be made only with a supermajority vote of the Board.

A Board serves Valley Communications Center Development Authority. The Administration Board of Valley Communications Center, established pursuant to Section 4 of the Valley Communications Center Interlocal Agreement, including all amendments acts ex officio as the Board of the Authority. Board members shall have terms coextensive with their terms as members of the Administrative Board of Valley Communications Center.

B. Basis of Presentation – Fund Accounting

The accounts of the Authority are organized on the fund basis, with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The Authority's resources are allocated to and accounted for in funds as summarized in the financial statements, for the years 2010, included in this Annual Report.

The Authority is a debt service fund whose operations consist of payment of principal and interest for the bonds that it issued in 2000 and refunded in 2010. The Authority's operating revenues consist of debt service transfer in and issuance premiums and the operating expenses are related to payment of the interest and other bond related expenses such as bank charges, insurance and amortization. Following is a description of the proprietary fund type used by Valley Communications Center Development Authority for financial reporting purposes.

Proprietary Fund Types

Proprietary funds are accounted for on the "flow of economic resources" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with the activity are included on balance sheets. Their reported net assets are segregated into capital assets, net of related debt, restricted and unrestricted. Proprietary fund operating statements present increases (revenue and gains) and decreases (expenses and losses) in net total assets. The proprietary fund measurement focus is upon the determination of net income, financial position, and statement of cash flows.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts 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 participating cities provide the funds necessary to amortize the bond indebtedness of the Authority. The Cities of Auburn, Federal Way, Kent, Renton, and Tukwila will provide in equal shares funds to pay the debt service on the bond issue as the amounts become due and payable and to pay administrative expenses with respect to the bonds. No city shall be obligated to pay the share of any other City. All payments with respect to the bonds shall be made to Valley Communications Center in its capacity as administrator and servicer of the bonds issued by the Authority.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financials statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Center has elected not to follow subsequent private-sector guidance.

D. *Cash*

As of March 31, 2007, there were no cash surpluses and all accounts at Wells Fargo Bank were closed.

E. *Net Assets*

Net assets are unrestricted. Net assets are negative due to the unamortized premiums and underwriter's discounts incurred during the issuance of the bonds. This negative amount is reduced annually as both the bond premium and the underwriter's discount is amortized. The premium and the discount are amortized using the straight-line method.

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

Investment of funds can be in the form of federal government securities, repurchase agreements, banker's acceptances, certificates of deposit, Local Government Investment Pool (LGIP), and savings accounts. Investments are stated at market value as of the year-end. The market value adjustment is recorded in an account labeled "Adjustment For Fair Value". Available cash is deposited into savings accounts and/or other types of investments, as cash flow allows. Interest earned is credited to the appropriate investing source.

Deposits totaled $0 as of December 31, 2010. The Authority's deposits and investment position at fair value at the end of fiscal year 2010 are:

Deposits and Investments		
	December 31, 2010	**December 31, 2009**
Source	**Operations**	**Operations**
Checking	$ 0	$ 0
Municipal Investors	0	0
LGIP - Operations	0	0
Totals	$ 0	$0

NOTE 4 – LONG TERM DEBT

A. *Special Obligation Bonds*

The Valley Communications Center Development Authority's long term debt consists of Special Obligation Long-Term Debt. The Bonds were issued on September 15, 2000 for a face amount of $12,758,000. The Bond's interest rates range from 4.30% to 5.375%.

The Bonds were issued for the purpose of providing funds to acquire, construct, and equip a new facility for the operation of Valley Communications Center. Valley Communications Center provides emergency communications services, an essential governmental service, to the Cities and other governmental agencies in South King County.

Pursuant to an Interlocal Agreement among the Cities of Auburn, Federal Way, Kent, Renton, and Tukwila effective April 17, 2000, the Cities have agreed to finance the new facility and contribute to the financing on a pro-rata basis with each member city contributing twenty percent (20%) of the total cost. By Ordinance passed by the Cities, each City has pledged to contribute in equal shares to pay debt service on the Bonds, as the same shall become due and payable and to pay administrative expenses with respect to the Bonds.

