Office of the Washington State Auditor

Pat McCarthy

Financial Statements Audit Report

Valley Communications Center

For the period January 1, 2019 through December 31, 2019

Published December 28, 2020

Report No. 1027497

Office of the Washington State Auditor
Pat McCarthy

December 28, 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,

Pat McCarthy

State Auditor

Olympia, WA

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TABLE OF CONTENTS

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 4

Independent Auditor's Report on Financial Statements 7

Financial Section 10

About the State Auditor's Office 50

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, 2019 through December 31, 2019

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 year ended December 31, 2019, 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 22, 2020.

As discussed in Note 12 to the financial statements, in February 2020, a state of emergency was declared, which could have a negative financial effect on the Center.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit 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 22, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Valley Communications Center
January 1, 2019 through December 31, 2019

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 year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matter of Emphasis

As discussed in Note 12 to the financial statements, in February 2020, a state of emergency was declared, which could have a negative financial effect on the Center. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 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 22, 2020 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.

Pat McCarthy

State Auditor

Olympia, WA

December 22, 2020

FINANCIAL SECTION

Valley Communications Center
January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019 and 2018

BASIC FINANCIAL STATEMENTS

Comparative Statement of Net Position – 2019 and 2018
Comparative Statement of Revenues, Expenses and Changes in Fund Net Position – 2019 and 2018
Comparative Statement of Cash Flows – 2019 and 2018
Notes to Financial Statements – 2019 and 2018

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3– 2019 and 2018
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2019 and 2018

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 2019 by $35.5 million. Of this amount, $11.2 million is invested in capital assets and $21.3 million has been restricted for facilities and equipment replacement needs.

- VCC recognized $4 million in pension obligations for 2019, which is a $1.4 million reduction since last year, largely contributing to the increase in the unrestricted portion of net position from $1.3 million to $3.1 million for 2019. The unrestricted portion of new position is used to meet VCC's ongoing operating activities and obligations.

- Overall total net position increased by $1.8 million from last year due to charges for services exceeding actual expenses, which were under budget.

- 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, 2019 totaled $35.5 million. Following is a condensed version of the statement of net position that compares net position for years 2019, 2018, and 2017.

NET POSITION (IN THOUSANDS)

	2019	2018	2017
Current and other assets	$ 31,792	$ 29,664	$ 27,056
Capital assets, net	11,169	12,997	13,110
Total assets	**42,961**	**42,661**	**40,166**
Deferred Outflows of Resources	**1,149**	**986**	**1,068**
Current liabilities	1,259	1,579	1,318
Noncurrent liabilities	4,970	6,209	8,122
Total liabilities	**6,229**	**7,788**	**9,440**
Deferred Inflows of Resources	**2,361**	**2,100**	**1,275**
Net position			
Invested in capital assets	11,169	12,997	13,110
Restricted	21,260	19,433	17,914
Unrestricted	3,091	1,328	(505)
Total net position	**$ 35,520**	**$ 33,759**	**$ 30,519**

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 and facilities. In 2019, VCC's current assets increased $2.1 million; 7.2% compared to a 9.6% increase in prior year.

VCC's net capital assets decreased $1.8 million; a decrease of 14.1% in 2019 compared to a 0.9% decrease in prior year, as $2 million in assets were disposed through an ownership transfer (these transfers are reported under special item on the statement of revenues, expenses and changes fund net position and are further discussed in Note 11 of the accompanying notes to the financial statements), $473 thousand in old assets were disposed, and $1.3 million in new assets were capitalized. There was no outstanding work in progress amounts at the end of 2019 and one work in progress project totaling $413,522 at the end of 2018. 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 and continued into 2019. 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 increased 16.5% during 2019 compared to a decrease of 7.7% during 2018. The increase is mostly due to the differences between expected and actual experience of pension plans and an increase in contributions subsequent to the measurement date, as contribution rates increased in the second half of 2019. The decrease in 2018 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 20% decrease in liabilities from 2018 to 2019 is primarily attributed to a decrease in pension obligations, compared to a 17.5% decrease in liabilities in prior year. Under GASB Statement No. 68, pension obligation for PERS 1 and PERS 2/3 plans decreased $1.4 million in 2019 and $1.9 million in 2018; a 25.2% decrease during 2019 and a 26.4% decrease during 2018. Pension obligations are further discussed in Note 5 of the accompanying notes to the financial statements.

Current liabilities decreased $0.3 million in 2019, which incidentally increased $0.3 million the prior year. The decrease is due to the reductions in payables from restricted assets, accounts payable, and deposits payable. Deposits payable included a $157 thousand paid by Sprint Nextel Corporation towards the Rebanding Project during 2011, which was closed out in 2019.

Deferred Inflows of Resources

Deferred inflows of resources increased $0.3 million (12.4%) in 2019 following an increase of $0.8 million (65%) in 2018. The 2019 increase in deferred inflows is due to net difference between projected and actual investment earnings on pension plans' investment. Prior year increase 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 is restricted. The $21.3 million as of December 31, 2019, $19.4 million as of December 31, 2018, and $17.9 million as of December 31, 2017 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 is investment in capital assets. Investment in capital assets decreased 14.1% in 2019, compared to a 0.9% decrease in 2018, as three radio site facilities with an original cost of $2 million were transferred to King County during the year and some old assets were also disposed in 2019. Capital assets, $11.2 million as of December 31, 2019, $13 million as of December 31, 2018, and $13.1 million as of December 31, 2017 are comprised of buildings, land, and communication equipment that are used to provide services to public safety agencies and citizens. These assets are critical to our operations and as a result, are not for sale and therefore are not available to fund current and future VCC obligations.

VCC's remaining net position is positive in the last 2 years; $3.1 million in 2019 and $1.3 million the year prior. The unrestricted net position is generally available for continuing operations; however, with implementation of GASB Statement No. 68, which led to recognition of a $4 million, a $5.4 million, and a $7.3 million for 2019, 2018, and 2017, respectively, pension obligation, the unrestricted net positon was brought into the negative for years prior to 2018. There was a 133% improvement in 2019, following a 363% increase in 2018 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 for 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 $1.8 million during 2019, $3.2 million during 2018, and $3.4 million during 2017. The 2019 increase is due to an increase in intergovernmental and nonoperating revenue, while prior year increases are primarily due to the increased revenues from member agencies for charges for services, as contributions and rates were increased and expenses remained below budget.

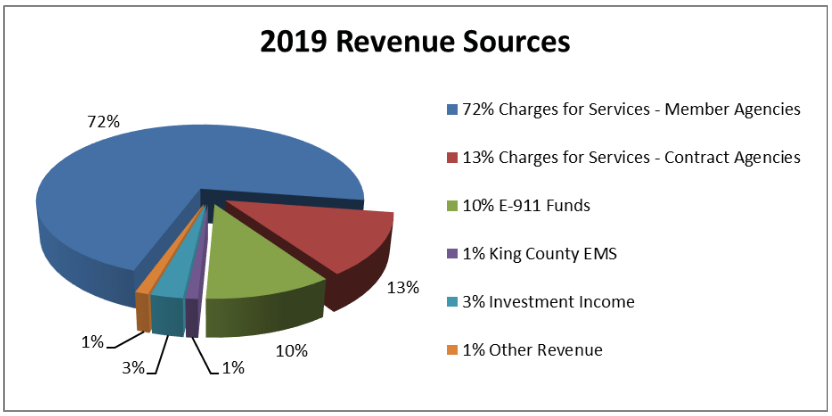
CHANGES IN NET POSITION (IN THOUSANDS)

	2019	2018	2017
Program revenue			
Charges for service	$ 19,585	$ 19,551	$ 18,424
Intergovernmental	2,722	2,655	2,679
General revenue			
Other nonoperating revenue	686	528	257
Total revenue	**22,993**	**22,734**	**21,360**
Operating expenses	20,318	19,493	18,022
Nonoperating expenses	86	-	-
Total expenses	**20,404**	**19,493**	**18,022**
Excess (deficiency) before contributions & special item	**2,589**	**3,240**	**3,338**
Capital contributions	-	-	31
Special item	(828)	-	-
Change in net position	**1,761**	**3,240**	**3,369**
Beginning net position - Jan 1	33,759	30,519	27,149
Ending net position - Dec 31	**$ 35,520**	**$ 33,759**	**$ 30,519**

Revenues

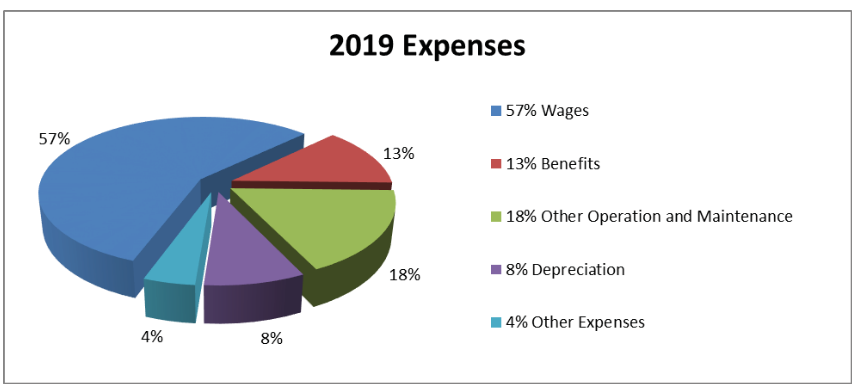
Total revenue increased in 2019 by 1.1%, mostly due to a 29.9% increase in interest and reimbursements and a 2.5% increase in intergovernmental revenues, compared to a 2018 total revenue increase of 6.4%, with a corresponding 6.1% increase charges for services, compared to a 2017 total revenue increase of 5.7%, with a 5.5% increase in charges for services. 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 include E-911 escrow account excise tax distributions, EMS performance and training revenue, and KC reimbursements.

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 4.7% in 2019 following an increase of 8.2% in 2018, which is directly attributed to an increase of 7.3% and 2.8% in 2019 and 2018, respectively, in personnel services and a 39.7% increase in operation and maintenance costs in 2018. The following chart depicts VCC's expenses in further detail:



In the three years ending with 2019, VCC's bargaining units had COLA and step increases. In 2019, total wages increased $976 thousand, an 8.7% increase, compared to a $633 thousand, a 6% increase in 2018, and a $514 thousand, a 5.1% increase in 2017. The total benefits and payroll taxes increased $38 thousand, a 1.4% increase in 2019, compared to a decrease of $252 thousand, an 8.7% decrease in 2018, and an increase of $44 thousand, a 1.5% increase in 2017.

The 2019 small increase in benefits and the 2018 reduction in benefit costs are solely due to the $1.3 million ($1 million for 2018) 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 $1,263 thousand, $1,027 thousand, and $616 thousand in 2019, 2018, and 2017, respectively. Disregarding pension offsets, total benefits and payroll taxes increased $274 thousand, a 7.5% increase in 2019 compared to a $159 thousand, a 4.5% increase in 2018. The last three year increases are mostly due to rate increases in retirement and medical rates. An additional increase of $17 thousand is recognized in 2019 due to the new WA Paid Family & Medical Leave insurance rate payments.

The other operation and maintenance expense decreased 8.4% in 2019 and increased 39.7% in 2018, 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 2019-2020 biennial budget was approved (Resolution 130) for $53.6 million in total uses, with a $41 million in operating expenses, which is a 14.4% increase from combined 2017-2018 actual operating expenses. The increase was attributed mostly to personnel cost (salary and benefits) increases, 2 new Supervisor FTE positions, professional services, and actual operational savings generated during 2017-2018.

During 2019, there was a $2.4 million increase in appropriations between the original and final 2019-2020 biennial budget, with $145,000 allocated to budget adjustments for 2020. These expenses were funded with accumulated fund net position balance resulting from 2018 savings. Following are the main components of the budget amendment for 2019 (Resolution 131):

- $586,000 for facilities/building space reconfiguration (remaining admin remodel); funded with operating fund savings previously transferred to the equipment replacement fund
- $535,000 for security system replacement; funded with equipment replacement fund savings
- $171,476 for professional services staff augmentation; funded with operating fund savings
- $100,000 for lighting improvements; funded with operating fund savings transferred to equipment replacement fund
- $90,000 for paging system replacement planning; funded with operating fund savings
- $75,000 for HVAC re-piping, heat traced & controls; funded with operating fund savings transferred to equipment replacement fund
- $58,875 for consulting on strategic plan implementation and funding model; funded with operating fund savings
- $46,931 for monitors replacement; funded with equipment replacement funds
- $40,800 for SQL DBA consultant/schema work; funded with operating fund savings
- $40,000 for building foundation sealing and painting; funded with equipment replacement funds

The facilities/building space reconfiguration, security system replacement, paging system replacement planning, monitors replacement, SQL DBA consultant/schema work, and building foundation sealing and painting projects were budgeted for in 2018. The 2019 budget adjustment carried-forward the unspent prior year funds or designated additional funds to allow VCC to finish these projects.

Actual 2019 revenues were slightly higher compared to budget with an overall 0.7% increase mostly due to higher interest rates on higher balances earning that interest. Higher interest rates generated an additional $422 thousand compared to budget, which was somewhat offset by a decrease in charges for services revenue of $138 thousand compared to budget. Overall billable calls for services decreased 2% compared to 2018 (a 3% decrease for police agencies and a 2% increase for fire agencies; the volume of police calls is much larger than fire calls).

Actual 2019 expenses were 13.5% less than the amended budget, which is mostly due the delay in capital outlays of $3 million for equipment replacement & facilities and a $0.6 million salaries and benefit costs savings, as the Center had vacant positions and retirement, medical, dental, and vision rate increases were lower than budgeted. Overall, personnel services were 3.9% below budget. Other operation and maintenance costs were 8.8% below budget and capital outlay were 77.8 below budget, as projects were delayed.

Other Potentially Significant Matters

Labor Agreements

On October 31, 2019, the Valley Communication Center Employees' Association signed their 3 year contract for 2019-2021. The contract calls for a wage increase of 4.88% retroactive to January 1, 2019, an increase of 3.88% for 2020, and an increase of 3.25% for 2021. It provided for equivalent of 8 hours of vacation bank cash out on ratification, established some overtime hours to be compensated at double time, increased longevity bonus percentage by 0.05%, increased vacation and holiday carryover limit to 240 from 180, and raised sick leave payout at retirement to 30% from 25% with the maximum raised to $6,000 from $4,500. Starting 2020, the contract also increases hourly shift differential premium to $0.75 from $0.40 and increases vacation accruals by approximately 12 hours per year. Prior contract expired at the end of 2018 and included a 2.5% wage increase for 2018.

On June 5, 2019, the Valley Communications Supervisory Guild signed their 2 year contract for 2019-2020. The contract calls for a wage increase of 4% effective June 1, 2019 and an increase of 3.5% for 2020. It provided a contract ratification bonus ranging from $300 to $2,000 depending on time in the guild during 2019, increased hourly shift differential premium to $0.75 from $0.40, increased longevity bonus percentage by 0.05%, increased longevity related accrued time award by 16 hours, increased vacation carryover limit to 260 from 240, raised tuition reimbursement to $1,000 from $600, and eliminated the 40 hour sick leave incentive. Prior contract expired at the end of 2018 and included a 2.75% wage increase for 2018.

Economic Factors and Next Year's Rates

- The CPI-U for the Seattle-Tacoma-Bellevue has been on a slower increase throughout 2019 and was at 2.2% annual increase as of December 2019, compared to a 2.8% increase in prior year.
- Public Employees Retirement System (PERS) employer rates increased to 12.86% in July 2019 from 12.83% and are expected to decrease to 10.42% July 2021, 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 staff at 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).

- During 2019, member and contract agencies continued to see some increases in sales tax and property tax revenues, which translated into some improvements in their public safety budgets. To further supplement revenues, several member agencies have pursued increases in utility taxes or business licenses. However, in February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. The length of time these measures will be in place, and the full extent of the financial impact on the Center and its member and contract agencies is unknown at this time. See Note 12 of the accompanying notes to the financial statements.

Above factors existing in the summer of 2019 were taken into account when VCC prepared its 2019-2020 biennial budget amendment, which reflects a 8.4% increase in operating expenses from prior biennium, disregarding capital expenses and transfers. The contract agency rate per call increased from $42.45 in 2019 to $44.33 for 2020, 4%, and similarly the average cost-per-call increased 4% in 2020 for member agencies. However, member agencies are not charged on a cost per call basis, and their actual overall contribution increased 3% from 2019 to 2020. For 2020, there is a small difference in percentages for contribution versus cost per call, as billable call for services volume decreased 1%.

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 $4.3 million in ending operating working capital remains available for use into 2020.

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, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,802,020	$ 14,052,028
Receivables:		
Accounts	79,509	3,227
Interest	2,532	2,302
Due from other governments	899,979	679,350
Prepayments	510,064	34,331
Restricted assets:		
Cash and cash equivalents	16,497,794	14,892,677
Total current assets	31,791,898	29,663,914
Noncurrent assets:		
Capital assets not being depreciated:		
Land	218,915	218,915
Work in progress	-	413,522
Capital assets being depreciated:		
Buildings	9,733,507	10,600,834
Other improvements	587,962	995,326
Equipment	17,897,178	17,854,637
Less accumulated depreciation	(17,268,240)	(17,085,909)
Total noncurrent assets	11,169,322	12,997,325
TOTAL ASSETS	**42,961,220**	**42,661,239**
DEFERRED OUTFLOWS OF RESOURCES		
Pension	1,148,700	985,928
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**1,148,700**	**985,928**
LIABILITIES		
Current liabilities:		
Accounts payable	182,673	298,117
Payroll payable	1,008,730	916,461
Payables from restricted assets	67,382	228,741
Deposits payable	-	136,082
Total current liabilities	1,258,785	1,579,401
Noncurrent liabilities:		
Compensated absences	931,510	809,753
Pension obligations	4,038,037	5,399,112
Total noncurrent liabilities	4,969,547	6,208,865
TOTAL LIABILITIES	**6,228,332**	**7,788,266**
DEFERRED INFLOWS OF RESOURCES		
Pension	2,361,252	2,100,141
TOTAL DEFERRED INFLOWS OF RESOURCES	**2,361,252**	**2,100,141**
NET POSITION		
Invested in capital assets	11,169,322	12,997,325
Restricted for:		
Equipment replacement	16,432,663	14,663,936
800 MHz radio	4,827,235	4,769,336
Unrestricted	3,091,115	1,328,163
TOTAL NET POSITION	**$ 35,520,335**	**$ 33,758,761**

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, 2019 and 2018

	2019	2018
Operating revenues:		
Charges for services - member agencies	$ 16,516,849	$ 16,310,424
Charges for services - contract agencies	2,967,688	3,131,087
Other charges for services	100,944	109,024
Intergovernmental revenue	2,722,461	2,655,095
Total operating revenues	22,307,942	22,205,629
Operating expenses:		
Personnel services	14,825,391	13,811,743
Other operation and maintenance	3,714,868	4,057,656
Depreciation	1,777,627	1,623,671
Total operating expenses	20,317,886	19,493,071
Operating income (loss)	**1,990,056**	**2,712,558**
Nonoperating revenues (expenses):		
Investment interest	611,557	450,035
Leasehold revenue	34,887	69,306
Other miscellaneous revenue	39,424	8,231
Gain (loss) on disposition of capital assets	(86,425)	-
Total nonoperating revenues (expenses)	599,443	527,573
Income (loss) before special item	**2,589,498**	**3,240,131**
Special item - transfer of radio sites	(827,924)	-
Change in net position	**1,761,575**	**3,240,131**
Total net position - January 1	33,758,761	30,518,630
Total net position - December 31	**$ 35,520,335**	**$ 33,758,761**

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, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Receipts from customers	$ 22,011,030	$ 22,180,866
Payments to suppliers	(4,603,486)	(3,775,181)
Payments to employees	(15,874,101)	(14,806,639)
Net cash provided (used) by operating activities	**1,533,444**	**3,599,045**
Cash flows from capital and related financing activities:		
Purchases of capital assets	(863,973)	(1,511,131)
Leasehold revenue	34,887	69,306
Other receipts (payments)	39,424	8,231
Net cash provided (used) by capital and related financing activities	**(789,662)**	**(1,433,593)**
Cash flows from investing activities:		
Interest on investments	611,328	448,872
Net Cash provided (used) by investing activities	**611,328**	**448,872**
Net increase (decrease) in cash and cash equivalents	**1,355,109**	**2,614,324**
Cash and cash equivalents - January 1	28,944,704	26,330,380
Cash and cash equivalents - December 31	**$ 30,299,814**	**$ 28,944,704**

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

	2019	2018
Operating income (loss)	1,990,056	2,712,558
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,777,627	1,623,671
Changes in assets and liabilities:		
(Increase) decrease in receivables	(76,282)	(860)
(Increase) decrease in due from other governments	(220,630)	(23,903)
(Increase) decrease in prepayments	(475,733)	32,708
Increase (decrease) in accounts payable	(115,444)	29,508
Increase (decrease) in payroll payable	92,269	11,189
Increase (decrease) in payables from restricted assets	(161,359)	220,379
Increase (decrease) in deposits payable	(136,082)	(120)
Increase (decrease) in compensated absences	121,758	20,912
Increase (decrease) in pension obligations and deferred outflows/inflows	(1,262,736)	(1,026,997)
Total adjustments	**(456,612)**	**886,487**
Net cash provided (used) by operating activities	**$ 1,533,444**	**$ 3,599,045**

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

Valley Communications Center
Notes to Financial Statements
January 1, 2018 through December 31, 2019

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 MH_z Emergency Radio Communications System funded by a $57 million King County levy approved in November 1992.

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

In accordance with this agreement, the participating cities of VCC have no equity interest in VCC's 800 MH_z Radio System or the fund net position balance of $5,036,863 and $5,889,653 as of December 31, 2019 and 2018, 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 2019 and 2018, 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 MH_z 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 MH_z Radio System tracking was established to segregate the accounting associated with the 800 MH_z project's distribution and disbursement of levy proceeds for the development, implementation, and operation of the system. The King County E-911 escrow account was established to segregate the accounting for the excise tax revenues received from land line and cellular phone users that are in escrow 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 2019 and 2018 assessments are based on the calls for services for periods of July 1, 2017 - June 30, 2018 and July 1, 2016 - June 30, 2017, respectively, corresponding with calls for services used for each year's budgetary funding formula.

The following is the 2019 and 2018 calls for services assessment distribution for the member agencies (Maple Valley Fire & Rescue transition to Puget Sound Regional Fire Authority during 2018 is reflected in 2019 assessment):

Member Agency	2019 Assessment	2018 Assessment
Auburn		
Police	$ 3,271,769	$ 3,212,324
Valley Regional Fire Authority	490,432	468,979
Federal Way		
Police	2,669,938	2,713,416
South King Fire & Rescue	745,945	747,072
Kent		
Police	3,326,419	3,270,901
Puget Sound Regional Fire Authority	1,058,451	950,369
Renton		
Police	2,756,188	2,610,687
Renton Regional Fire Authority	601,924	582,471
Tukwila	1,368,056	1,341,203
Totals	**$ 16,289,122**	**$ 15,897,422**

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 and 2019-2020 biennial budgets:

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**

2019-2020 Biennial Budget		
Budget adopted by Resolution #130	$	53,559,517
Budget amendments adopted by Resolution #131		2,410,167
2019-2020 Budget as amended	**$**	**55,969,684**

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, 2019 and 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 240 hours (180 hours for 2018). Twice per year, employees are given an option to sell back their accrued holiday hours up to 176 hours per year. 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 $6,000 ($4,500 for 2018) maximum payout. The current Association agreement is effective 1/1/2019 and expires 12/31/2021. It replaces a prior agreement with substantially the same terms for compensated absences, as noted above.

The Valley Communications Supervisory Guild agreement states that the maximum accrued vacation carry over from one year to another is 260 (240 hours for 2018). Twice per year, employees are given an option to sell back their accrued holiday hours up to 88 hrs per year. 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 current Guild agreement is effective 1/1/2019 and expires 12/31/2020. It replaces a prior agreement with substantially the same terms for compensated absences, as noted above.

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, WA state paid family & medical leave, 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:	2019	2018
Invested in Capital Assets	$ 10,959,694	$ 11,877,009
Invested in Capital Assets (800 MHz)	209,628	1,120,317
Restricted for Equipment Replacement	16,432,663	14,663,936
Restricted for 800 MHz	4,827,235	4,769,336
Unrestricted	3,091,115	1,328,163
Total Net Position	**$ 35,520,335**	**$ 33,758,761**

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, 2019 and 2018, the Center cash and cash equivalent balances invested in LGIP were $26,461,694 and $23,888,919, 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, 2019 and 2018, the Center had $1,507,715 and $1,573,247, respectively, measured at fair value in level 2 of the valuation input hierarchy. The KCIP had a weighted average maturity of 0.92 and 0.94 years as of December 31, 2019 and 2018, respectively.

VCC's deposits and investment position at the end of fiscal years 2019 and 2018 was:

	December 31, 2019		December 31, 2018	
Source	Operations	Restricted	Operations	Restricted
Petty Cash	$ 100		$ 100	
Checking	1,086,667	$ 464,838	2,199,040	$ 604,723
Savings	678,496	100,305	378,423	300,252
E-911 Escrow	1,507,715		1,573,247	
LGIP - Operations	3,635,585		3,247,355	
LGIP - Equipment Replacement		15,932,651		13,987,702
LGIP - Contingency	2,421,017		2,284,443	
LGIP - 800 MHz	4,472,441		4,369,419	
Total	**$ 13,802,020**	**$ 16,497,794**	**$ 14,052,028**	**$ 14,892,677**

NOTE 3 – Accounts Receivable & Due From Other Governments

Accounts receivable and due from other governments balances for 2019 increased 43% from 2018, but no material account balances are past due. Balances at December 31, 2019 and 2018 were as follows:

Agency	2019	2018
Auburn Regional Medical Center	$ 90	$ 90
Auburn School	120	120
Burien Fire Department	79,848	71,249
Cedar River Water District	690	690
City of Algona Police Department	15,154	24,141
City of Auburn, Police Department	10,389	9,667
City of Black Diamond Police Department	22,183	10,644
City of Covington	270	270
City of Des Moines Police Department	122,017	58,037
City of Federal Way Police Department	2,374	2,663
City of Kent Police Department	12,064	19,616
City of Maple Valley	300	300
City of Pacific Police Department	31,446	18,003
City of Renton Police Department	9,150	14,420
City of Tukwila Fire, Police, P/W	7,111	11,252
Covington Water District	345	345
Enumclaw Fire Department	9,339	8,864
Kangley-Palmer Fire & Rescue (KC Fire District 47)	786	998
Kent School Risk, Security	5,565	5,565
King County Department of Information Technology	10,499	16,721
King County E-911 Program Office	247,887	161,975
King County EMS	140,189	65,050
King County International Airport Fire Department	1,104	1,394
King County Medic One	119,917	128,553
Mountain View Fire & Rescue	16,083	8,031
Multicare Health Systems	60	60
Other	89,888	2,989
Puget Sound Regional Fire Authority	2,497	3,384
Renton Regional Fire Authority	2,639	1,732
Renton School District	150	75
Skyway Fire Department (KC Fire District 20)	8,066	17,878
South Correctional Entity Regional Jail (SCORE)	3,871	1,993
South King Fire & Rescue	17	38
Tahoma School District	45	90
Valley Medical Center	150	225
Valley Regional Fire Authority	2,175	2,871
Vashon Island Fire & Rescue (KC Fire District 13)	5,009	12,585
Total	**$ 979,488**	**$ 682,577**

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, 2019 and 2018 is shown below:

Asset Type	Beginning Balance 1/1/2019	Additions	Deletions	Ending Balance 12/31/2019
Capital Assets, non-depreciable				
Land	$ 218,915	-	-	$ 218,915
Work in Progress	413,522	$ 427,609	$ 841,131	-
Non-depreciable assets, net	*632,437*	*427,609*	*841,131*	*218,915*
Capital Assets, depreciable				
Building	10,600,834	754,232	1,621,559	9,733,507
Other Improvements	995,326	-	407,364	587,962
Equipment	17,854,637	523,263	480,722	17,897,178
Less: Accumulated Depreciation	(17,085,909)	(1,777,628)	(1,595,297)	(17,268,240)
Capital Assets, net	*12,364,888*	*(500,133)*	*914,348*	*10,950,407*
All Capital Assets, net	**$ 12,997,325**	**$ (72,524)**	**$ 1,755,479**	**$ 11,169,322**

Asset Type	Beginning Balance 1/1/2018	Additions	Deletions	Ending Balance 12/31/2018
Capital Assets, non-depreciable				
Land	$ 218,915	-	-	$ 218,915
Work in Progress	-	$ 413,522		413,522
Non-depreciable assets, net	*218,915*	*413,522*	-	*632,437*
Capital Assets, depreciable				
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)
Capital Assets, net	*12,890,951*	*(526,063)*	-	*12,364,888*
All Capital Assets, net	**$ 13,109,866**	**$ (112,541)**	**-**	**$ 12,997,325**

B. CONSTRUCTION COMMITMENTS

VCC's work in progress projects for 2019 and 2018 were as follows:

Project	1/1/2019	Additions	Deletions	12/31/2019
Admin Remodel Project	$ 413,522	427,609	$ (841,131)	-
Total	**$ 413,522**	**$ 427,609**	**$ (841,131)**	**-**

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

Outstanding Projects

As of December 31, 2019, VCC had one outstanding work in progress project, but all costs incurred through yearend were capitalized or expensed, as appropriate. This project was started in 2018 and is described below:

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 2020. Through yearend 2019, a total of $871,041 was spent on the project.

NOTE 5– Pension Plans

The following table represents the aggregate pension amounts for all plans for the years 2019 and 2018:

Aggregate Pension Amounts - All Plans		
	2019	**2018**
Pension liabilities	$4,038,037	$5,399,112
Deferred outflows of resources	$1,148,700	$985,928
Deferred inflows of resources	$2,361,252	$2,100,141
Pension expense/expenditures	$276,185	$385,909

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 Employees' 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.

<u>Contributions</u>

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 2019 and 2018 were as follows:

PERS Plan 1				
Actual Contribution Rates:	**Employer**			**Employee**
	1/1/18 - 8/31/18	9/1/18 - 6/30/19	7/1/19 - 12/31/19	1/1/18-12/31/19
PERS Plan 1	7.49%	7.52%	7.92%	6.00%
PERS Plan 1 UAAL	5.03%	5.13%	4.76%	6.00%
Administrative Fee	0.18%	0.18%	0.18%	
Total	**12.70%**	**12.83%**	**12.86%**	

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.

<u>Contributions</u>

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 2019 and 2018 were as follows:

PERS Plan 2/3						
Actual Contribution Rates:	**Employer 2/3**			**Employee 2**		
	1/1/18 - 8/31/18	9/1/18 - 6/30/19	7/1/19 - 12/31/19	1/1/18 - 8/31/18	9/1/18 - 6/30/19	7/1/19 - 12/31/19
PERS Plan 2/3	7.49%	7.52%	7.92%	7.38%	7.41%	7.90%
PERS Plan 1 UAAL	5.03%	5.13%	4.76%			
Administrative Fee	0.18%	0.18%	0.18%			
Employee PERS Plan 3				varies		
Total	**12.70%**	**12.83%**	**12.86%**	**7.38%**	**7.41%**	**7.90%**

The Center's actual PERS plan contributions were $597,565 and $561,272 to PERS Plan 1 and $934,136 and $851,292 to PERS Plan 2/3 for the year ended December 31, 2019 and 2018, respectively.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 and 2018 with a valuation dates of June 30, 2018 and June 30, 2017, 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* and the *2017 Economic Experience Study.*

Additional assumptions for subsequent events and law changes are current as of the 2018 and 2017 actuarial valuation reports. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019 and June 30, 2018, respectively. Plan liabilities were rolled forward from June 30, 2018 to June 30, 2019, and from June 30, 2017 to June 30, 2018, respectively, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation

- **Salary increases**: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

- **Investment rate of return:** 7.4%

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 2019, OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- For all plans in 2019, OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of $62.50 per month.
- For all plans, lowered the valuation interest rate from 7.70% to 7.50% in 2018.
- For all plans, lowered the assumed general salary growth from 3.75% to 3.50% in 2018.
- For all plans, lowered assumed inflation from 3.00% to 2.75% in 2018.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4%.

To determine that rate, an asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5%). Consistent with the long-term expected rate of return, a 7.4% 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%) 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% 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, 2019 and 2018, are summarized in the table below. The inflation component used to create the table is 2.2% for 2019 and 2018 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	
	2019	2018	2019	2018
Fixed income	20%	20%	2.20%	1.70%
Tangible assets	7%	7%	5.10%	4.90%
Real estate	18%	18%	5.80%	5.80%
Global equity	32%	32%	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%, 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%) or 1-percentage point higher (8.4%) than the current rate.

Plan	2019		
	1% Decrease -6.40%	Current Discount Rate -7.40%	1% Increase -8.40%
PERS 1	$ 3,812,710	$ 3,044,521	$ 2,378,016
PERS 2/3	7,619,871	993,516	(4,443,847)
Total	**$ 11,432,581**	**$ 4,038,037**	**$ (2,065,830)**

Plan	2018		
	1% Decrease -6.40%	Current Discount Rate -7.40%	1% Increase -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)**

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, 2019 and 2018, the Center reported a total pension liability of $4,038,037 $5,399,112, respectively, for its proportionate share of the net pension liabilities as follows:

Plan	Liability (or Asset)	
	2019	2018
PERS 1	$ 3,044,521	$ 3,626,956
PERS 2/3	993,516	1,772,156
Total	**$ 4,038,037**	**$ 5,399,112**

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

Plan	Proportionate Share				
	6/30/2019	6/30/2018	6/30/2017	Change 2019-2018	Change 2018-2017
PERS 1	0.079174%	0.081212%	0.079581%	-0.002038%	0.001631%
PERS 2/3	0.102283%	0.103792%	0.102361%	-0.001509%	0.001431%

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, 2019 and June 30, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018 and June 30, 2017, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2019 and 2018, the Center recognized pension expense as follows:

Plan	Pension Expense 2019	Pension Expense 2018
PERS 1	$ 56,715	$ 402,566
PERS 2/3	219,470	(16,657)
Total	**$ 276,185**	**$ 385,909**

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

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019 and 2018, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	2019		2018	
	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	-	$ 203,400	-	$ 144,133
Contributions subsequent to the measurement date	$ 299,529	-	$ 281,847	-
Total	**$ 299,529**	**$ 203,400**	**$ 281,847**	**$ 144,133**

PERS 2/3	2019		2018	
	Deferred Outflows or Resources	Deferred Inflows of Resources	Deferred Outflows or Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 284,645	$ 213,600	$ 217,220	$ 310,272
Net difference between projected and actual investment earnings on pension plan investments	-	1,446,154	-	1,087,477
Changes of assumptions	25,441	416,846	20,731	504,341
Changes in proportion and differences between contributions and proportionate share of contributions	42,645	81,252	50,843	53,918
Contributions subsequent to the measurement date	496,441	-	415,287	-
Total	**$ 849,171**	**$ 2,157,852**	**$ 704,081**	**$ 1,956,008**

PERS All Plans	2019 Deferred Outflows or Resources	2019 Deferred Inflows of Resources	2018 Deferred Outflows or Resources	2018 Deferred Inflows of Resources
Differences between expected and actual experience	$ 284,645	$ 213,600	$ 217,220	$ 310,272
Net difference between projected and actual investment earnings on pension plan investments	-	1,649,554	-	1,231,610
Changes of assumptions	25,441	416,846	20,731	504,341
Changes in proportion and differences between contributions and proportionate share of contributions	42,645	81,252	50,843	53,918
Contributions subsequent to the measurement date	795,970	-	697,134	-
Total	**$ 1,148,700**	**$ 2,361,252**	**$ 985,928**	**$ 2,100,141**

Deferred outflows of resources for 2019 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, 2020. Deferred outflows of resources for 2018 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, 2019. 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 2019	PERS 1 2018
2019		$ 6,306
2020	$ (44,902)	(31,508)
2021	(106,359)	(94,548)
2022	(37,955)	(24,383)
2023	(14,184)	
Total	**$ (203,400)**	**$ (144,133)**

Year Ended December 31:	PERS 2/3 2019	PERS 2/3 2018
2019		$ (181,291)
2020	$ (452,439)	(361,573)
2021	(749,714)	(663,254)
2022	(336,661)	(244,108)
2023	(183,663)	(88,852)
2024	(83,242)	
Thereafter	598	(128,135)
Total	**$ (1,805,122)**	**$ (1,667,214)**

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 163 and 160 members in 2019 and 2018, 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 limits above the self-insured layer is provided by reinsurance. Total limits are $20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, 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, 2019 and 2018, 261 and 257 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 2019 and 2018, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of $1.5 million through Commencement Bay Risk Management, (Life Map in 2018), and Kaiser ISL at $1 million 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 Trust 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 AWC Trust 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 AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust 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 AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB").

In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. 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 $18,748 and $18,592 for the years ended December 31, 2019 and 2018, respectively. The future minimum lease payments for current leases as of December 31 are as follows:

Year	Amount
2020	18,169
2021	17,813
2022	8,729
Total	**$ 44,711**

NOTE 8 – Long-Term Liabilities

During the years ended December 31, 2019 and 2018, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2019	Additions	Reductions	Ending Balance 12/31/2019	Due Within One Year
Compensated absences	$ 883,367	$ 1,552,487	$ 1,419,661	$ 1,016,193	$ 84,683
Pension obligations	5,399,112	-	1,361,075	4,038,037	1,591,940
Total Noncurrent Liabilities	**$ 6,282,479**	**$ 1,552,487**	**$ 2,780,736**	**$ 5,054,230**	**$ 1,676,623**

	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**

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. 2019 and 2018 total calls reflect actual billable calls from July 2017 to June 2018 and July 2016 to June 2017, respectively. The equity as of December 31, 2019 and 2018 belonging to the five member cities is as follows:

Member City	Total Calls	% of Calls	2018 Equity Balance	2019 Distribution	2019 Equity Balance	Percent Equity
Auburn	98,169	23%	$ 6,040,861	$ 592,819	**$ 6,633,680**	22%
Federal Way	90,616	21%	4,904,391	547,205	**5,451,596**	18%
Kent	117,225	27%	8,090,075	707,890	**8,797,965**	29%
Renton	90,760	21%	5,882,811	548,074	**6,430,886**	21%
Tukwila	36,163	8%	2,950,969	218,376	**3,169,346**	10%
Total	432,931	100%	$ 27,869,108	$ 2,614,364	**$ 30,483,472**	100%

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%

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 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. Following rulings on evidentiary motions brought by VCC, Plaintiffs voluntarily withdrew their remaining claims without prejudice.

Plaintiffs have now appealed all adverse rulings to the Washington State Court of Appeals. Briefing will be filed this spring or summer, and a ruling is not likely until at least fall 2020. 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. However, VCC believes that there is a reasonable likelihood that this case will be resolve in VCC's favor on appeal based on evidentiary rulings, thus relieving the appellate courts of the need to address these unsettled wage and hour legal issues. 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 – Special Item

On January 31, 2019 the Center transferred ownership of two of its wireless communications facilities, located at Cambridge and Skyway radio sites, and on December 12, 2019 the Center transferred ownership of an additional wireless communications facility located at McDonald radio site. All three facilities are a part of VCC's emergency broadcast system and were transferred to King County to be used in conjunction with the Puget Sound Emergency Radio Network.

The underlying assets and accumulated depreciation were removed from the Center capital asset records causing an $827,924 loss on the transfer. These transfers were pursuant to two separate Communications Site Sublease and Access Agreements and grant VCC the right to use the space on and within the facilities for continued operations of its emergency communications equipment.

NOTE 12 – Subsequent Events

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

Valley Communications Center continues to operate, as it is an essential employer and 911 is a part of public safety; though, most administrative services functions are performed remote during the State's stay at home order.

The length of time these measures will be in place, and the full extent of the financial impact on the Center is unknown at this time.

END OF FOOTNOTES

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

Required Supplementary Information - State Sponsored Plans

Valley Communications Center
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2019
Last 6 Fiscal Years*

	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.079174%	0.081212%	0.079581%	0.081397%	0.082192%	0.082758%
Employer's proportionate share of the net pension liability	$ 3,044,521	$ 3,626,956	$ 3,776,181	$ 4,371,402	$ 4,299,406	$ 4,168,973
Covered payroll	$ 11,176,379	$ 10,907,719	$ 10,104,095	$ 9,791,463	$ 9,328,825	$ 9,156,618
Employer's proportionate share of the net pension liability as a percentage of covered payroll	27.24%	33.25%	37.37%	44.65%	46.09%	45.53%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	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, 2019
Last 6 Fiscal Years*

	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.102283%	0.103792%	0.102361%	0.103831%	0.104541%	0.104432%
Employer's proportionate share of the net pension liability	$ 993,516	$ 1,772,156	$ 3,556,555	$ 5,227,809	$ 3,735,310	$ 2,110,948
Covered payroll	$ 11,176,379	$ 10,907,719	$ 10,104,095	$ 9,781,567	$ 9,264,749	$ 9,075,863
Employer's proportionate share of the net pension liability as a percentage of covered payroll	8.89%	16.25%	35.20%	53.45%	40.32%	23.26%
Plan fiduciary net position as a percentage of the total pension liability	97.77%	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.
Covered payroll was revised to reflect Department of Retirement Systems data reports using Valley Communications Center measurement date of June 30 (not DRS measurement date) for years prior to 2019.
*Information is only available for the 6 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, 2019
Last 6 Fiscal Years*

	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 597,565	$ 561,272	$ 510,304	$ 471,793	$ 422,049	$ 384,834
Contributions in relation to the statutorily or contractually required contributions	$ (597,565)	$ (561,272)	$ (510,304)	$ (471,793)	$ (422,049)	$ (384,834)
Contribution deficiency (excess)	0	0	0	0	0	0
Covered payroll	$ 11,924,372	$ 11,085,678	$ 10,407,783	$ 9,892,832	$ 9,535,927	$ 9,450,984
Contributions as a percentage of covered payroll	5.01%	5.06%	4.90%	4.77%	4.43%	4.07%

Valley Communications Center
Schedule of Employer Contributions
PERS 2/3
As of December 31, 2019
Last 6 Fiscal Years*

	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 934,136	$ 851,292	$ 734,311	$ 633,819	$ 553,636	$ 485,641
Contributions in relation to the statutorily or contractually required contributions	$ (934,136)	$ (851,292)	$ (734,311)	$ (633,819)	$ (553,636)	$ (485,641)
Contribution deficiency (excess)	0	0	0	0	0	0
Covered payroll	$ 11,924,372	$ 11,085,678	$ 10,407,783	$ 9,892,832	$ 9,494,211	$ 9,377,056
Contributions as a percentage of covered payroll	7.83%	7.68%	7.06%	6.41%	5.83%	5.18%

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.
Covered payroll was revised to reflect Department of Retirement Systems data reports for years prior to 2019.
*Information is only available for the 6 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	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov