Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Valley Communications Center

King County

For the period January 1, 2015 through December 31, 2016

Published January 16, 2018

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Office of the Washington State Auditor
Pat McCarthy

January 16, 2018

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,

Pat McCarthy

Pat McCarthy
State Auditor
Olympia, WA

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Valley Communications Center
King County
January 1, 2015 through December 31, 2016

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, 2016 and 2015, 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 27, 2017.

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*. However, we noted certain matters that we have reported to the management of the Center in a separate special investigation letter dated January 18, 2017.

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.

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

November 27, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Valley Communications Center
King County
January 1, 2015 through December 31, 2016

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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 opinions.

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, 2016 and 2015, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension plan information 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 27, 2017 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.

Pat McCarthy

State Auditor

Olympia, WA

November 27, 2017

FINANCIAL SECTION

Valley Communications Center
King County
January 1, 2015 through December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

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's 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 the Valley Communications Center's financial statements.

Financial Highlights

- The total assets plus deferred outflows of the Valley Communications Center exceeded its liabilities plus deferred inflows at the close of 2016 by $27.1 million. Of this amount, $14.4 million is invested in capital assets and $13.3 million has been restricted for equipment replacement needs.

- VCC recognized $9.6 million in pension obligations for 2016, which caused a negative $0.5 million balance in the unrestricted portion of net positon that is used to meet VCC's ongoing operating activities and obligations.

- Overall total net position increased by $3.2 million from last year due to an increase in charges for services from member and contract agencies.

- The VCC's financial position is strong and has further improved this year, as evident by the increase in the total net position. Efficiencies in the operating fund and the continuation of funding for 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 revenues cover the cost of operation and 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, 2016 totaled $27.1 million. Following is a condensed version of the statement of net position that compares net position for years 2016, 2015, and 2014.

NET POSITION (IN THOUSANDS)

	2016	2015	2014
Current and other assets	$ 24,622	$ 22,262	$ 19,188
Capital assets, net	14,376	11,940	12,326
Total assets	**38,998**	**34,202**	**31,514**
Deferred Outflows of Resources	**1,637**	**947**	**428**
Current liabilities	2,959	1,286	910
Noncurrent liabilities	10,332	8,692	7,018
Total liabilities	**13,291**	**9,978**	**7,928**
Deferred Inflows of Resources	**195**	**1,232**	**2,759**
Net position			
Invested in capital assets	14,376	11,940	12,326
Restricted	13,263	14,594	12,961
Unrestricted	(490)	(2,595)	(4,032)
Total net position	**$ 27,149**	**$ 23,939**	**$ 21,255**

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, reserves, and capital assets. VCC is required to accumulate reserves replacement of equipment, facilities, and 800MHz radio system. In 2016, VCC's current assets increased $2.4 million; 10.6% compared to a 16% increase in prior year.

VCC's net capital assets also increased $2.4 million; 20.4% in 2016 compared to a 3.1% decrease in prior year, as new projects were capitalized and old assets disposed. There were 2 work in progress projects at the end of 2016 totaling $327,646, compared to 3 projects at the end of 2015 totaling $149,255, and no projects at year end 2014. Work in progress projects accumulate costs similarly to regular capital assets, but do not accumulate depreciation until the project status is complete. During 2016, 2 projects started in 2015, HVAC Remediation Project of $2.5 million and Console Furniture Project of $1.1 million, were completed and capitalized. These projects are further discussed in Note 4.B of the accompanying notes to the financial statements.

Deferred Outflows of Resources

Deferred outflow of resources increased 72.9% during 2016 compared to an increase of 121.3% during 2015. The Center implemented GASB Statement No. 68 for pensions in 2015 and restated 2014. The increases are 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 33.2% increase in liabilities from 2015 to 2016 is primarily attributed to an increase in pension obligations and payables from restricted assets, compared to an increase of 25.8% in prior year. Implementation of GASB Statement No. 68 resulted in a recognition of PERS 1 and PERS 2/3 plans pension obligations, which increased $1.6 million in 2016 and $1.8 million in 2015; a 19.5% increase during 2016 and a 27.9% during 2015. Pension obligations are further discussed in Note 5 of the accompanying notes to the financial statements.

Current liabilities increased $1.8 million compared to a $376 thousand increase in prior year due to a $1.6 million increase in payable from restricted assets in 2016, compared to a $134 thousand increase in prior year. The 2016 increase is a result of substantial completion of a large capital project in December 2016 for which some payments were processed after year-end. Similarly, the accounts payable increased $189 thousand, compared to a small decrease during 2015, as more invoices from vendors were outstanding at 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 no IBNR for 2016 and a $182 thousand for 2015. Deposits payable include a $157 thousand paid by Sprint Nextel Corporation towards the Rebanding Project during 2011, which is expected to be completed in 2017 and as of December 31, 2016, $136 thousand remains outstanding.

Deferred Inflows of Resources

Deferred inflows of resources decreased 84.2% during 2016 compared to a decrease of 55.3% during 2015. The Center implemented GASB Statement No. 68 for pensions in 2015 and restated 2014. The decreases in deferred inflows are 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 in 2016 is its investment in capital assets. Investment in capital assets increased 20.4% in 2016, compared to a 3.1% decrease in 2015, as large capital projects were undertaken in 2016. Capital assets, $14.4 million as of December 31, 2016, $11.9 million as of December 31, 2015, and $12.3 million as of December 31, 2014, 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.

The second largest component of net position is restricted. The $13.3 million as of December 31, 2016, $14.6 million as of December 31, 2015, and $12.9 million as of December 2014 represent restricted net position. These funds are restricted for purposes such as facilities, equipment replacement, and the existing 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.

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 a $9.6 million, $8 million, and $9.3 million for 2016, 2015, and 2014, respectively, pension obligation, the unrestricted net positon was brought into the negative. There was an 81.1% decrease in 2016 following a 35.6% decrease in the negative unrestricted net position in 2015, as the Center generated operational savings, which somewhat offset the pension obligations recognized since 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 $3.2 million during 2016 and $2.7 million during 2015. The increase in 2016 and 2015 is primarily due to the increased revenues from member and contract agencies for charges for services, as contributions and rates were increased. 2014 reflected an $8.8 million change in accounting principal – GASB 68 pension obligation recognition. See Note 5 and Note 13 of the accompanying notes to the financial statements for more information on pensions.

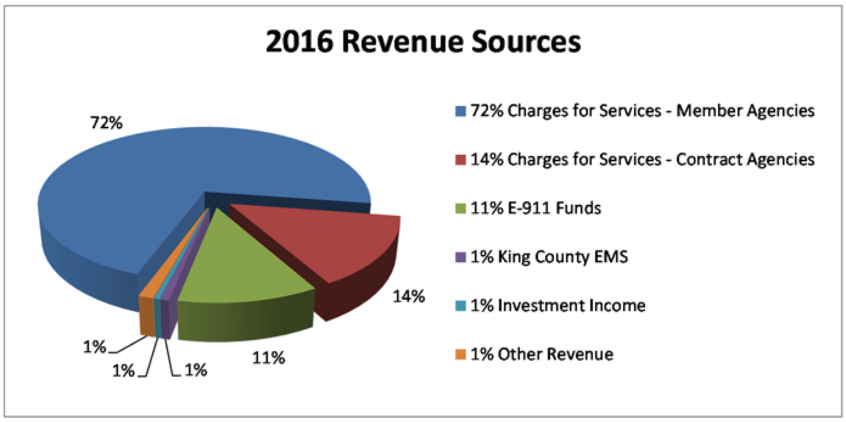
CHANGES IN NET POSITION (IN THOUSANDS)

	2016	2015	2014
Program revenue			
Charges for service	$ 17,461	$ 15,572	$ 13,588
Intergovernmental	2,573	2,610	2,495
General revenue			
Other nonoperating revenue	177	108	88
Total revenue	**20,211**	**18,290**	**16,171**
Operating expenses	16,845	15,645	15,439
Nonoperating expenses	156	-	22
Total expenses	**17,001**	**15,645**	**15,461**
Excess (deficiency) before contributions	**3,210**	**2,645**	**710**
Capital contributions	-	39	29
Change in net position	**3,210**	**2,684**	**739**
Beginning net position - Jan 1	23,939	21,255	29,270
Changes in Accounting Principles-GASB 68	-	-	(8,755)
Ending net position - Dec 31	**$ 27,149**	**$ 23,939**	**$ 21,255**

Revenues

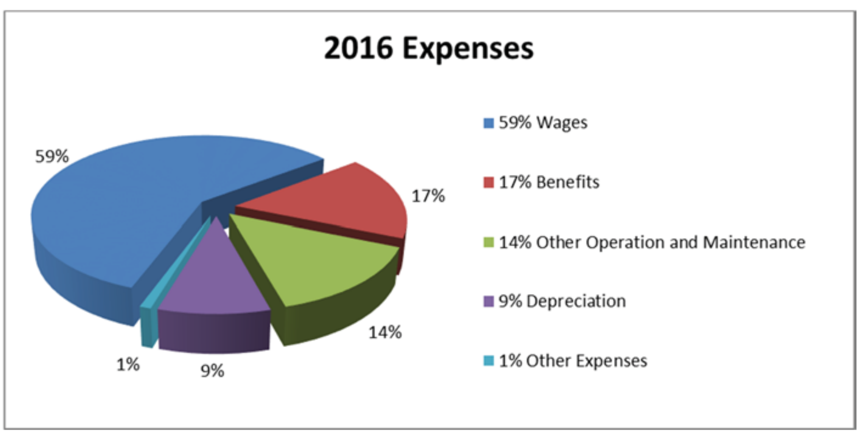
Total revenue increased in 2016 by 10.5% with a 12.1% increase in charges for services compared to a 2015 total revenue increase of 13.1% with a 14.6% increase in charges for services. Valley Communications Center's funding formula is designed to charge fees for services to customer agencies to cover 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 decreased from 2015 to 2016 and slightly increased from 2014 to 2015.

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 8.7% in 2016 following an increase of 1.2% in 2015, which is directly attributed to an increase of 4.7% and of 0.3% in 2016 and 2015, respectively, in personal services. The following chart depicts VCC's expenses in further detail:



In the three years ending with 2016, VCC's bargaining units had COLA and step increases. In 2016 total wages increased $394 thousand, a 4.1% increase compared to a $51 thousand, a 0.5% increase in 2015. The total benefits and payroll taxes increased $181 thousand, a 6.8% increase in 2016 compared to a relatively stable results of prior years. The 2016 increase is due to rate increases in retirement, medical, and dental rates and newly bargained life and disability coverage extended to the larger bargaining unit. Prior year relative stability is mostly due to the change/reduction in medical contribution rates as VCC switched to AWC for medical coverage in October 2015 and pension expense offsets/reductions due to implementation of GASB Statement No 68 of $164 thousand, $291 thousand, and $144 thousand in 2016, 2015 and 2014, respectively.

The other operation and maintenance expense increased 39.8% in 2016 and 6% in 2015, as VCC had increased software maintenance costs and a substantial, $272 thousand or 221%, increase in legal services due to the defense of the employee filed class action lawsuit. See Note 12 of the accompanying notes to the financial statements.

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, professional services, and savings generated during 2013-2014.

During 2015, there was a $3.8 million increase in appropriations between the original and final 2015-2016 biennial budget, with $1.9 million allocated for 2016 budget adjustments. 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 savings (for 2015)
- $800,000 transfer to equipment replacement (for 2016); funded with 2016 contribution placement
- $673,000 for heating, ventilating, and air conditioning (HVAC) data center remediation; funded from operating funds transferred to equipment replacement (for 2016)
- $486,111 computer aided dispatch (CAD) project system implementation contract (for 2015); funded with equipment replacement funds
- $250,000 for furniture console expansion; funded with operating funds transferred to equipment replacement (for 2016)
- $219,718 for CAD technical services project management contracting services (for 2015 and 2016); funded with equipment replacement funds
- $130,476 for storage area network (SAN) infrastructure (for 2015); funded with equipment replacement funds
- $109,711 for thin clients software and hardware (for 2015); funded with equipment replacement funds

The CAD project, SAN infrastructure, and thin clients 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.

Actual 2015-2016 revenues were mostly stable compared to budget with a 1.3% decrease due to lower than budgeted employee paid healthcare premiums for self-insurance, as self-insurance plan was discontinued in October 2015, and 2.6% decrease in intergovernmental E-911 distributions. The decrease was partially offset by a 5% increase in charges for services to contract agencies, due to higher call volumes over the last two years.

Actual 2015-2016 expenses were 17.9% less than the amended budget, which is mostly due to lower purchased 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. Personal services were 9.7% below budget and other operation and maintenance costs were 24.8% under budget due to savings in services and operating supplies, as VCC had delayed some projects until next year and continued to spend frugally.

Other Potentially Significant Matters

Labor Agreements

On January 15, 2016, the Valley Communications Center Employees' Association signed their contract for 2016-2018. The contract called for a wage increase of 2% effective October 1, 2015, an increase of 2.5% for 2017, and an increase of 2.5% for 2018. It also increased CTO premiums to 2.5% from 1.5%, added a $0.40 shift differential premium for certain shift work, and added life and disability coverage benefits.

On February 9, 2016, the Valley Communications Supervisory Guild signed their contract for 2016-2018. The contract called for a wage increase of 2.75% effective October 1, 2015, an increase of 2.75% for 2017, and an increase of 2.75% for 2018. It also added a $0.40 shift differential premium for certain shift work.

Economic Factors and Next Year's Rates

- The CPI-U for the Seattle-Tacoma-Bremerton continued to fluctuate throughout 2016 and was at 2.6% annual increase as of December 2016 from December 2015.
- 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) employer rates increased to 11.18% July 2015 from 9.21%. Further increases are expected to around 13%, based on the Office of the State Actuary projections.
- To gain efficiencies and increase overall public safety value, King County E-911is developing a strategic plan and 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 2017-2018 biennial budget, which reflects a 10.6% increase in operating expenses from prior biennium, disregarding capital expenses and transfers. The contract agency rate per call increased from $40.65 in 2016 to $40.79 for 2017 and is expected to increase to $42.75 for 2018, while the average cost-per-call decreased 1% in 2017 and is expected to increase 8% in 2018 for member agencies. However, member agencies are not charged on a cost per call basis, and their actual overall contribution increased 7% from 2016 to 2017 and 8% for 2018. The difference in percentages for contribution versus cost per call is due to the 7% increase in call volume, which brought down the cost per call percentage for 2017.

To keep 2017 and 2018 member contribution increases at a minimum, the Administration Board approved to continue allocating E-911 escrow funds to be used to fund 12 call receiver positions in 2017, reduced to 9 positions in 2018, and 3 administrative IT positions; to continue allocating E-911 funds for equipment to equipment replacement reserve; and to offset onetime 2017 increases with accumulated residual reserve transfer from the healthcare self-insurance. An estimated $4 million in ending operating working capital remains available for use into 2017.