Each City's obligation is limited to its twenty percent equal allocable share of principal and interest on the Bonds and all such payments shall be made without regard to the payment or lack thereof by any other jurisdiction. No City is obligated to pay the share of any other City, and each City has obligated and committed itself to budget for and pay its allocable share of the financial obligations represented by the Bonds. The obligation of each City to pay its allocable share of principal and interest on the Bonds represents an irrevocable full faith and credit obligation, payable from property taxes levied within its constitutional and statutory authority provided without a vote of the electors of the City on all of the taxable property within the City, sales and use taxes, and other monies due to the city's General Governmental Funds. Federal arbitrage rules apply to the Special Obligation Bond proceeds, but due to the low interest rate there is no arbitrage liability.

B. Refundings

In 2010 the Authority refunded by "defeasance" method $5,345,000 of its 2000 Special Obligation Bonds ("Old Bonds"). The liability of the old issues was removed and the new issue was recorded. The Refunding Bonds ("New Bonds") sold at a premium with a par value of $5,325,000. The New Bonds were issued with a 4% - 5% interest rate, a decrease from the 5% - 5.75% due on the Old Bonds. The NPV savings from 2010 – 2015 is $464,928.65.

Proceeds from the New Bonds were used to refund $5,345,000 of the Old Bonds maturing on December 1, 2011 through 2013 and 2015 and accrued interest. The proceeds which were allocated to the refunding were escrowed until the call date of December 1, 2010. The remaining portion of the New Bonds premium paid for the costs of issuance. Below is a summary of the sources and uses of the New Bond issue:

Sources of Funds		
Par Amount	$	5,325,000
Original Issue Premium		376,163
Total Sources of Funds	$	5,701,163
Uses of Funds		
Escrow Requirements	$	5,625,814
Costs of Issuance		75,085
Additional Proceeds		264
Total Uses of Funds	$	5,701,163

In 2010, the Authority paid principal and accrued interest on both the New Bonds and the Old Bonds. The following is a summary of the Authority's debt service payments in 2010:

2010 Debt Service Obligation
Valley Communications Development Authority

	2000 GO Bonds		2010 Refunding Bonds		
	Interest	Principal	Interest	Principal	Total
6/1/2010	$ 23,000		$ 29,882		$ 52,882
12/1/2010	23,000	920,000	96,050	105,000	1,144,050
Total	**$ 46,000**	**$ 920,000**	**$ 125,932**	**$ 105,000**	**$ 1,196,932**

As of December 31, 2010 the entire principal due on Old Bond debt had been paid off and the only remaining debt service due is for the 2010 Refunding Bonds. The summary of debt service requirements for the five participating cities for the years 2011 through 2015 is as follows:

Summary of Debt Service Requirements
VCCDA 2010 Refunding Bonds

Year	Principal	Interest	Total
2011	$ 980,000	$ 188,950	$ 1,168,950
2012	1,005,000	159,550	1,164,550
2013	1,075,000	129,400	1,204,400
2014	1,060,000	86,400	1,146,400
2015	1,100,000	44,000	1,144,000
Total	**$ 5,220,000**	**$ 608,300**	**$ 5,828,300**

NOTE 5 – RISK MANAGEMENT

Valley Communications Center Development Authority pursuant to the Interlocal Agreement has insurance coverage through Valley Communications Center. Valley Com is a member of the Washington Cities Insurance Authority (WCIA). 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 110 members.

As a member of WCIA, Valley Communications board, board designees and staff have coverage that covers their actions of being on other boards as well as contract responsibilities.

NOTE 6 – 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 Owner 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.

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 Bank of New York.

END OF FOOTNOTES

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

VALLEY COMMUNICATIONS CENTER
DEVELOPMENT AUTHORITY
Notes to Financial Statements
January 1, 2009 through December 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

In accordance with Ordinances passed by each of the Member Cities, they are each obligated to contribute in equal shares to pay debt service on the Bonds, as the same shall become due and payable, and to pay administrative expenses with respect to the Bonds. Each Member City is obligated to pay one-fifth of the debt service on the Bonds, and its obligation is limited to its equal allocable share, without regard to the payment or lack thereof by any other jurisdiction. All payments with respect to the bonds will be made to Valley Communications Center in its capacity as administrator and servicer of the bonds issued by the Authority.

For the purpose of securing the exemption from federal income taxation for interest on obligations of the Authority, the Authority constitutes an authority and instrumentality of the Cities of Auburn, Federal Way, Kent, Renton and Tukwila (within the meaning of those terms in regulations of the United States treasury and rulings of the Internal Revenue service prescribed pursuant to Section 103 and Section 115 of the Internal Revenue Code of 1986 as amended.) For purposes of Section 265(b)(3)(C)(iii) of the Internal Revenue Code of 1986, as amended, the amount of each issue of obligations of the Authority shall be allocated in equal shares among each of the Cities.

Management of all Authority affairs resides in the Board. The Administration Board of Valley Communications Center, established pursuant to Section 4 of the Valley Communications Center Interlocal Agreement, dated April 17, 2000, including all amendments, shall act ex officio as the Board of the Authority.

The financial statements of Valley Communications Center Development Authority 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. Significant accounting policies are described in the following notes.

A. Reporting Entity

Valley Communications Center Development Authority, hereafter referred to as Authority, is a public authority organized pursuant to RCW 35.21.730 through 35.21.757 and ordinances of the Cities of Auburn, Federal Way, Kent, Renton, and Tukwila.

The purpose of the Authority is to provide an independent legal entity to finance the acquisition, construction, and equipping of a new facility for the operations of Valley Communications Center through the issuance and servicing of long term debt to finance the undertaking of technology and major capital improvements essential to maintain the Center's functionality. Additional improvements may be made only with a supermajority vote of the Board.

A Board serves Valley Communications Center Development Authority. The Administration Board of Valley Communications Center, established pursuant to Section 4 of the Valley Communications Center Interlocal Agreement, including all amendments acts ex officio as the Board of the Authority. Board members shall have terms coextensive with their terms as members of the Administrative Board of Valley Communications Center.

B. **Basis of Presentation – Fund Accounting**

The accounts of the Authority are organized on the fund basis, with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The Authority's resources are allocated to and accounted for in funds as summarized in the financial statements, for the years 2009, included in this Annual Report.

The Authority is a debt service fund whose operations consist of payment of principal and interest for the bonds that it issued in 2000. The Authority's operating revenues consist of debt service transfer in and issuance premiums and the operating expenses are related to payment of the interest and other bond related expenses such as bank charges, insurance and amortization. Following is a description of the proprietary fund type used by Valley Communications Center Development Authority for financial reporting purposes.

Proprietary Fund Types

Proprietary funds are accounted for on the "flow of economic resources" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with the activity are included on balance sheets. Their reported net assets are segregated into capital assets, net of related debt, restricted and unrestricted. Proprietary fund operating statements present increases (revenue and gains) and decreases (expenses and losses) in net total assets. The proprietary fund measurement focus is upon the determination of net income, financial position, and statement of cash flows.

C. **Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts 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 participating cities provide the funds necessary to amortize the bond indebtedness of the Authority. The Cities of Auburn, Federal Way, Kent, Renton, and Tukwila will provide in equal shares funds to pay the debt service on the bond issue as the amounts become due and payable and to pay administrative expenses with respect to the bonds. No city shall be obligated to pay the share of any other City. All payments with respect to the bonds shall be made to Valley

Communications Center in its capacity as administrator and servicer of the bonds issued by the Authority.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financials statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Center has elected not to follow subsequent private-sector guidance.

D. **Cash**

As of March 31, 2007, there were no cash surpluses and all accounts at Wells Fargo Bank were closed.

E. Net Assets

Net assets are unrestricted. The net assets are negative due to the issuance of bonds. This negative amount is anticipated to be reduced by the amount of debt service paid every year.

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

Investment of funds can be in the form of federal government securities, repurchase agreements, banker's acceptances, certificates of deposit, Local Government Investment Pool (LGIP), and savings accounts. Investments are stated at market value as of the year-end. The market value adjustment is recorded in an account labeled "Adjustment For Fair Value". Available cash is deposited into savings accounts and/or other types of investments, as cash flow allows. Interest earned is credited to the appropriate investing source.

Deposits totaled $0 as of December 31, 2009. The Authority's deposits and investment position at fair value at the end of fiscal year 2009 are:

Deposits and Investments		
	December 31, 2009	**December 31, 2008**
Source	**Operations**	**Operations**
Checking Municipal Investors LGIP - Operations	$ 0	$ 0
Totals	$ 0	$0

NOTE 4 – LONG TERM DEBT

The Valley Communications Center Development Authority's long term debt consists of Special Obligation Long-Term Debt. The Bonds were issued on September 15, 2000 for a face amount of $12,758,000. The Bond's interest rates range from 4.30% to 5.375%.

The Bonds were issued for the purpose of providing funds to acquire, construct, and equip a new facility for the operation of Valley Communications Center. Valley Communications Center provides emergency communications services, an essential governmental service, to the Cities and other governmental agencies in South King County.

Pursuant to an Interlocal Agreement among the Cities of Auburn, Federal Way, Kent, Renton, and Tukwila effective April 17, 2000, the Cities have agreed to finance the new facility and contribute to the financing on a pro-rata basis with each member city contributing twenty percent (20%) of the total cost. In 2009, $1,253,150 was paid to Valley Communications Center directly by the cities. By Ordinance passed by the Cities, each City has pledged to contribute in equal shares to pay debt service on the Bonds, as the same shall become due and payable and to pay administrative expenses with respect to the Bonds.

Each City's obligation is limited to its twenty percent equal allocable share of principal and interest on the Bonds and all such payments shall be made without regard to the payment or lack thereof by any other jurisdiction. No City is obligated to pay the share of any other City, and each City has obligated and committed itself to budget for and pay its allocable share of the financial obligations represented by the Bonds. The obligation of each City to pay its allocable share of principal and interest on the Bonds represents an irrevocable full faith and credit obligation, payable from property taxes levied within its constitutional and statutory authority provided without a vote of the electors of the City on all of the taxable property within the City, sales and use taxes, and other monies due to the city's General Governmental Funds. Federal arbitrage rules apply to the Special Obligation Bond proceeds, but due to the low interest rate there is no arbitrage liability.

Issue Amount	Beginning Balance As of 01/01/2009	Payments Made in 2009	Ending Balance As of 12/31/2009	Interest Paid in 2009
12,758,000	7,140,000	875,000	6,265,000	378,150

The summary of debt service requirements for the five participating cities for the years 2009 through 2015 is as follows:

SUMMARY OF DEBT SERVICE REQUIREMENTS

YEAR	PRINCIPAL	INTEREST	TOTAL
2009	875,000	378,150	1,253,150
2010	920,000	334,400	1,254,400
2011	965,000	288,400	1,253,400
2012	1,010,000	240,150	1,250,150
2013	1,100,000	189,650	1,289,650
2014	1,105,000	130,525	1,235,525
2015	1,165,000	66,988	1,231,988
TOTALS	**$ 7,140,000**	**$ 1,628,263**	**$ 8,268,263**

NOTE 5 – RISK MANAGEMENT

Valley Communications Center Development Authority pursuant to the Interlocal Agreement has insurance coverage through Valley Communications Center. Valley Com is a member of the Washington Cities Insurance Authority (WCIA). 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 110 members.

As a member of WCIA, Valley Communications board, board designees and staff have coverage that covers their actions of being on other boards as well as contract responsibilities.

NOTE 6 – 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 Owner 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.

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 Bank of New York. Debt service payments collected and paid on behalf of The Authority for 2008 are as follows:

2009 Debt Service Obligation
Valley Communications Development Authority

	Interest	Principal	Total
6/1/2009	189,075		189,075
12/1/2009	189,075	875,000	1,064,075
Total	**378,150**	**875,000**	**1,253,150**

END OF FOOTNOTES

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

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.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

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

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

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