



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Valley Communications Center

For the period January 1, 2017 through December 31, 2018

Published January 13, 2020

Report No. 1025452





**Office of the Washington State Auditor
Pat McCarthy**

January 13, 2020

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 Agency's financial condition.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

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

**Valley Communications Center
January 1, 2017 through December 31, 2018**

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, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated December 17, 2019.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Agency'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency'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 Agency's financial statements are free from material misstatement, we performed tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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 Agency'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 Agency'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
State Auditor
Olympia, WA

December 17, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Valley Communications Center January 1, 2017 through December 31, 2018

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, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Agency'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 Agency'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 Agency'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, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 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 December 17, 2019 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Agency's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

December 17, 2019

FINANCIAL SECTION

Valley Communications Center January 1, 2017 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2018 and 2017

BASIC FINANCIAL STATEMENTS

Comparative Statement of Net Position – 2018 and 2017

Comparative Statement of Revenues, Expenses and Changes in Fund Net Position – 2018
and 2017

Comparative Statement of Cash Flows – 2018 and 2017

Notes to Financial Statements – 2018 and 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1 & PERS 2/3 – 2018
and 2017

Schedule of Employer Contributions – PERS 1 & PERS 2/3 – 2018 and 2017

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 2018 by \$33.8 million. Of this amount, \$13 million is invested in capital assets and \$19.4 million has been restricted for facilities and equipment replacement needs.
- VCC recognized \$5.4 million in pension obligations for 2018, which is a \$1.9 million reduction since last year, causing a previously negative \$0.5 million balance in the unrestricted portion of net position to turn \$1.3 million positive for 2018. The unrestricted portion of new position 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 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 and facilities 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 beyond required. Unexpected fund balances are applied toward funding the facilities and equipment replacement reserves.

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, 2018 totaled \$33.8 million. Following is a condensed version of the statement of net position that compares net position for years 2018, 2017, and 2016.

NET POSITION (IN THOUSANDS)

	2018	2017	2016
Current and other assets	\$ 29,664	\$ 27,056	\$ 24,622
Capital assets, net	12,997	13,110	14,376
Total assets	42,661	40,166	38,998
Deferred Outflows of Resources	986	1,068	1,637
Current liabilities	1,579	1,318	2,959
Noncurrent liabilities	6,209	8,122	10,332
Total liabilities	7,788	9,440	13,291
Deferred Inflows of Resources	2,100	1,275	195
Net position			
Invested in capital assets	12,997	13,110	14,376
Restricted	19,433	17,914	13,263
Unrestricted	1,328	(505)	(490)
Total net position	\$ 33,759	\$ 30,519	\$ 27,149

Total Assets

VCC's total assets continue to increase from year-to-year. The increase is mostly due to an increase in cash equivalent operating funds and reserves. VCC is required to accumulate reserves for replacement of equipment, facilities, and 800MHz radio system. In 2018, VCC's current assets increased \$2.6 million; 9.6% compared to a 9.9% increase in prior year.

VCC's net capital assets decreased \$0.1 million; a decrease of 0.9% in 2018 compared to an 8.8% decrease in prior year, as large projects capitalized in prior years started to depreciate and old assets were disposed. There was 1 work in progress project totaling \$413,522 at the end of 2018, compared to no projects in 2017 and 2 projects at the end of 2016 totaling \$327,646. Work in progress projects accumulate costs similarly to regular capital assets, but do not accumulate depreciation until the project status is complete. During 2018, one project Admin Remodel was started. This project is further discussed in Note 4.B of the accompanying notes to the financial statements.

Deferred Outflows of Resources

Deferred outflow of resources decreased 7.7% during 2018 compared to a decrease of 34.8% during 2017. The decrease is mostly due to the difference between expected and actual experience of pension plans. Deferred outflows for pension are further discussed in Note 5 of the accompanying notes to the financial statements.

Total Liabilities

The 17.5% decrease in liabilities from 2017 to 2018 is primarily attributed to a decrease in pension obligations, compared to a 29% decrease in liabilities in prior year. Under GASB Statement No. 68, pension obligation for PERS 1 and PERS 2/3 plans decreased \$1.9 million in 2018 and \$2.3 million in 2017; a 26.4% decrease during 2018 and a 23.6% during 2017. Pension obligations are further discussed in Note 5 of the accompanying notes to the financial statements.

Current liabilities decreased \$0.3 million compared to \$1.6 million decrease in prior year due to a \$1.7 million decrease in payable from restricted assets in 2017, which incidentally makes up most of the increase in the prior year. The 2017 decrease and prior year increase is a result of substantial completion of a large capital project in December of 2016 for which some payments were processed in 2017.

Deposits payable include a \$157 thousand paid by Sprint Nextel Corporation towards the Rebanding Project during 2011, which is expected to be completed in 2019 and as of December 31, 2018, \$136 thousand remains outstanding.

Deferred Inflows of Resources

Deferred inflows of resources increased \$0.8 million (65%) in 2018 following an increase of \$1.1 million (554%) during 2017. The increase in deferred inflows is due to changes in assumptions and 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 2018 is restricted. The \$19.4 million as of December 31, 2018, \$17.9 million as of December 31, 2017, and \$13.3 million as of December 31, 2016

represent restricted net position. These funds are restricted for purposes such as building and 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.

The second largest component of net position in 2018 is its investment in capital assets. Investment in capital assets decreased 0.9% in 2018, compared to an 8.8% decrease in 2017, as large capital projects were undertaken in 2016 and begun to be depreciated in 2017 and old assets were disposed. Capital assets, \$13 million as of December 31, 2018, \$13.1 million as of December 31, 2017, and \$14.4 million as of December 31, 2016 are comprised of buildings, land, and communication equipment that are used to provide services to public safety agencies and citizens. These assets are critical to our operations and as a result, are not for sale and therefore are not available to fund current and future VCC obligations.

VCC's remaining net position turned positive in 2018 at \$1.3 million. The unrestricted net position is generally available for continuing operations; however, with implementation of GASB Statement No. 68, which led to recognition of a \$5.4 million, a \$7.3 million, and a \$9.6 million for 2018, 2017, and 2016, respectively, pension obligation, the unrestricted net position was brought into the negative in prior years. There was a 363% improvement in 2018, following a 3% increase in 2017 in the unrestricted net position, as the Center recorded lower pension liability, which along with generated operational savings finally brought the unrestricted net position into positive in 2018.

Statement of Revenues, Expenses and Changes in Fund Net Position

The condensed statement of changes in net position, which follows, shows that the net position increased by \$3.2 million during 2018, \$3.4 million during 2017, and \$3.2 million during 2016. These increases are primarily due to the increased revenues from member agencies for charges for services, as contributions and rates were increased.

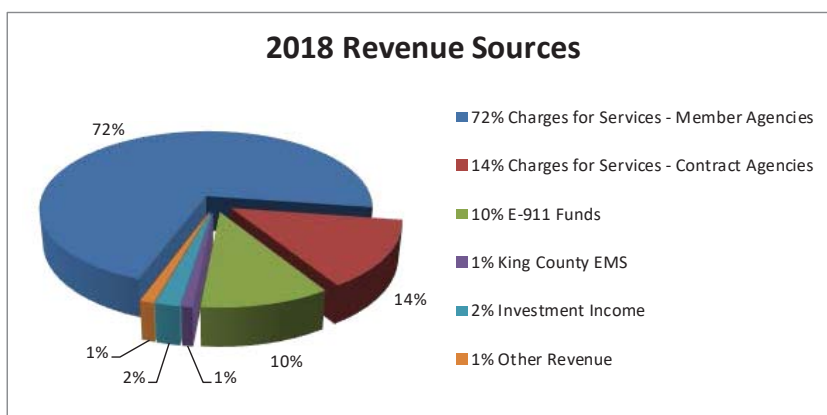
CHANGES IN NET POSITION (IN THOUSANDS)

	2018	2017	2016
Program revenue			
Charges for service	\$ 19,551	\$ 18,424	\$ 17,461
Intergovernmental	2,655	2,679	2,573
General revenue			
Other nonoperating revenue	528	257	177
Total revenue	22,734	21,360	20,211
Operating expenses	19,493	18,022	16,845
Nonoperating expenses	-	-	156
Total expenses	19,493	18,022	17,001
Excess (deficiency) before contributions	3,240	3,338	3,210
Capital contributions	-	31	-
Change in net position	3,240	3,369	3,210
Beginning net position - Jan 1	30,519	27,149	23,939
Ending net position - Dec 31	\$ 33,759	\$ 30,519	\$ 27,149

Revenues

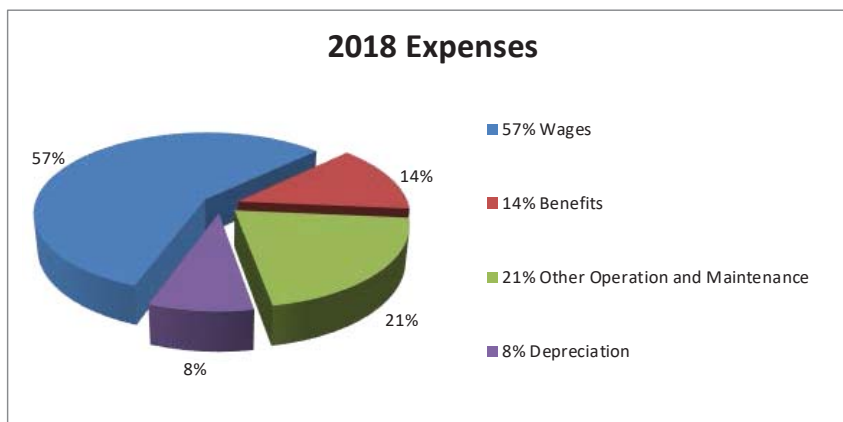
Total revenue increased in 2018 by 6.4%, with a corresponding 6.1% increase charges for services, compared to a 2017 total revenue increase of 5.7%, with a 5.5% increase in charges for services, as compared to a 2016 total revenue increase of 10.5%, with a 12.1% increase in charges for services. Valley 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 excise tax distributions, EMS performance and training revenue, and KC reimbursements was relatively stable.

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 8.2% in 2018 following an increase of 6% in 2017, which is directly attributed to an increase of 2.8% and 4.3% in 2018 and 2017, respectively, in personnel services. The following chart depicts VCC's expenses in further detail:



In the three years ending with 2018, VCC's bargaining units had COLA and step increases. In 2018, total wages increased \$633 thousand, a 6% increase, compared to a \$514 thousand, a 5.1%

increase in 2017 and a \$394 thousand, a 4.1% increase in 2016. The total benefits and payroll taxes decreased \$252 thousand, an 8.7% decrease in 2018, compared to an increase of \$44 thousand, a 1.5% increase in 2017 and an increase of \$181 thousand, a 6.8% increase in 2016.

The 2018 decrease is solely due to the \$1 million pension expense offsets/reductions resulting from accounting for pensions under the GASB Statement No 68. GASB Statement No 68 offsets for the last three years were \$1,027 thousand, \$616 thousand, and \$164 thousand in 2018, 2017, and 2016, respectively. Disregarding pension offsets, total benefits and payroll taxes increased \$159 thousand, a 4.5% increase in 2018. The 2018 and 2017 increases are due to rate increases in retirement and medical rates. Similarly, the 2016 increase is due to rate increases in retirement and dental rates, as well as a newly bargained life and disability coverage extended to the larger bargaining unit.

The other operation and maintenance expense increased 39.7% in 2018 and 18.3% in 2017, as VCC had increased information technology professional services, software maintenance, and legal services costs in the last few years. Legal costs increase is due to the defense of the employee filed class action lawsuit. See Note 10 of the accompanying notes to the financial statements.

Budgetary Highlights

The 2017-2018 biennial budget was approved (Resolution 124) for \$50.9 million in total uses, with a \$37.7 million in operating expenses, which is a 26.4% increase from combined 2015-2016 actual operating expenses. The increase was attributed mostly to personnel cost (salary and benefits) increases, new FTE positions, professional services, and operational savings generated during 2015-2016.

During 2017, there was a \$4.8 million increase in appropriations between the original and final 2017-2018 biennial budget, with \$1.2 million allocated to budget adjustments for 2018. These expenses were funded with accumulated fund net position balance resulting from 2016 savings. Following are the main components of the budget amendment (Resolution 125):

- 1.6 million transfer to equipment replacement reserve for cost overruns on HVAC Data Center, Furniture Console, and HAWC 2.0 projects; funded with operating funds savings (for 2017)
- 1 million transfer to equipment replacement reserve for facility/building space reconfiguration for 2017 and 2018; funded with operating funds savings
- \$190,000 for strategic plan development for 2017 and 2018; funded with operating funds savings
- \$150,993 transfer to operating fund in 2017 to close out healthcare insurance management fund
- \$80,000 for security improvements in 2018; funded with operating funds savings
- \$72,000 for redundant ISP connection in 2017; funded with operating funds savings
- \$55,000 for converting permanent records to digital in 2018; funded with operating funds savings
- \$42,000 for self-insured healthcare insurance fund reserve reimbursement in 2017; funded with healthcare insurance fund reserves
- \$40,000 for network services retainer in 2017; funded with operating funds savings

The redundant ISP connection, HVAC Data Center, and HAWC 2.0 projects were budgeted for in 2016. The 2017 budget adjustment carried-forward the unspent prior year funds or designated additional funds to allow VCC to finish these projects.

Actual 2018 revenues were higher compared to budget with an overall 3.2% increase due to higher contract call volume, specifically Enumclaw Fire, higher E-911 revenue, and higher interest rates. Charges for services generated an additional \$106 thousand, E-911 an additional \$94 thousand, and higher interest rates an additional \$422 thousand in revenue compared to budget.

Actual 2018 expenses were 10% less than the amended budget, which is mostly due to lower salaries and benefit costs, as the Center had vacant positions and retirement, medical, dental, and vision rate increases were lower than budgeted, and delay in capital outlays for equipment replacement. Personnel services were 7.3% below budget. Other operation and maintenance costs were 17.9% over budget due to additional need in information technology professional services, as VCC had considerable turnover in the information technology department staff and identified a need for competencies not available in the department.

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. This contract expired at the end of 2018 and a replacement agreement is being negotiated.

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. This contract expired at the end of 2018 and a replacement agreement is being negotiated.

Economic Factors and Next Year's Rates

- The CPI-U for the Seattle-Tacoma-Bellevue has been on a slower increase throughout 2018 and was at 2.8% annual increase as of December 2018, compared to a 3.5% increase in prior year.
- Member and contract agencies continue to see some increases in sales tax and property tax revenues, which translate into some improvements in their public safety budgets. To further supplement revenues, several member agencies have pursued increases in utility taxes or business licenses.
- Public Employees Retirement System (PERS) employer rates increased to 12.83% in September 2018 from 12.7% and are expected to decrease to 12.68% July 2019, based on the Office of the State Actuary projections.
- To gain efficiencies and increase overall public safety value, King County E-911 developed a strategic plan and is evaluating distribution of excise taxes to fund equipment, projects, and public safety answering points.
- VCC has completed a 5 year strategic planning process with the plan adoption in 2018 and ongoing subsequent implementation.
- 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 2019-2020 biennial budget, which reflects a 6.9% increase in operating expenses from prior biennium, disregarding capital expenses and transfers. The contract agency rate per call increased from \$41.81 in 2018 to \$42.45 for 2019, 2%, and similarly the average cost-per-call increased 2% in 2019 for member agencies. However, member agencies are not charged on a cost per call basis, and their actual overall contribution increased 2% from 2018 to 2019. For 2019, there is no difference in percentages for contribution versus cost per call as billable call for services volume remained relatively stable.

To keep 2019 member contribution increases at a minimum, the Administration Board approved to continue allocating E-911 escrow funds received during the year to fund 20 call receiver positions and 3

administrative IT positions. An estimated \$3.9 million in ending operating working capital remains available for use into 2019.

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
As of December 31, 2018 and 2017

ASSETS

Current assets:	2018	2017
Cash and cash equivalents	\$ 14,052,028	\$ 13,074,520
Receivables:		
Accounts	3,227	2,367
Interest	2,302	1,139
Due from other governments	679,350	655,447
Prepayments	34,331	67,038
Restricted assets:		
Cash and cash equivalents	14,892,677	13,255,860
Total current assets	<u>29,663,914</u>	<u>27,056,371</u>
Noncurrent assets:		
Capital assets not being depreciated:		
Land	218,915	218,915
Work in progress	413,522	-
Capital assets being depreciated:		
Buildings	10,600,834	10,600,834
Other improvements	995,326	995,326
Equipment	17,854,637	18,125,845
Less accumulated depreciation	<u>(17,085,909)</u>	<u>(16,831,054)</u>
Total noncurrent assets	<u>12,997,325</u>	<u>13,109,866</u>
TOTAL ASSETS	<u>42,661,239</u>	<u>40,166,237</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension	985,928	1,067,898
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>985,928</u>	<u>1,067,898</u>

LIABILITIES

Current liabilities:		
Accounts payable	298,117	268,609
Payroll payable	916,461	905,272
Payables from restricted assets	228,741	8,362
Deposits payable	<u>136,082</u>	<u>136,202</u>
Total current liabilities	<u>1,579,401</u>	<u>1,318,444</u>
Noncurrent liabilities:		
Compensated absences	809,753	788,841
Pension obligations	<u>5,399,112</u>	<u>7,332,736</u>
Total noncurrent liabilities	<u>6,208,865</u>	<u>8,121,577</u>
TOTAL LIABILITIES	<u>7,788,266</u>	<u>9,440,021</u>

DEFERRED INFLOWS OF RESOURCES

Pension	2,100,141	1,275,484
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,100,141</u>	<u>1,275,484</u>

NET POSITION

Invested in capital assets	12,997,325	13,109,866
Restricted for:		
Equipment replacement	14,663,936	13,247,499
800 MHz radio	4,769,336	4,666,461
Unrestricted	<u>1,328,163</u>	<u>(505,195)</u>
TOTAL NET POSITION	<u>\$ 33,758,761</u>	<u>\$ 30,518,630</u>

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, 2018 and 2017

	2018	2017
Operating revenues:		
Charges for services - member agencies	\$ 16,310,424	\$ 15,238,212
Charges for services - contract agencies	3,131,087	3,137,288
Other charges for services	109,024	49,480
Intergovernmental revenue	2,655,095	2,678,717
Total operating revenues	<u>22,205,629</u>	<u>21,103,698</u>
Operating expenses:		
Personnel services	13,811,743	13,430,420
Other operation and maintenance	4,057,656	2,905,524
Depreciation	1,623,671	1,686,405
Total operating expenses	<u>19,493,071</u>	<u>18,022,349</u>
Operating income (loss)	<u>2,712,558</u>	<u>3,081,349</u>
Nonoperating revenues (expenses):		
Investment interest	450,035	184,087
Leasehold revenue	69,306	67,840
Other miscellaneous revenue	8,231	4,710
Total nonoperating revenues (expenses)	<u>527,573</u>	<u>256,637</u>
Income (loss) before contributions	<u>3,240,131</u>	<u>3,337,985</u>
Capital contributions	<u>0</u>	<u>31,350</u>
Change in net position	<u>3,240,131</u>	<u>3,369,335</u>
Total net position - January 1	30,518,630	27,149,294
Total net position - December 31	<u>\$ 33,758,761</u>	<u>\$ 30,518,630</u>

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, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Receipts from customers	\$ 22,180,866	\$ 21,036,845
Payments to suppliers	(3,775,181)	(4,706,963)
Payments to employees	(14,806,639)	(13,897,241)
Net cash provided (used) by operating activities	3,599,045	2,432,641
Cash flows from capital and related financing activities:		
Purchases of capital assets	(1,511,131)	(388,784)
Leasehold revenue	69,306	67,840
Other receipts (payments)	8,231	4,710
Net cash provided (used) by capital and related financing activities	(1,433,593)	(316,234)
Cash flows from investing activities:		
Interest on investments	448,872	184,558
Net Cash provided (used) by investing activities	448,872	184,558
Net increase (decrease) in cash and cash equivalents	2,614,324	2,300,966
Cash and cash equivalents - January 1	26,330,380	24,029,415
Cash and cash equivalents - December 31	\$ 28,944,704	\$ 26,330,380
Reconciliation of operating Income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	2,712,558	3,081,349
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,623,671	1,686,405
Changes in assets and liabilities:		
(Increase) decrease in receivables	(860)	17,064
(Increase) decrease in due from other governments	(23,903)	(83,916)
(Increase) decrease in prepayments	32,708	(67,038)
Increase (decrease) in accounts payable	29,508	(3,044)
Increase (decrease) in payroll payable	11,189	93,970
Increase (decrease) in payables from restricted assets	220,379	(1,731,297)
Increase (decrease) in deposits payable	(120)	(60)
Increase (decrease) in compensated absences	20,912	55,636
Increase (decrease) in pension obligations and deferred outflows/inflows	(1,026,997)	(616,427)
Total adjustments	886,487	(648,707)
Net cash provided (used) by operating activities	\$ 3,599,045	\$ 2,432,641
Schedule of noncash investing, capital and related financing activities		
Contributions of capital assets	\$ -	\$ 31,350

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

**Valley Communications Center
Notes to Financial Statements
January 1, 2017 through December 31, 2018**

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 Communications Center;
- e. Establish a fund or special fund or funds as authorized by RCW 39.34.030 for the operation of the Valley Communications 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 MHz 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 MHz Radio System or the fund net position balance of \$5,889,653 and \$5,899,916 as of December 31, 2018 and 2017, 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 for cost allocation purposes) and to the several subscribing/contract agencies which include:

- Burien Fire Department (serving City of Burien, City of Normandy Park, and KC Fire District #2).
- City of Algona Police Department.
- City of Des Moines Police Department.
- City of Black Diamond Police Department.
- City of Pacific Police Department.
- Enumclaw Fire Department (serving City of Enumclaw and KC Fire District #28).
- Kangley-Palmer Fire & Rescue (KC Fire District #47).
- King County International Airport Fire Department.
- King County Medic One.
- Mountain View Fire & Rescue (serving KC Fire District #44 and City of Black Diamond).
- North Highline Fire District (KC Fire District #11).
- Skyway Fire Department (KC Fire District #20).
- Vashon Island Fire & Rescue (KC Fire District #13).
- South Correctional Entity Regional Jail (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 (or resulting agencies), including the directors of said departments or their designees. Also on the Operations Board, is an appointed representative of the police, fire, and medic 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 monthly for dispatch services based on the actual billable calls for service. Payments to vendors are from invoices and are certified by the Director or designee. The Director or designee also approves payroll.

B. MEASUREMENT FOCUS

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 2018 and 2017, included in this Annual Report. Following is a description of the proprietary fund type used by VCC.

Proprietary Fund

The proprietary fund statement is reported using the economic resources measurement focus and full-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 fund distinguishes 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 VCC 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 MHz Radio System, and King County E-911 escrow. Equipment replacement tracking is governed by the Administration Board Resolution #127 and established standard operating procedures. These assets are reserved for procurement of new equipment and facilities or replacement of existing equipment and facilities. Contingency is governed by the Administration Board Resolution #114, which establishes the operating contingency policy and provides a financial resource in the event of unanticipated expense essential to effective operation. 800 MHz Radio System tracking was established to segregate the accounting associated with the 800 MHz 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 with King County for 911 call answering functions.

Although budgeted and monitored separately, the five 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 billable calls for service. The 2018 and 2017 assessments are based on the calls for services for periods of July 1, 2016 - June 30, 2017 and July 1, 2015 - June 30, 2016, respectively, corresponding with calls for services used for each year's budgetary funding formula.

The following is the 2018 and 2017 calls for services assessment distribution for the member agencies (Maple Valley Fire & Rescue transition to Puget Sound Regional Fire Authority during 2018 is disregarded):

Member Agency	2018 Assessment	2017 Assessment
<i>Auburn</i>		
Police	\$ 3,212,324	\$ 2,928,354
Valley Regional Fire Authority	468,979	417,077
<i>Federal Way</i>		
Police	2,713,416	2,542,908
South King Fire & Rescue	747,072	672,445
<i>Kent</i>		
Police	3,270,901	3,111,544
Puget Sound Regional Fire Authority	950,369	871,111
<i>Renton</i>		
Police	2,610,687	2,475,604
Renton Regional Fire Authority	582,471	536,450
<i>Tukwila</i>	1,341,203	1,296,951
Totals	\$ 15,897,422	\$ 14,852,445

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 one checking account 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 has budgeted on a biennial basis since 2015.

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, departments, 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 2017-2018 biennial budget:

2017-2018 Biennial Budget	
Budget adopted by Resolution #124	\$ 50,908,965
Budget amendments adopted by Resolution #125	4,758,743
2017-2018 Budget as amended	\$ 55,667,708

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, 2018, 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 a certain bank 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 rendered, including amounts owed for which billings have not been prepared. Accrued interest due on investments is also included.

G. PREPAYMENTS

Prepayment include prepaid expenses to vendors for costs applicable to future accounting periods.

H. 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

I. 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 was effective 1/1/2016 and expired 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 was effective 1/1/2016 and expired 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 is 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.

J. 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 an individual employer's reported hours and insurance rates based on each employer's risk classification and 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.

K. 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:	2018	2017
Invested in Capital Assets	\$ 11,877,009	\$ 11,876,410
Invested in Capital Assets (800 MHz)	1,120,317	1,233,456
Restricted for Equipment Replacement	14,663,936	13,247,499
Restricted for 800 MHz	4,769,336	4,666,461
Unrestricted	1,328,163	(505,195)
Total Net Position	\$ 33,758,761	\$ 30,518,630

L. 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– 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. The book value of deposits does not differ materially from the bank balance of deposits.

Cash in excess of anticipated needs for operations, including equipment and facilities 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.

Investments in Local Government Investment Pool

VCC is a voluntary participant in the Local Government Investment Pool (LGIP), authorized by Chapter 294, Laws of 1986, and managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts its rules. The State Treasurer is responsible for establishing the investment policy for the pool, reviews policy annually, and resulting proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximated fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB Statement 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

As of December 31, 2018 and 2017, the Center cash and cash equivalent balances invested in LGIP were \$23,888,919 and \$19,960,143, respectively. The LGIP transacts with participants at a stable net asset value per share of \$1.

Investments in King County Investment Pool

VCC's funds held in E-911 escrow at King County E-911 Program Office 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.

KCIP investment policy, reports, and disclosures are available at www.kingcounty.gov/depts/finance-business-operations/treasury/investment-pool.

At December 31, 2018 and 2017, the Center had \$1,573,247 and \$1,339,352, respectively, measured at fair value in level 2 of the valuation input hierarchy. The KCIP had a weighted average maturity of 0.94 and 1.02 years as of December 31, 2018 and 2017, respectively.

VCC's deposits and investment position at the end of fiscal years 2018 and 2017 was:

Source	December 31, 2018		December 31, 2017	
	Operations	Restricted	Operations	Restricted
Petty Cash	\$ 100		\$ 100	
Checking	2,199,040	\$ 604,723	2,327,562	\$ 524,798
Savings	378,423	300,252	978,298	1,200,126
E-911 Escrow	1,573,247		1,339,352	
LGIP - Operations	3,247,355		2,179,015	
LGIP - Equipment Replacement		13,987,702		11,530,936
LGIP - Contingency	2,284,443		2,163,677	
LGIP - 800 MHz	4,369,419		4,086,515	
Total	\$ 14,052,028	\$ 14,892,677	\$ 13,074,520	\$ 13,255,860

NOTE 3 – Accounts Receivable & Due From Other Governments

Accounts receivable and due from other governments balances for 2018 increased 4% from 2017. No material account balances are past due. Balances at December 31, 2018 and 2017 were as follows:

Agency	2018	2017
Auburn Regional Medical Center	\$ 90	\$ 90
Auburn School	120	240
Burien Fire Department	71,249	73,626
Cedar River Water District	690	690
City of Algona Police Department	24,141	17,446
City of Auburn	270	540
City of Auburn Police Department	9,397	23,932
City of Black Diamond Police Department	10,644	25,791
City of Covington	270	150
City of Des Moines Police Department	58,037	56,114
City of Federal Way Police Department	2,663	2,666
City of Kent Police Department	19,616	20,806
City of Maple Valley	300	150
City of Pacific Police Department	18,003	46,238
City of Renton Police Department	14,420	12,916
City of Tukwila Fire, Police, P/W	11,252	11,226
Covington Water District	345	1,140
Enumclaw Fire Department	8,864	16,850
Kangley-Palmer Fire & Rescue (KC Fire District 47)	998	1,040
Kent School Risk, Security	5,565	10,560
King County Department of Information Technology	16,721	47,900
King County E-911 Program Office	161,975	10,095
King County EMS	65,050	45,048
King County International Airport Fire Department	1,394	-
King County Medic One	128,553	115,369
Maple Valley Fire	-	21,997
Mountain View Fire & Rescue	8,031	13,352
Multicare Health Systems	60	60
Other	2,989	35,793
Port of Seattle	-	1,649
Puget Sound Regional Fire Authority	3,384	4,031
Renton Regional Fire Authority	1,732	3,994
Renton School District	75	75
Skyway Fire Department (KC Fire District 20)	17,878	15,989
South Correctional Entity Regional Jail (SCORE)	1,993	6,925
South King Fire & Rescue	38	35
Tahoma School District	90	45
Valley Medical Center	225	300
Valley Regional Fire Authority	2,871	3,399
Vashon Island Fire & Rescue (KC Fire District 13)	12,585	9,545
Total	\$ 682,577	\$ 657,814

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, 2018 and 2017 is shown below:

Asset Type	Beginning Balance		Deletions	Ending Balance
	1/1/2018	Additions		12/31/2018
<i>Capital Assets, non-depreciable</i>				
Land	\$ 218,915	-	-	\$ 218,915
Work in Progress	-	\$ 413,522		413,522
<i>Non-depreciable assets, net</i>	<i>218,915</i>	<i>413,522</i>	<i>-</i>	<i>632,437</i>
<i>Capital Assets, depreciable</i>				
Building	10,600,834			10,600,834
Other Improvements	995,326			995,326
Equipment	18,125,845	1,097,608	1,368,816	17,854,637
Less: Accumulated Depreciation	(16,831,054)	(1,623,671)	(1,368,816)	(17,085,909)
<i>Capital Assets, net</i>	<i>12,890,951</i>	<i>(526,063)</i>	<i>-</i>	<i>12,364,888</i>
All Capital Assets, net	\$ 13,109,866	\$ (112,541)	-	\$ 12,997,325

Asset Type	Beginning Balance		Deletions	Ending Balance
	1/1/2017	Additions		12/31/2017
<i>Capital Assets, non-depreciable</i>				
Land	\$ 218,915	-	-	\$ 218,915
Work in Progress	327,646	\$ 80,572	\$ 408,218	-
<i>Non-depreciable assets, net</i>	<i>546,561</i>	<i>80,572</i>	<i>408,218</i>	<i>218,915</i>
<i>Capital Assets, depreciable</i>				
Building	10,540,547	60,287	-	10,600,834
Other Improvements	995,326	-	-	995,326
Equipment	17,749,802	687,493	311,450	18,125,845
Less: Accumulated Depreciation	(15,456,099)	(1,686,405)	(311,450)	(16,831,054)
<i>Capital Assets, net</i>	<i>13,829,576</i>	<i>(938,625)</i>	<i>-</i>	<i>12,890,951</i>
All Capital Assets, net	\$ 14,376,138	\$ (858,053)	\$ 408,218	\$ 13,109,866

B. CONSTRUCTION COMMITMENTS

VCC's work in progress projects for 2018 and 2017 were as follows:

Project	1/1/2018	Additions	Deletions	12/31/2018
Admin Remodel Project	\$ -	\$ 413,522	-	\$ 413,522
Total	\$ -	\$ 413,522	\$ -	\$ 413,522

Project	1/1/2017	Additions	Deletions	12/31/2017
eCBD Enhancement (Tiburon) CAD Project	\$ 39,216	-	\$ (39,216)	-
HVAC Remediation Project	-	\$ 60,287	(60,287)	-
HAWC 2.0 Project	288,430	20,285	(308,715)	-
Total	\$ 327,646	\$ 80,572	\$ (408,218)	-

Outstanding Projects

As of December 31, 2018, VCC had one outstanding work in progress project. Projects that were started in 2018 or removed from work in progress during 2017 include:

Admin Remodel Project – 2017/2018 adopted biennial budget authorized \$1 million for facilities/building space reconfiguration from the equipment replacement funds. This project is underway with a scheduled completion date of Spring 2019.

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, funded by the King County Emergency Medical Services, was in development for a few years. However, the project was stopped due to technical issues and as a result, the accumulated work in progress costs were expensed.

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 2016 and finished out in 2017.

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, 2017, all funds were spent and project capitalized.

NOTE 5– Pension Plans

The following table represents the aggregate pension amounts for all plans for the years 2018 and 2017:

Aggregate Pension Amounts - All Plans		
	2018	2017
Pension liabilities	\$5,399,112	\$7,332,736
Deferred outflows of resources	\$985,928	\$1,067,898
Deferred inflows of resources	\$2,100,141	\$1,275,484
Pension expense/expenditures	\$385,909	\$634,277

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 2018 and 2017 were as follows:

PERS Plan 1				
Actual Contribution Rates:	Employer			Employee
	1/1/17 - 6/30/17	7/1/17 - 8/31/18	9/1/18 - 12/31/18	1/1/17-12/31/18
PERS Plan 1	6.23%	7.49%	7.52%	6.00%
PERS Plan 1 UAAL	4.77%	5.03%	5.13%	6.00%
Administrative Fee	0.18%	0.18%	0.18%	
Total	11.18%	12.70%	12.83%	

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 2018 and 2017 were as follows:

PERS Plan 2/3						
Actual Contribution Rates:	Employer 2/3			Employee 2		
	1/1/17 - 6/30/17	7/1/17 - 8/31/18	9/1/18 - 12/31/18	1/1/17- 6/30/17	7/1/17 - 8/31/18	9/1/18 - 12/31/18
PERS Plan 2/3	6.23%	7.49%	7.52%	6.12%	7.38%	7.41%
PERS Plan 1 UAAL	4.77%	5.03%	5.13%			
Administrative Fee	0.18%	0.18%	0.18%			
Employee PERS Plan 3				varies		
Total	11.18%	12.70%	12.83%	6.12%	7.38%	7.41%

The Center's actual PERS plan contributions were \$561,272 and \$510,304 to PERS Plan 1 and \$851,292 and \$734,311 to PERS 2/3 for the year ended December 31, 2018 and 2017, respectively.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 and 2017 with a valuation dates of June 30, 2017 and June 30, 2016, 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*, the *2017 Economic Experience Study*, and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2017 and 2016 actuarial valuation reports. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018 and June 30, 2017, respectively. Plan liabilities were rolled forward from June 30, 2017 to June 30, 2018, and from June 30, 2016 to June 30, 2017, respectively, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% (3% in 2017) total economic inflation; 3.5% (3.75% in 2017) salary inflation
- **Salary increases:** In addition to the base 3.50% (3.75% in 2017) salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4% (7.5% in 2017)

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 changes in methods and assumptions since the last valuation.

- For all plans in 2017, how terminated and vested member benefits are valued was corrected.
- For 2017, how the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans in 2017, the average expected remaining service lives calculation was revised.
- For all plans in 2018, lowered the valuation interest rate from 7.70% to 7.50%.
- For all plans in 2018, lowered the assumed general salary growth from 3.75% to 3.50%.
- For all plans in 2018, lowered assumed inflation from 3.00% to 2.75%.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4% (7.5% in 2017).

To determine that rate, an asset sufficiency test included an assumed 7.5% (7.7% in 2017) long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5%, 7.7% in 2017). Consistent with the long-term expected rate of return, a 7.4% (7.5% in 2017) 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 7.4% (7.5% in 2017) 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 7.4% (7.5% in 2017) was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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, 2018 and 2017, are summarized in the table below. The inflation component used to create the table is 2.2% for 2018 and 2017 and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation		% Long-Term Expected Real Rate of Return Arithmetic	
	2018	2017	2018	2017
Fixed income	20%	20%	1.70%	1.70%
Tangible assets	7%	5%	4.90%	4.90%
Real estate	18%	15%	5.80%	5.80%
Global equity	32%	37%	6.30%	6.30%
Private equity	23%	23%	9.30%	9.30%
	100%	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 7.4% (7.5% in 2017), 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 (6.4%, 6.5% in 2017) or 1-percentage point higher (8.4%, 8.5% in 2017) than the current rate.

Plan	2018		
	1% Decrease	Current Discount Rate	1% Increase
	-6.40%	-7.40%	-8.40%
PERS 1	\$ 4,457,302	\$ 3,626,956	\$ 2,907,708
PERS 2/3	8,105,883	1,772,156	(3,420,793)
Total	\$ 12,563,185	\$ 5,399,112	\$ (513,085)

Plan	2017		
	1% Decrease	Current Discount Rate	1% Increase
	-6.50%	-7.50%	-8.50%
PERS 1	\$ 4,600,110	\$ 3,776,181	\$ 3,062,481
PERS 2/3	9,581,733	3,556,555	(1,380,184)
Total	\$ 14,181,842	\$ 7,332,736	\$ 1,682,298

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, 2018 and 2017, the Center reported a total pension liability of \$5,399,112 and \$7,332,736, respectively, for its proportionate share of the net pension liabilities as follows:

Plan	Liability (or Asset)	
	2018	2017
PERS 1	\$ 3,626,956	\$ 3,776,181
PERS 2/3	1,772,156	3,556,555
Total	\$ 5,399,112	\$ 7,332,736

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

Plan	Proportionate Share				
	6/30/2018	6/30/2017	6/30/2016	Change 2018-2017	Change 2017-2016
PERS 1	0.081212%	0.079581%	0.081397%	0.001631%	-0.001816%
PERS 2/3	0.103792%	0.102361%	0.103831%	0.001431%	-0.001470%

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, 2018 and June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017 and June 30, 2016, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2018 and 2017, the Center recognized pension expense as follows:

Plan	Pension Expense	
	2018	2017
PERS 1	\$ 402,566	\$ 137,688
PERS 2/3	(16,657)	496,589
Total	\$ 385,909	\$ 634,277

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

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018 and 2017, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	2018		2017	
	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	-	\$ 144,133	-	\$ 140,916
Contributions subsequent to the measurement date	\$ 281,847	-	\$ 269,149	-
Total	\$ 281,847	\$ 144,133	\$ 269,149	\$ 140,916

PERS 2/3	2018		2017	
	Deferred Outflows or Resources	Deferred Inflows of Resources	Deferred Outflows or Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 217,220	\$ 310,272	\$ 360,363	\$ 116,969
Net difference between projected and actual investment earnings on pension plan investments	-	1,087,477	-	948,092
Changes of assumptions	20,731	504,341	37,777	-
Changes in proportion and differences between contributions and proportionate share of contributions	50,843	53,918	-	69,507
Contributions subsequent to the measurement date	415,287	-	400,609	-
Total	\$ 704,081	\$ 1,956,008	\$ 798,749	\$ 1,134,568

PERS All Plans	2018		2017	
	Deferred Outflows or Resources	Deferred Inflows of Resources	Deferred Outflows or Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 217,220	\$ 310,272	\$ 360,363	\$ 116,969
Net difference between projected and actual investment earnings on pension plan investments	-	1,231,610	-	1,089,008
Changes of assumptions	20,731	504,341	37,777	-
Changes in proportion and differences between contributions and proportionate share of contributions	50,843	53,918	-	69,507
Contributions subsequent to the measurement date	697,134	-	669,758	-
Total	\$ 985,928	\$ 2,100,141	\$ 1,067,898	\$ 1,275,484

Deferred outflows of resources for 2018 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, 2019. Deferred outflows of resources for 2017 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, 2018. 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	
	2018	2017
2018		\$ (95,250)
2019	\$ 6,306	30,072
2020	(31,508)	(6,982)
2021	(94,548)	(68,756)
2022	(24,383)	
Total	\$ (144,133)	\$ (140,916)

Year Ended December 31:	PERS 2/3	
	2018	2017
2018		\$ (393,354)
2019	\$ (181,291)	85,308
2020	(361,573)	(92,412)
2021	(663,254)	(389,913)
2022	(244,108)	23,454
2023	(88,852)	
Thereafter	(128,135)	30,490
Total	\$ (1,667,214)	\$ (736,428)

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 had a total of 160 and 161 members in 2018 and 2017, respectively.

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, 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 2018, \$21 million in 2017, in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million in 2018, \$25 million in 2017, per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, fidelity, and boiler and machinery coverage are purchased on a group basis. Various deductibles (\$5,000-\$10,000) 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.

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, reinsurance and other 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, information security insurance (cyber insurance), 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, 2018 and 2017, 257 and 261 cities/towns/non-city entities, respectively, participated 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: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington 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 2018 and 2017, 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 Kaiser ISL at \$1 million (\$750,000 from Sun Life in 2016) with Companion Life through ASG Risk Management. 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"). In 2018, the retiree medical plan subsidy was eliminated. 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.

NOTE 7 – Leases

VCC is obligated under certain leases accounted for as operating leases. VCC leases office equipment under non-cancelable operating leases. Current operating leases are effective July 2017 for 60 months and August 2018 for 36 months. Total cost of operating leases was \$18,592 and \$23,456 for the years ended December 31, 2018 and 2017, respectively. The future minimum lease payments for current leases as of December 31 are as follows:

Year	Amount
2019	18,748
2020	18,748
2021	18,221
2022	8,729
Total	\$ 64,446

NOTE 8 – Long-Term Liabilities

During the years ended December 31, 2018 and 2017, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2018	Additions	Reductions	Ending Balance 12/31/2018	Due Within One Year
Compensated absences	\$ 860,554	\$ 1,427,064	\$ 1,404,251	\$ 883,367	\$ 73,614
Pension obligations	7,332,736	-	1,933,624	5,399,112	1,394,268
Total Noncurrent Liabilities	\$ 8,193,290	\$ 1,427,064	\$ 3,337,875	\$ 6,282,479	\$ 1,467,882

	Beginning Balance 1/1/2017	Additions	Reductions	Ending Balance 12/31/2017	Due Within One Year
Compensated absences	\$ 780,005	\$ 1,342,280	\$ 1,261,731	\$ 860,554	\$ 71,713
Pension obligations	9,599,211	-	2,266,475	7,332,736	1,339,516
Total Noncurrent Liabilities	\$ 10,379,216	\$ 1,342,280	\$ 3,528,206	\$ 8,193,290	\$ 1,411,229

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

NOTE 9 – Apportionment of Equity

The member cities share in the equity of VCC based on their respective percent of billable call distribution (including billable calls of respective resulting fire authorities) each year. 2018 and 2017 total calls reflect actual billable calls from July 2016 to June 2017 and July 2015 to June 2016, respectively. The equity as of December 31, 2018 and 2017 belonging to the five member cities is as follows:

Member City	Total Calls	% of Calls	2017 Equity Balance	2018 Distribution	2018 Equity Balance	Percent Equity
Auburn	101,199	23%	\$ 5,290,137	\$ 750,724	\$ 6,040,861	22%
Federal Way	91,883	21%	4,222,772	681,619	4,904,391	18%
Kent	117,948	27%	7,215,101	874,974	8,090,075	29%
Renton	90,329	21%	5,212,721	670,091	5,882,811	21%
Tukwila	36,799	8%	2,677,982	272,987	2,950,969	11%
Total	438,157	100%	\$ 24,618,713	\$ 3,250,394	\$ 27,869,108	100%

Member City	Total Calls	% of Calls	2016 Equity Balance	2017 Distribution	2017 Equity Balance	Percent Equity
Auburn	100,554	23%	\$ 4,504,828	\$ 785,310	\$ 5,290,137	21%
Federal Way	94,522	22%	3,484,568	738,204	4,222,772	17%
Kent	115,303	27%	6,314,604	900,497	7,215,101	29%
Renton	87,220	20%	4,531,544	681,177	5,212,721	21%
Tukwila	36,635	8%	2,391,872	286,111	2,677,982	11%
Total	434,233	100%	\$ 21,227,415	\$ 3,391,298	\$ 24,618,713	100%

NOTE 10 – 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. The court has certified a class of approximately 150 current and former employees who are claiming unpaid wages for period being three years before the filing date, up through trial. They are seeking unpaid wages, interest, double damages for willful nonpayment, and attorneys' fees. On motions from VCC, the court dismissed the claim for double damages and reduced the number of claimed pre-shift work activities for which the employees are seeking pay from nine to three. While the Center firmly believes the claims are for noncompensable and de minimis time, which is supported by federal law addressing such claims, the claims involve areas of law for which there is not firmly settled authority under Washington law. A trial in this matter is currently scheduled for September 30, 2019. If Plaintiffs were successful in recovering for their claimed unpaid time, their damages as framed by Plaintiffs could exceed \$1 million (plus attorneys' fees and interest). VCC believes that even if Plaintiffs are successful in establishing some level of unpaid wages, a damage figure in this range is extremely unlikely. VCC continues to believe that it is more likely than not that it will prevail in defending against these claims and no accrual is made for possible loss contingency.

NOTE 11 – Subsequent Events

On January 31, 2019 the Center sold two of its wireless communications facilities located at Cambridge and Skyway radio sites, which were a part of its emergency broadcast system. The facilities were sold to King County and will be used in conjunction with the Puget Sound Emergency Radio Network. The sale was pursuant to the Communications Site Sublease and Access Agreement and grants VCC the right to use the space on and within the facilities for continued operations of its emergency communications equipment.

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, 2018
Last 5 Fiscal Years*

	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.081212%	0.079581%	0.081397%	0.082192%	0.082758%
Employer's proportionate share of the net pension liability	\$ 3,626,956	\$ 3,776,181	\$ 4,371,402	\$ 4,299,406	\$ 4,168,973
Covered payroll	\$ 10,907,719	\$ 10,104,095	\$ 9,789,635	\$ 9,191,579	\$ 9,108,569
Employer's proportionate share of the net pension liability as a percentage of covered payroll	33.25%	37.37%	44.65%	46.78%	45.77%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	61.24%	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, 2018
Last 5 Fiscal Years*

	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.103792%	0.102361%	0.103831%	0.104541%	0.104432%
Employer's proportionate share of the net pension liability	\$ 1,772,156	\$ 3,556,555	\$ 5,227,809	\$ 3,735,310	\$ 2,110,948
Covered payroll	\$ 10,907,719	\$ 10,104,095	\$ 9,781,122	\$ 9,127,654	\$ 9,027,111
Employer's proportionate share of the net pension liability as a percentage of covered payroll	16.25%	35.20%	53.45%	40.92%	23.38%
Plan fiduciary net position as a percentage of the total pension liability	95.77%	90.97%	85.82%	89.20%	93.29%

Notes to Schedules:

The Center had one employee in PERS 1 plan who retired in August 2015.

Since PERS 2/3 payroll contributions are used to cover payments for PERS 1 retirees, the PERS 2/3 covered payroll is also reported as the covered payroll for PERS 1 pension plan.

*Information is only available for the 5 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, 2018 Last 5 Fiscal Years*					
	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 561,272	\$ 510,304	\$ 471,793	\$ 422,049	\$ 384,834
Contributions in relation to the statutorily or contractually required contributions	<u>\$ (561,272)</u>	<u>\$ (510,304)</u>	<u>\$ (471,793)</u>	<u>\$ (422,049)</u>	<u>\$ (384,834)</u>
Contribution deficiency (excess)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Covered payroll	\$ 11,085,678	\$ 10,407,783	\$ 9,892,538	\$ 9,379,951	\$ 9,354,430
Contributions as a percentage of covered payroll	5.06%	4.90%	4.77%	4.50%	4.11%

Valley Communications Center Schedule of Employer Contributions PERS 2/3 As of December 31, 2018 Last 5 Fiscal Years*					
	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 851,292	\$ 734,311	\$ 633,819	\$ 553,636	\$ 485,641
Contributions in relation to the statutorily or contractually required contributions	<u>\$ (851,292)</u>	<u>\$ (734,311)</u>	<u>\$ (633,819)</u>	<u>\$ (553,636)</u>	<u>\$ (485,641)</u>
Contribution deficiency (excess)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Covered payroll	\$ 11,085,678	\$ 10,407,783	\$ 9,892,538	\$ 9,338,235	\$ 9,280,502
Contributions as a percentage of covered payroll	7.68%	7.06%	6.41%	5.93%	5.23%

Notes to Schedules:

The Center had one employee in PERS 1 plan who retired in August 2015.

Since PERS 2/3 payroll contributions are used to cover payments for PERS 1 retirees, the PERS 2/3 covered payroll is also reported as the covered payroll for PERS 1 pension plan.

*Information is only available for the 5 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