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, 2016 and 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,549,520	$ 10,917,918
Receivables:		
Accounts	19,430	8,010
Interest	1,610	447
Due from other governments	571,531	624,412
Restricted assets:		
Cash and cash equivalents	10,479,895	10,711,389
Total current assets	24,621,986	22,262,176
Noncurrent assets:		
Capital assets not being depreciated:		
Land	218,915	218,915
Work in progress	327,646	149,255
Capital assets being depreciated:		
Buildings	10,540,547	8,224,990
Other improvements	995,326	1,099,854
Equipment	17,749,802	17,901,066
Less accumulated depreciation	(15,456,099)	(15,653,537)
Total noncurrent assets	14,376,138	11,940,544
TOTAL ASSETS	**38,998,124**	**34,202,719**
DEFERRED OUTFLOWS OF RESOURCES		
Pension	1,637,444	946,974
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**1,637,444**	**946,974**
LIABILITIES		
Current liabilities:		
Accounts payable	271,653	82,782
Payroll payable	811,302	752,319
Payables from restricted assets	1,739,659	133,542
Claims incurred but not reported	-	181,513
Deposits payable	136,262	136,322
Total current liabilities	2,958,876	1,286,477
Noncurrent liabilities:		
Compensated absences	733,205	656,889
Pension obligations	9,599,211	8,034,716
Total noncurrent liabilities	10,332,416	8,691,605
TOTAL LIABILITIES	**13,291,291**	**9,978,082**
DEFERRED INFLOWS OF RESOURCES		
Pension	194,982	1,232,375
TOTAL DEFERRED INFLOWS OF RESOURCES	**194,982**	**1,232,375**
NET POSITION		
Invested in capital assets	14,376,138	11,940,544
Restricted for:		
Equipment replacement	8,740,236	10,577,847
800 MHz radio	4,522,756	4,016,146
Unrestricted	(489,836)	(2,595,300)
TOTAL NET POSITION	**$ 27,149,294**	**$ 23,939,236**

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, 2016 and 2015

	2016	2015
Operating revenues:		
Charges for services - member agencies	$ 14,521,388	$ 12,774,468
Charges for services - contract agencies	2,899,404	2,753,487
Other charges for services	40,763	44,392
Intergovernmental revenue	2,572,902	2,610,101
Total operating revenues	20,034,457	18,182,449
Operating expenses:		
Personal services	12,872,444	12,297,254
Other operation and maintenance	2,455,089	1,756,755
Depreciation	1,517,485	1,590,965
Total operating expenses	16,845,017	15,644,973
Operating income (loss)	**3,189,439**	**2,537,476**
Nonoperating revenues (expenses):		
Investment interest	91,141	33,491
Leasehold revenue	66,535	64,914
Other miscellaneous revenue	18,638	9,449
Gain (loss) on disposition of capital assets	(155,696)	-
Total nonoperating revenues (expenses)	20,619	107,854
Income (loss) before contributions	**3,210,058**	**2,645,329**
Capital contributions	0	39,216
Change in net position	**3,210,058**	**2,684,545**
Total net position - January 1	23,939,236	21,254,691
Total net position - December 31	**$ 27,149,294**	**$ 23,939,236**

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, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Receipts from customers	$ 20,075,917	$ 17,988,707
Payments to suppliers	(660,161)	(1,645,609)
Payments to employees	(13,082,026)	(12,404,539)
Net cash provided (used) by operating activities	**6,333,731**	**3,938,559**
Cash flows from capital and related financing activities:		
Purchases of capital assets	(4,108,774)	(1,166,283)
Leasehold revenue	66,535	64,914
Other receipts (payments)	18,638	9,449
Net cash provided (used) by capital and related financing activities	**(4,023,601)**	**(1,091,921)**
Cash flows from investing activities:		
Interest on investments	89,978	33,409
Net Cash provided (used) by investing activities	**89,978**	**33,409**
Net increase (decrease) in cash and cash equivalents	**2,400,108**	**2,880,048**
Cash and cash equivalents - January 1	21,629,307	18,749,259
Cash and cash equivalents - December 31	**$ 24,029,415**	**$ 21,629,307**

	2016	2015
Reconciliation of operating Income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	3,189,439	2,537,476
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,517,485	1,590,965
Changes in assets and liabilities:		
(Increase) decrease in receivables	(11,421)	431
(Increase) decrease in due from other governments	52,881	(194,172)
Increase (decrease) in accounts payable	188,871	(19,974)
Increase (decrease) in payroll payable	58,983	199,038
Increase (decrease) in payables from restricted assets	1,606,117	133,542
Increase (decrease) in claims incurred but not reported	(181,513)	(72,887)
Increase (decrease) in deposits payable	(60)	(2,422)
Increase (decrease) in compensated absences	76,316	57,308
Increase (decrease) in pension obligations and deferred outflows/inflows	(163,368)	(290,744)
Total adjustments	**3,144,292**	**1,401,084**
Net cash provided (used) by operating activities	**$ 6,333,731**	**$ 3,938,559**
Schedule of noncash investing, capital and related financing activities		
Contributions of capital assets	$ -	$ 39,216

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

Valley Communications Center
Notes to Financial Statements
January 1, 2015 through December 31, 2016

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 its 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. All bonds were paid off in December 2015.

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 $5,921,879 and $5,604,669 as of December 31, 2016 and 2015, respectively.

On July 30, 2009, VCC entered into an Interlocal Cooperative Agreement with King County for the purpose of establishing a 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 & Rescue; 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 2016 and 2015, 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, deferred outflows, liabilities, and deferred inflows (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. Intergovernmental revenue, essentially the same as a contract for services or in substance an exchange transaction, are also reported as operating revenue. 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 self-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 self-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 2016 and 2015 assessments are based on the calls for services for periods of July 1, 2014 - June 30, 2015 and July 1, 2013 - June 30, 2014, respectively, corresponding with calls for services used for each year's budgetary funding formula.

The following is the 2016 and 2015 calls for services assessment distribution for the member agencies:

Member Agency	2016 Assessment	2015 Assessment
Auburn		
Police	$ 2,828,527	$ 2,334,532
Valley Regional Fire Authority	389,884	339,692
Federal Way		
Police	2,317,089	1,941,437
South King Fire & Rescue	627,151	548,363
Kent		
Police	2,955,626	2,709,571
Puget Sound Regional Fire Authority	807,296	685,332
Renton		
Police	2,216,593	2,000,155
Renton Regional Fire Authority	513,432	448,805
Tukwila	1,205,995	1,052,554
Totals	**$ 13,861,594**	**$ 12,060,442**

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 establishes 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 Committee and Board 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:

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**

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 Investment Pool.

It is VCC's policy to invest all temporary cash surpluses. As of December 31, 2016 all cash surpluses were invested in the Local Government Investment Pool (LGIP) and the King County 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 agreements with employees. Both agreements 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 Valley Communications Center Employees' Association agreement 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 sell back 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 agreement is effective 1/1/2016 and expires 12/31/2018. It replaced a prior agreement with substantially the same terms for compensated absences.

The Valley Communications Supervisory Guild agreement 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 or death after 10 years of service, with a $6,000 maximum payout. The Guild agreement is effective 1/1/2016 and expires 12/31/2018. It replaced a prior agreement with substantially the same terms for compensated absences.

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:	2016	2015
Invested in Capital Assets	$ 12,977,014	$ 10,352,020
Invested in Capital Assets (800 MHz)	1,399,124	1,588,524
Restricted for Equipment Replacement	8,740,236	10,577,847
Restricted for 800 MHz	4,522,756	4,016,145
Unrestricted	(489,836)	(2,595,300)
Total Net Position	**$ 27,149,294**	**$ 23,939,236**

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. 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. As of December 31, 2016 and 2015, the Center cash and cash equivalent balances measured at amortized cost invested in LGIP were $18,285,793 and $16,210,444, respectively. The LGIP transacts with participants at a stable net asset value per share of $1. The LGIP portfolio is managed to meet the portfolio maturity, quality, diversification, and liquidity requirements set forth in GASB 79 for external investment pools who wish to measure, for financial reporting purposes, all of its investments at amortized cost. LGIP investment policy, operating manual, and CAFR are available at www.tre.wa.gov/lgip.

VCC's funds held in E-911 escrow are invested in the King County Investment Pool (KCIP). 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 36.48.070. 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. The KCIP measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2016 and 2015, the Center had $1,178,761 and $976,131, respectively measured at fair value in level 2 of the valuation input hierarchy. KCIP investment policy, reports, and disclosures are available at www.kingcounty.gov/depts/finance-business-operations/treasury/investment-pool.

VCC's deposits and investment position at the end of fiscal years 2016 and 2015 are:

	December 31, 2016		December 31, 2015	
Source	Operations	Restricted	Operations	Restricted
Petty Cash	$ 100		$ 100	
Checking	2,301,189	$ 1,085,478	2,408,033	$ 856,741
Savings	977,239	200,854	477,110	700,747
E-911 Escrow	1,178,761		976,131	
LGIP - Operations	2,722,586		1,317,435	
LGIP - Equipment Replacement		9,193,563		9,153,901
LGIP - Contingency	1,965,415		1,852,943	
LGIP - 800 MHz	4,047,439		3,531,026	
LGIP - Health Insurance	356,791		355,140	
Total	**$ 13,549,520**	**$ 10,479,895**	**$ 10,917,918**	**$ 10,711,389**

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, 2016 and 2015 is shown below:

Asset Type	Beginning Balance 1/1/2016	Additions	Deletions	Ending Balance 12/31/2016
Capital Assets, non-depreciable				
Land	$ 218,915	-	-	$ 218,915
Work in Progress	149,255	$ 4,064,259	$ 3,885,868	327,646
Non-depreciable assets, net	*368,170*	*4,064,259*	*3,885,868*	*546,561*
Capital Assets, depreciable				
Building	8,224,990	2,525,168	209,611	10,540,547
Other Improvements	1,099,854		104,528	995,326
Equipment	17,901,066	1,405,215	1,556,479	17,749,802
Less: Accumulated Depreciation	(15,653,537)	(1,517,485)	(1,714,923)	(15,456,099)
Capital Assets, net	*11,572,373*	*2,412,898*	*155,695*	*13,829,576*
All Capital Assets, net	**$ 11,940,544**	**$ 6,477,157**	**$ 4,041,563**	**$ 14,376,138**

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**

B. Construction Commitments

VCC's work in progress projects for 2016 and 2015 were as follows:

Project	1/1/2016	Additions	Deletions	12/31/2016
eCBD Enhancement (Tiburon) CAD Project	$ 39,216	-	-	$ 39,216
HVAC Remediation Project	108,526	$ 2,416,642	$ (2,525,168)	-
Console Furniture Project	1,514	1,125,881	(1,127,395)	-
HAWC 2.0 Project	-	521,736	(233,306)	288,430
Total	**$ 149,256**	**$ 4,064,259**	**$ (3,885,869)**	**$ 327,646**

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**

Outstanding Projects

As of December 31, 2016, 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 implemented in March 2014. The interface enhancement is in development and is funded by the King County Emergency Medical Services. As of December 31, 2016, $80,784 remains unspent in the interface budget.

HAWC 2.0 Project – 2015/2016 adopted biennial budget authorized a replacement of firewall and VPN tunnels from the equipment replacement funds. As of December 31, 2016, all funds have been spent; however, $20,285 remains in expected project expenses.

Additional projects that were capitalized during 2016 include:

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. This project was substantially completed in December 2016.

Console Furniture Project – 2015/2016 adopted biennial budget authorized purchase of new console furniture for the com room from the equipment replacement funds. This project was substantially completed in June 2016.

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 2016 and 2015:

Aggregate Pension Amounts - All Plans		
	2016	2015
Pension liabilities	$9,599,211	$8,034,716
Deferred outflows of resources	$1,637,444	$946,974
Deferred inflows of resources	$194,982	$1,232,375
Pension expense/expenditures	$963,391	$684,940

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 2016 and 2015 were as follows:

PERS Plan 1			
Actual Contribution Rates:	**Employer**		**Employee**
	1/1/15 - 6/30/15	7/1/15 - 12/31/16	1/1/15-12/31/16
PERS Plan 1	5.03%	6.23%	6.00%
PERS Plan 1 UAAL	4.00%	4.77%	6.00%
Administrative Fee	0.18%	0.18%	
Total	**9.21%**	**11.18%**	

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 2016 and 2015 were as follows:

PERS Plan 2/3				
Actual Contribution Rates:	**Employer 2/3**		**Employee 2**	
	1/1/15 - 6/30/15	7/1/15 - 12/31/16	1/1/15- 6/30/15	7/1/15- 12/31/16
PERS Plan 2/3	5.03%	6.23%	4.92%	6.12%
PERS Plan 1 UAAL	4.00%	4.77%		
Administrative Fee	0.18%	0.18%		
Employee PERS Plan 3			varies	
Total	**9.21%**	**11.18%**	**4.92%**	**6.12%**

The Center's actual PERS plan contributions were $471,793 and $422,049 to PERS Plan 1 and $633,819 and $553,636 to PERS 2/3 for the year ended December 31, 2016 and 2015, respectively.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 and 2015 with a valuation date of June 30, 2015 and June 30, 2014, respectively. 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 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, 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.

- For all systems the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

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, 2016 and 2015, are summarized in the table below. The inflation component used to create the table is 2.2% for 2016 and 2015 and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation 2015-2016	% Long-Term Expected Real Rate of Return Arithmetic 2016	2015
Fixed income	20%	1.70%	1.70%
Tangible assets	5%	4.40%	4.40%
Real estate	15%	5.80%	5.80%
Global equity	37%	6.60%	6.60%
Private equity	23%	9.60%	9.60%
	100%		

Sensitivity of the Net Pension Liability/(Asset)

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	2016		
	1% Decrease -6.50%	Current Discount Rate -7.50%	1% Increase -8.50%
PERS 1	$ 5,271,472	$ 4,371,402	$ 3,596,837
PERS 2/3	9,625,336	5,227,809	(2,721,376)
Total	**$ 14,896,808**	**$ 9,599,211**	**$ 875,461**

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**

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, 2016 and 2015, the Center reported a total pension liability of $9,599,211 and $8,034,716, respectively, for its proportionate share of the net pension liabilities as follows:

Plan	Liability (or Asset)	
	2016	2015
PERS 1	$ 4,371,402	$ 4,299,406
PERS 2/3	5,227,809	3,735,310
Total	**$ 9,599,211**	**$ 8,034,716**

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

Plan	Proportionate Share				
	6/30/2016	6/30/2015	6/30/2014	Change 2016-2015	Change 2015-2014
PERS 1	0.081397%	0.082192%	0.082758%	-0.000795%	-0.000566%
PERS 2/3	0.103831%	0.104541%	0.104432%	-0.000710%	0.000109%

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, 2016 and June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015 and June 30, 2014, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016 and 2015, the Center recognized pension expense as follows:

Plan	Pension Expense 2016	Pension Expense 2015
PERS 1	$ 194,207	$ 221,908
PERS 2/3	769,184	463,032
Total	**$ 963,391**	**$ 684,940**

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

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016 and 2015, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	2016		2015	
	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	$ 110,065	-	-	$ 235,224
Contributions subsequent to the measurement date	240,773	-	$ 236,480	-
Total	**$ 350,838**	**-**	**$ 236,480**	**$ 235,224**

PERS 2/3	2016		2015	
	Deferred Outflows or Resources	Deferred Inflows of Resources	Deferred Outflows or Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 278,377	$ 172,579	$ 397,064	-
Net difference between projected and actual investment earnings on pension plan investments	639,733	-	-	$ 997,151
Changes of assumptions	54,034	-	6,018	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	22,403	-	-
Contributions subsequent to the measurement date	314,462	-	307,412	-
Total	**$ 1,286,606**	**$ 194,982**	**$ 710,494**	**$ 997,151**

PERS All Plans	2016 Deferred Outflows or Resources	2016 Deferred Inflows of Resources	2015 Deferred Outflows or Resources	2015 Deferred Inflows of Resources
Differences between expected and actual experience	$ 278,377	$ 172,579	$ 397,064	-
Net difference between projected and actual investment earnings on pension plan investments	749,798	-	-	$ 1,232,375
Changes of assumptions	54,034	-	6,018	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	22,403	-	-
Contributions subsequent to the measurement date	555,235	-	543,892	-
Total	**$ 1,637,444**	**$ 194,982**	**$ 946,974**	**$ 1,232,375**

Deferred outflows of resources for 2016 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, 2017. Deferred outflows of resources for 2015 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, 2016. 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 2016	PERS 1 2015
2016	-	$ (91,165)
2017	$ (27,100)	(91,165)
2018	(27,100)	(91,165)
2019	101,083	38,270
2020	63,183	-
Total	**$ 110,065**	**$ (235,224)**

Year Ended December 31:	PERS 2/3 2016	PERS 2/3 2015
2016	-	$ (270,731)
2017	$ (3,390)	(270,731)
2018	$ (3,390)	(270,733)
2019	$ 482,147	218,126
2020	$ 301,795	-
Total	**$ 777,162**	**$ (594,069)**

NOTE 6– Risk Management

Valley Communications Center 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 168 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 includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are $4 million per occurrence in the self-insured layer, and $16 million in limits above the self-insured layer is provided by reinsurance. Total limits are $20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to $750,000, for all perils other than flood and earthquake, and insured above that to $300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to $250,000 and insured above that to $100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, 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.

The Center 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, 2016, 258 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, dental and vision insurance through the following carriers: Group Health, Cooperative/Group Health Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and 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. In 2016 and 2015, the AWC Trust HCP purchased 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. The program was administered by the Human Resources, with claims processed by Meritain Health and EBMS, Inc., third-party administrators.

During 2015, the Center insured with Symetra Life Insurance Company for specific and aggregate stop-loss. The policy provided individual deductible limits of $50,000 and a plan limit of $1,388,345 for expenses incurred from 10/1/14 through 9/30/15.

As of December 31, 2016 VCC had no accrued claims liabilities, claims incurred but not reported (IBNR), as the self-insurance program was discontinued effective September 30, 2015. The IBNR for 2015 was based on estimates by the Healthcare Actuaries.

Self-Insured Medical and Prescription Claims		
Item	**2016**	**2015**
Claims Liabilities at Beginning of Year	$ 181,513	$ 254,400
Claims expenses:		
Current year and changes in estimates	(174,402)	981,561
Claims payments	(7,111)	(1,054,448)
Claims Liabilities at End of Year	**$ -**	**$ 181,513**

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, 2016 and December 31, 2015, the cost of such leases was $52,882 and $41,178, 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 $23,197 and $22,732 for the years ended December 31, 2016 and 2015, respectively. The future minimum lease payments for this lease are as of December 31 as follows:

Year	Amount
2017	$ 6,864
Total	**$ 6,864**

NOTE 8 – Long-Term Liabilities

During the years ended December 31, 2016 and 2015, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2016	Additions	Reductions	Ending Balance 12/31/2016	Due Within One Year
Compensated absences	$ 706,332	$ 1,285,598	1,211,925	$ 780,005	$ 46,800
Pension obligations	8,034,716	2,625,500	1,061,005	9,599,211	1,110,470
Total Noncurrent Liabilities	**$ 8,741,048**	**$ 3,911,098**	**$ 2,272,930**	**$ 10,379,216**	**$ 1,157,270**

	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**

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

NOTE 9 – Accounts Receivable & Due From Other Governments

Accounts receivable and due from other governments balances for 2016 decreased 7% from 2015. No material account balances are past due. Balances at December 31, 2016 and 2015 were as follows:

Agency	2016	2015
Auburn School District	$ 240	$ 120
Cedar River Water District	345	345
City of Black Diamond Police	14,700	17,606
City of Covington	75	75
City of Algona Police	15,249	12,771
City of Auburn Parks	225	270
City of Auburn Police	23,741	13,889
City of Des Moines Police	102,880	60,005
City of Federal Way Police	2,878	2,878
City of Kent Police	19,332	21,524
City of Maple Valley	150	150
City of Pacific Police	44,450	32,518
City of Renton Fire and Police	16,279	17,909
City of Tukwila Fire, Police & P/W	9,751	9,526
Covington Water District	570	570
FBI - Dept of Justice Lease	(0)	7,259
Kent Fire RFA	6,133	6,245
Kent School District	5,490	5,385
King Co E-911 Program Office	12,744	37,300
King Co Emergency Management	37,070	48,542
King Co Fire District #2	103,292	64,186
King Co Fire District #20	16,178	16,875
King Co Fire District #43	22,985	19,426
King Co Fire District #44	8,030	13,289
King Co Fire District #47	654	772
King Co Medic One	67,101	111,763
Multicare Health Systems	150	150
North Highline Fire	-	7
Other - Refunds	43,505	96,693
Renton School Security	75	(76)
Soos Creek Water District	615	615
South Correctional Entity	7,685	753
South King Fire and Rescue	37	5
Tahoma School District	45	45
Valley Medical Center	75	75
Valley Regional Fire Authority	2,908	3,078
Vashon Island Fire & Life Safety	5,325	9,878
Total	**$ 590,961**	**$ 632,422**

NOTE 10 – Apportionment of Equity

The member cities share in the equity of VCC based on their respective percent of billable call distribution each year. 2016 and 2015 total calls reflect actual billable calls from July 2015 to June 2016 and July 2014 to June 2015, respectively. The equity as of December 31, 2016 and 2015 belonging to the five member cities is as follows:

Member City	Total Calls	% of Calls	2015 Equity Balance	2016 Distribution	2016 Equity Balance	Percent Equity
Auburn	96,406	23%	$ 3,853,229	$ 651,598	**$ 4,504,828**	21%
Federal Way	92,658	22%	2,858,305	626,262	**3,484,568**	16%
Kent	114,769	27%	5,538,892	775,712	**6,314,604**	30%
Renton	86,799	20%	3,944,879	586,665	**4,531,544**	21%
Tukwila	37,375	9%	2,139,261	252,610	**2,391,872**	11%
Total	428,006	100%	$ 18,334,567	$ 2,892,848	**$ 21,227,415**	100%

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%

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 for the new 2010 Refunding Bonds. As of December 31, 2015 all bonds have been paid off.

2015 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**

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.

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 is not made or recorded, as the Center firmly believes the assertions of lawsuit are for noncompensable and de minimis time.

NOTE 13– Accounting and Reporting Changes

The Center implemented GASB Statement No. 72, Fair Value Measurement and Application in 2016. The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements.

The Center implemented GASB Statement No. 79, Certain External Investment Pools and Pool Participants in 2016. The objective of this Statement is to address for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. The statement establishes specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

The Center implemented GASB Statement No. 82, Pension Issues in 2016. The objective of this Statement is to improve consistency in the application of pension accounting and financial reporting requirements by addressing certain issues that have been raised with respect to Statements No. 67, Financial Reporting for

Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The 2015 financial information is rested to separate payable from restricted assets from accounts payable on the VCC's comparative statement of net position and comparative statement of cash flows.

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, 2016
Last 3 Fiscal Years*

	2016	2015	2014
Employer's proportion of the net pension liability	0.081397%	0.082192%	0.082758%
Employer's proportionate share of the net pension liability	$ 4,371,402	$ 4,299,406	$ 4,168,973
Covered payroll	$ 8,513	$ 63,925	$ 81,458
Employer's proportionate share of the net pension liability as a percentage of covered payroll	51349.72%	6725.70%	5117.94%
Plan fiduciary net position as a percentage of the total pension liability	57.03%	59.10%	61.19%

Valley Communications Center
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2016
Last 3 Fiscal Years*

	2016	2015	2014
Employer's proportion of the net pension liability	0.103831%	0.104541%	0.104432%
Employer's proportionate share of the net pension liability	$ 5,227,809	$ 3,735,310	$ 2,110,948
Covered payroll	$ 9,781,122	$ 9,127,654	$ 9,027,111
Employer's proportionate share of the net pension liability as a percentage of covered payroll	53.45%	40.92%	23.38%
Plan fiduciary net position as a percentage of the total pension liability	85.82%	89.20%	93.29%

Notes to Schedules:
The Center had one employee in PERS 1 plan who retired in August 2015.
*Information is only available for the 3 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, 2016
Last 3 Fiscal Years*

	2016	2015	2014
Statutorily or contractually required contributions	$ 471,793	$ 422,049	$ 384,834
Contributions in relation to the statutorily or contractually required contributions	$ (471,793)	$ (422,049)	$ (384,834)
Contribution deficiency (excess)	0	0	0
Covered payroll	0	$ 41,716	$ 73,928
Contributions as a percentage of covered payroll	N/A	1011.72%	520.55%

Valley Communications Center
Schedule of Employer Contributions
PERS 2/3
As of December 31, 2016
Last 3 Fiscal Years*

	2016	2015	2014
Statutorily or contractually required contributions	$ 633,819	$ 553,636	$ 485,641
Contributions in relation to the statutorily or contractually required contributions	$ (633,819)	$ (553,636)	$ (485,641)
Contribution deficiency (excess)	0	0	0
Covered payroll	$ 9,892,538	$ 9,338,235	$ 9,280,502
Contributions as a percentage of covered payroll	6.41%	5.93%	5.23%

Notes to Schedules:
The Center had one employee in PERS 1 plan who retired in August 2015.
*Information is only available for the 3 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

Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov