Washington State Auditor's Office

Troy Kelley

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Financial Statements Audit Report

North East King County Regional Public Safety Communication Agency (NORCOM)

For the period January 1, 2012 through December 31, 2013

Published November 17, 2014

Report No. 1012994

Washington State Auditor
Troy Kelley

November 17, 2014

Board of Directors
NORCOM
Bellevue, Washington

Report on Financial Statements

Please find attached our report on the NORCOM's financial statements.

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

Sincerely,

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

NORCOM
King County
January 1, 2012 through December 31, 2013

Board of Directors
NORCOM
Bellevue, 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 NORCOM, King County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 6, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

TROY KELLEY
STATE AUDITOR

November 6, 2014

Independent Auditor's Report on Financial Statements

NORCOM
King County
January 1, 2012 through December 31, 2013

Board of Directors
NORCOM
Bellevue, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the NORCOM, King County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed on page 8.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the NORCOM, as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2014 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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

November 6, 2014

Financial Section

NORCOM
King County
January 1, 2012 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

NORCOM
Management Discussion and Analysis
For Year Ended December 31, 2013

The North East King County Regional Public Safety Communications Agency's (NORCOM) Management Discussion and Analysis is designed to:

- Assist the reader in focusing on significant financial issues
- Provide an overview of NORCOM's financial activity
- Identify changes in NORCOM's financial position (ability to meet future year's challenges)

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

Financial Highlights

- The assets of NORCOM exceeded its liabilities at the close of 2013 by $9,482,926. Of this amount, $4,045,841 is unrestricted and may be used to meet the organization's ongoing activities and obligations.

- Net position decreased $362,991 from last year. This is the first decrease in Net Position since NORCOM's inception. The reduction in Fund balance is from depreciating capital assets, unanticipated one-time needs, and result of specific decisions made in the 2013 budget process to reduce FTE's by 5, thereby decreasing funds available due to unrealized salary savings from vacant positions.

- The financial position of NORCOM remains strong this year. NORCOM continues to work to control costs by increasing efficiencies in the operating fund. In addition, the implementation of a rolling replacement schedule for mission critical equipment reduces the need to spend large amounts on unexpected repairs or emergency purchases.

- NORCOM remains sensitive to the financial pressures its Participants are facing. Each year performance measures are evaluated to identify funding levels and rates are established to ensure significant fund balance does not accumulate. Unexpected fund balances are applied toward unanticipated expenses or placed in the Rate Stabilization fund to be applied toward future years budgets to help mitigate large increases.

Overview of the Financial Statements

NORCOM's financial statements include a Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position provides a record, or snapshot, of the assets and liabilities of NORCOM at the close of the year. It provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It provides a basis for evaluating the capital structure of NORCOM and for assessing its liquidity and financial flexibility.

The Statement of Revenues, Expenses and Changes in Net Position presents the results of the business activities for the years 2012 and 2013. This information can be used to determine whether NORCOM has successfully recovered all its costs through its user fees and other charges, and to evaluate its financial viability.

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operating, financing and investing activities for the years 2012 and 2013. It presents information on where cash came from and what it was used for.

The Notes to the Financial Statements provide useful information regarding NORCOM's significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

Other supplementary information in addition to the basic financial statements is also contained in this report. This section of the management 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. NORCOM only has one fund type, proprietary funds.

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.

NORCOM has one type of proprietary fund, enterprise funds. Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. NORCOM has five funds that are consolidated for reporting purposes.

Financial Analysis

Statement of Net Position - The statement of net position serves as a useful indicator of NORCOM's financial position. NORCOM's net position (assets in excess of liabilities) at December 31, 2013 totaled $9,482,926. Following is a condensed version of the statement of net position and compares NORCOM's net position for 2011, 2012 and 2013.

NORCOM's NET POSITION

	2013	2012	2011
Current and other assets	$ 5,353,485	$ 4,762,881	$ 4,830,493
Capital assets, net	5,437,085	5,900,876	5,490,535
Total assets	**10,790,570**	**10,663,757**	**10,321,028**
Current liabilities	1,307,645	817,839	578,489
Total liabilities	**1,307,645**	**817,839**	**578,489**
Net Position			
Invested in capital assets	5,437,085	5,900,876	5,490,535
Unrestricted	4,045,841	3,945,042	4,252,004
Total net position	**$ 9,482,926**	**$ 9,845,918**	**$ 9,742,539**

Total Assets

NORCOM's total assets continue to increase over the years. The largest component of NORCOM's assets remains capital assets, net of related debt and depreciation (50.3%). Work-in-progress decreased 1.6% from 2012. Work-in-progress projects are capitalized like capital assets, but will not accumulate depreciation until the project is complete. At the end of 2013, two projects were completed and one project remains uncompleted and accounts for the $3.7 million work-in-progress balance. The status of this project is discussed in Note 4 of the accompanying Notes to the Financial Statements.

Current assets, which consist of cash, receivables and prepaid expenses, increased 16% over all. This increase is due to the ICRM Project and expenses budgeted and not realized in 2013. It is anticipated these expenses will be realized in 2014. Receivables increased due to outstanding payments from King County EMS and King County E-911. Pre-paid expenses increased 37% primarily due to medical premiums collected and paid in December 2013 for January 2014.

Total Liabilities

The liability accounts are comprised of four items: accounts payable, accrued payroll, accrued tax liabilities incurred in the financial statement year, but not paid until after December 31st and compensated absences. The increase in liabilities is attributed to an increase in accrued payroll and transfer to operations from the escrow account (Due to other Governments) that was not received and is offset by the Due from Other Governments.

Total Net Position

The largest component of NORCOM's net position is the investment in capital assets, less debt related to the acquisition or construction of those assets (NORCOM has no debt). These capital assets, $5,437,085 or 57% of net position, consist of communications software and equipment and are used to provide services to public safety agencies and citizens. These assets are critical to operations and as a result, are not for sale and therefore not available to fund current or future obligations.

Unrestricted net position includes Equipment Replacement funds ($1,377,742), Rate Stabilization funds ($421,141) and Operating Expense Reserve funds ($112,307). While these funds are not restricted they are held for the use of replacing aging equipment, one-time expenses, or emergency situations. Equipment Replacement funds are set aside each year for the replacement of assets deemed critical to emergency responses. As these assets are due to be replaced this money is available for the purchase of this mission critical equipment. NORCOM has $2,134,651 remaining in unrestricted net position to finance continuing operations.

Statement of Revenues, Expenditures, and Changes in Net Position - The condensed summary of activities, which follows, shows that net position decreased by $362,991 during the year. The decrease is due to depreciation and over $330,000 in unanticipated expenses during the year, as described below.

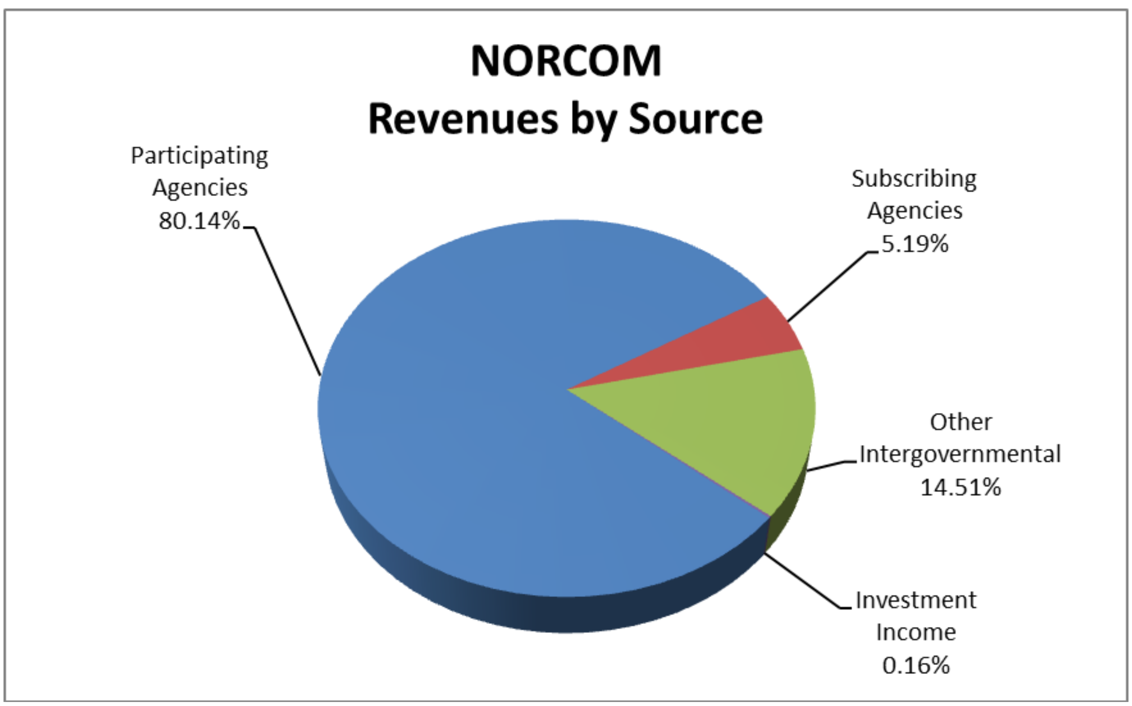
NORCOM CHANGE IN NET POSITION

	2013	2012	2011
Operating revenues	$ 11,255,570	$ 10,617,900	$ 11,463,120
Operating expenses	11,637,119	10,533,263	9,764,684
Change in net position from operations	**(381,550)**	**84,637**	**1,698,436**
Non-operating activity	18,558	18,742	1,021,483
Capital Contributions	-	-	-
Increase in net position	**(362,991)**	**103,379**	**2,719,919**
Beginning net position	9,845,918	9,742,539	7,022,620
Ending net position	**$ 9,482,927**	**$ 9,845,918**	**$ 9,742,539**

Revenue

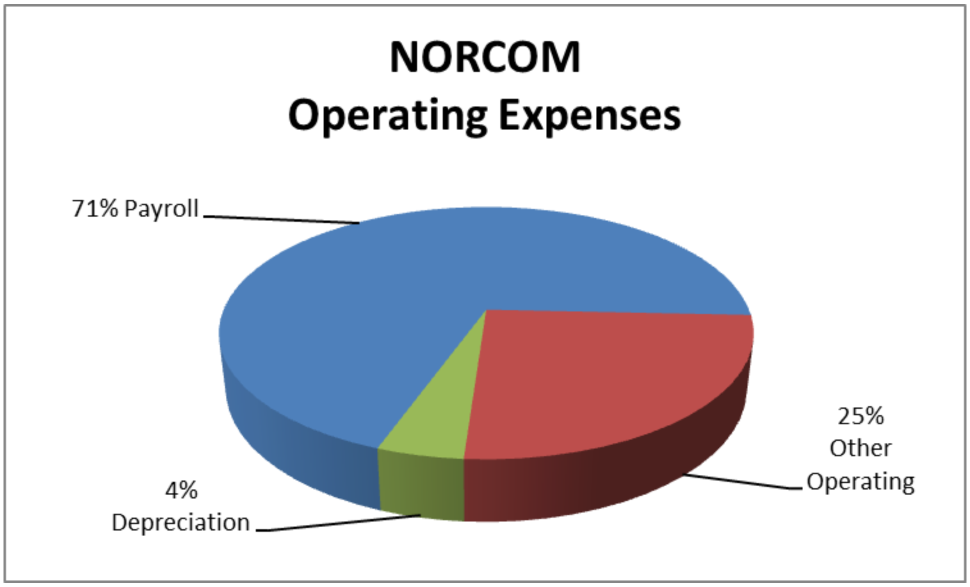
Principal and Subscriber fees increased in 2013 by 6%largely contributing to offset the 10% increase in operating expenses. The remainder of the expense increase was funded with E-911 revenues.

Most of NORCOM's revenues are generated through charges for services. The chart below graphically depicts the Organization's revenue sources.



Expense

Operating expenses increased 10% and is directly attributed to over $330,000 in unanticipated expenses for meeting facilitators, SQL Licensing, network services and an upgrade to our TriTech CAD system.



Capital Assets - At December 31, 2013, NORCOM had $5,437,085 recorded in capital assets, of which $3,737,318 was in construction work-in-progress.

In 2008 the Board authorized the signing of a contract to purchase an Integrated Public Safety System. The goal of this project was to replace the existing CAD, mobile data and records management systems with a new integrated system that meets current requirements and allows for future growth. This project was funded by a technology assessment from Participating and Subscriber Agencies and grant awards. In 2013 the Governing Board engaged in a strategic reassessment of the entire project. The Project Management team conducted an Alternate Strategies Assessment in an effort to assist NORCOM in identifying a new roadmap for the ICRM project. Actual expenditures for 2013 were $892,632 including non-capitalized expenses.

More detailed information about NORCOM's ICRM Project and capital assets is presented in Note 4 to the financial statements.

Long-Term Debt - According to Section 13 of NORCOM's Interlocal agreement, NORCOM does not have the power to issue obligations or incur long-term debt.

Other Information

NORCOM was notified in September of 2012 that the Supervisors had filed with PERC to organize with PSEU #519. An initial meeting between NORCOM and PSEU #519 was held in November 2012 and bargaining began in April of 2013. Negotiations were amiable and collegial, concluding with an agreement in only 6 sessions. The total overall package was settled for a net increase of 2.54% over then current supervisor package, with 1.72% of the overall increase associated to a new item linked to a Fair Labor Standards Act (FLSA) requirement.

Employee medical benefit costs rose by 10% in 2013. As part of the NORCOM Guild contract, a Health Benefits Advisory Committee was created. This committee was tasked with researching other benefit options to reduce costs without diminishing employee benefits. In April of 2014, NORCOM's Governing Board approved a recommendation from the committee to apply for membership in the Association of Washington Cities Employee Benefit Trust.

Public Employees Retirement System (PERS) rates increased from 7.21% in July 2012 to 9.19% in July 2013 and increased again to 9.21% in September of 2013.

The process to replace NORCOM's legacy technology with an integrated technology system continues. There have been many delays in the project. As a result a schedule and streamlined process for addressing issues, reporting, and testing were developed. NORCOM initiated dispute resolution with New World Systems in August 2012 and in 2013 determined that New World Systems would no longer be the provider or the Fire portion of the ICRM system. More details on the Integrated Communications and Records Management project can be found in Note 4.

NORCOM completed the implementation and conversion to a new financial system.

NORCOM completed year four of a 7 year lease with the City of Bellevue for NORCOM's operation at Bellevue City Hall in 2013.

NORCOM's first permanent Executive Director completed his first year of service in December 2013.

NORCOM 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 NORCOM's finances for readers with an interest in NORCOM. Questions concerning this report, or requests for additional information, may be addressed to the Finance Manager, NORCOM, PO BOX 50911, Bellevue, Washington, 98015.

NORCOM
Management Discussion and Analysis
For Year Ended December 31, 2012

The North East King County Regional Public Safety Communications Agency's (NORCOM) Management Discussion and Analysis is designed to:

- Assist the reader in focusing on significant financial issues
- Provide an overview of NORCOM's financial activity
- Identify changes in NORCOM's financial position (ability to meet future year's challenges)

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

Financial Highlights

- The assets of NORCOM exceeded its liabilities at the close of 2012 by $9,845,918. Of this amount, $3,945,042 is unrestricted and may be used to meet the organization's ongoing activities and obligations.

- Net position improved $103,379 from last year. That increase is considerably less than previous years and can be attributed to the ongoing Integrated Communications and Records Management Project (ICRM) project. In 2012, over $600,000 in salary savings was allocated to that project.

- The financial position of NORCOM remains strong this year. NORCOM continues to work to control costs by increasing efficiencies in the operating fund. In addition, the implementation of a rolling replacement schedule for mission critical equipment reduces the need to spend large amounts on unexpected repairs or emergency purchases.

- NORCOM remains sensitive to the financial pressures its Participants are facing. Each year performance measures are evaluated to identify funding levels and rates are established to ensure significant fund balance does not accumulate. Unexpected fund balances are applied toward unanticipated expenses or placed in the Rate Stabilization fund to be applied toward future years budgets to help mitigate large increases.

Overview of the Financial Statements

NORCOM's financial statements include a Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position provides a record, or snapshot, of the assets and liabilities of NORCOM at the close of the year. It provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It provides a basis for evaluating the capital structure of NORCOM and for assessing its liquidity and financial flexibility.

The Statement of Revenues, Expenses and Changes in Net Position presents the results of the business activities for the years 2011 and 2012. This information can be used to determine whether NORCOM has successfully recovered all its costs through its user fees and other charges, and to evaluate its financial viability.

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operating, financing and investing activities for the years 2011 and 2012. It presents information on where cash came from and what it was used for.

The Notes to the Financial Statements provide useful information regarding NORCOM's significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

Other supplementary information in addition to the basic financial statements is also contained in this report. This section of the management 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. NORCOM only has one fund type, proprietary funds.

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.

NORCOM has one type of proprietary fund, enterprise funds. Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. NORCOM has five funds that are consolidated for reporting purposes.

Financial Analysis

Statement of Net Position - The statement of net position serves as a useful indicator of NORCOM's financial position. NORCOM's net position (assets in excess of liabilities) at December 31, 2012 totaled $9,845,918. Following is a condensed version of the statement of net position and compares NORCOM's net position for 2010, 2011 and 2012.

NORCOM's NET POSITION

	2012	2011	2010
Current and other assets	$ 4,762,881	$ 4,830,493	$ 2,948,090
Capital assets, net	5,900,876	5,490,535	4,790,900
Total assets	**10,663,757**	**10,321,028**	**7,738,990**
Current liabilities	817,839	578,489	716,370
Total liabilities	**817,839**	**578,489**	**716,370**
Net Position			
Invested in capital assets	5,900,876	5,490,535	4,790,900
Unrestricted	3,945,042	4,252,004	2,231,720
Total net position	**$ 9,845,918**	**$ 9,742,539**	**$ 7,022,620**

Total Assets

NORCOM's total assets continue to increase over the years. The largest component of NORCOM's assets is capital assets, net of related debt and depreciation (55%). Work-in-progress decreased 2% from 2011. Work-in-progress projects are capitalized like capital assets, but will not accumulate depreciation until the project is complete. At the end of 2012, two projects were completed and three projects remained uncompleted and accounted for the $3.7 million work-in-progress balance. The status of these projects is discussed in Note 4 of the accompanying Notes to the Financial Statements.

Current assets, which consist of cash, receivables and prepaid expenses, decreased 20% over all. This decrease is due to ongoing expenses incurred by the ICRM Project. Receivables increased due to outstanding payments from King County EMS and King County E-911.

Total Liabilities

The liability accounts are comprised of four items: accounts payable, accrued payroll, accrued tax liabilities incurred in the financial statement year, but not paid until after December 31st and compensated absences. The increase in liabilities is attributed to an increase in outstanding invoices at the end of the year.

Total Net Position

The largest component of NORCOM's net position is the investment in capital assets, less debt related to the acquisition or construction of those assets. These capital assets, $5,900,876 or 60% of net position, consist of communications software and equipment and are used to provide services to public safety agencies and citizens. These assets are critical to operations and as a result, are not for sale and therefore not available to fund current or future obligations.

Unrestricted net position includes Equipment Replacement funds ($938,375), Rate Stabilization funds ($760,000) and Operating Expense Reserve funds ($111,032). While these funds are not restricted they are held for the use of replacing aging equipment, one-time expenses, or emergency situations. Equipment Replacement funds are set aside each year for the replacement of assets deemed critical to emergency responses. As these assets are due to be replaced this money is available for the purchase of this mission critical equipment. NORCOM has $2,135,635 remaining in unrestricted net position to finance continuing operations.

Statement of Revenues, Expenditures, and Changes in Net Position - The condensed summary of activities, which follows, shows that net position improved by $103,379 during the year. The relatively flat increase is due to the reduction of FTE's (Telecommunicator positions) and the savings allocated to the ICRM project.

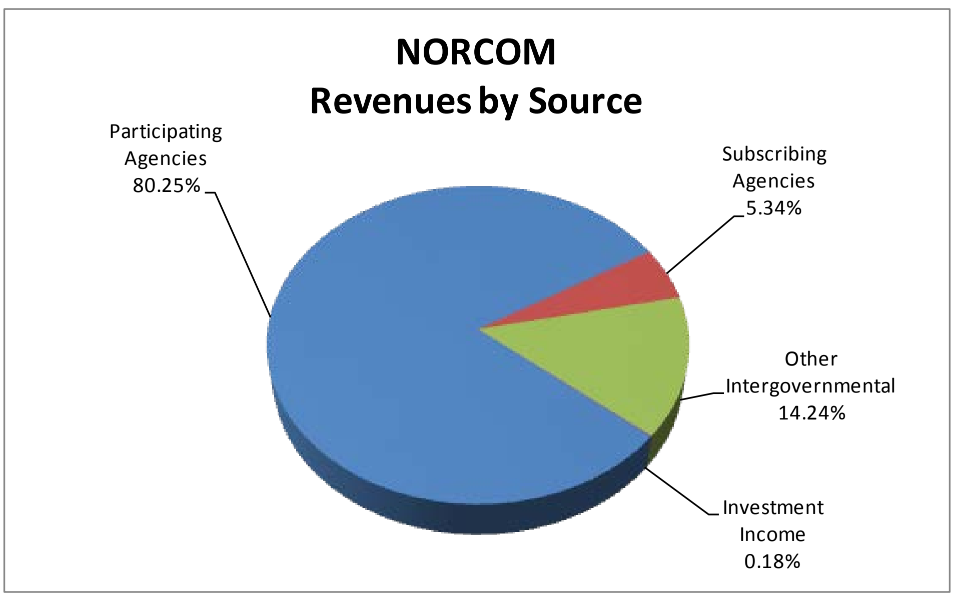
NORCOM CHANGE IN NET POSITION

	2012	2011	2010
Operating revenues	$ 10,617,900	$ 11,463,120	$ 10,527,118
Operating expenses	10,533,263	9,764,684	9,639,033
Change in net position from operations	**84,637**	**1,698,436**	**888,085**
Non-operating activity	18,742	1,021,483	1,517,147
Capital Contributions	-	-	-
Increase in net position	**103,379**	**2,719,919**	**2,405,232**
Beginning net position	9,742,539	7,022,620	4,617,388
Ending net position	**$ 9,845,918**	**$ 9,742,539**	**$ 7,022,620**

Revenue

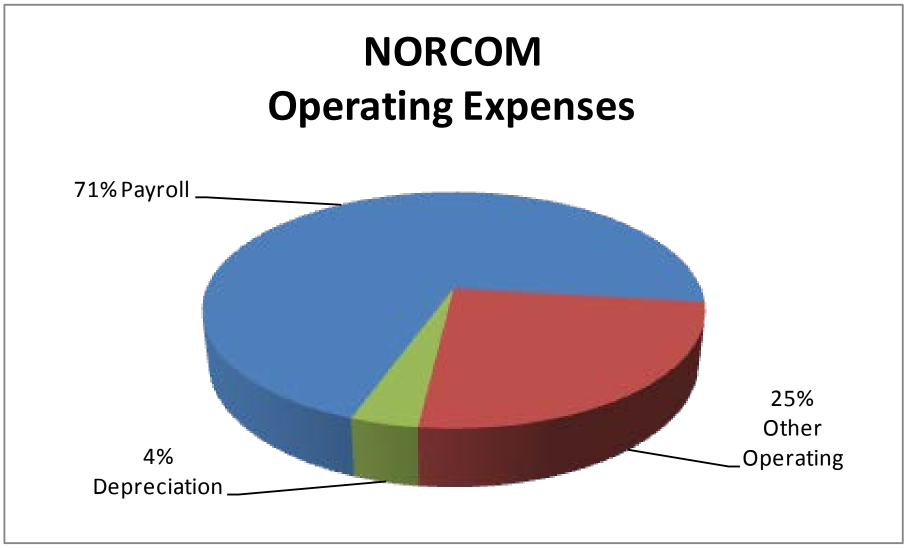
Principal and Subscriber fees decreased 2.3% in 2012; while operating expenses increased 8%. The decrease in Non-operating activity is due to the grant funds, used for the integrated technology project, being diminished in 2011.

Most of NORCOM's revenues are generated through charges for services. The chart below graphically depicts the Organization's revenue sources.



Expense

Operating expenses increased 8% and is directly attributed to increase in wages from the approved labor agreement with the NORCOM Associated Guild and the increase in costs associated with the ICRM project.



Capital Assets - At December 31, 2012, NORCOM had $5,900,876 recorded in capital assets, of which $3,798,563 was in construction work-in-progress.

In 2008 the Board authorized the signing of a contract to purchase an Integrated Public Safety System. The goal of this project is to replace the existing CAD, mobile data and records management systems with a new integrated system that meets current requirements and allows for future growth. This project was funded by a technology assessment from Participating and Subscriber Agencies and grant awards. Actual expenditures for 2012 were $666,833 including non-capitalized expenses.

More detailed information about NORCOM's capital assets is presented in Note 4 to the financial statements.

Long-Term Debt - According to Section 13 of NORCOM's Interlocal agreement, NORCOM does not have the power to issue obligations or incur long-term debt.

Other Information

In late 2008, contract negotiations began with the NORCOM Associated Guild (NAG). A mediator was introduced at the end of 2010. A proposal was accepted by the guild, and subsequently voted down by the membership. In 2011, NORCOM continued to attempt to bargain through a mediator and, in September of 2011 with no progress made, both parties were at impasse. NORCOM implemented the most current proposal at that time. Early in 2012, the Guild's new group of representatives approached NORCOM's interim Executive Director to discuss the idea of bargaining without attorneys at the table and NORCOM agreed. NORCOM and the Guild were able to reach an agreement in June of 2012. The Guild represents telecommunicators employed by NORCOM.

NORCOM was notified in September of 2012 that the Supervisors had filed with PERC to organize with PSEU #519. An initial meeting between NORCOM and PSEU #519 was held in November 2012 and bargaining began in April of 2013.

Employee medical benefit costs rose by 11% in 2012. As part of the NORCOM Guild contract, a Health Benefits Advisory Committee was created. This committee is tasked with researching other benefit options to reduce costs without diminishing employee benefits.

Public Employees Retirement System (PERS) rates saw a temporary decrease in April of 2012 from 7.25% to 7.08%. Rates increased to 7.21% in July 2012. It is anticipated that rates will increase an estimated 2% this year.

The process to replace NORCOM's legacy technology with an integrated technology system continues. There have been many delays in the project. As a result a schedule and streamlined process for addressing issues, reporting, and testing were developed. NORCOM initiated dispute resolution with New World Systems in August 2012. More details on the Integrated Communications and Records Management project can be found in Note 4.

NORCOM completed year three of a 7 year lease with the City of Bellevue for NORCOM's operation at Bellevue City Hall in 2012.

To gain economies of scale and increase overall public safety value, King County began a study of county wide consolidations of communications centers. The initial results of the study were completed in 2012. King County engaged all Communication Centers in the study and review of the results. They continue to work with the Communication Centers as the feasibility of the study results is analyzed.

NORCOM's first permanent Executive Director was hired in December 2012.

NORCOM 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 NORCOM's finances for readers with an interest in NORCOM. Questions concerning this report, or requests for additional information, may be addressed to the Finance Manager, NORCOM, PO BOX 50911, Bellevue, Washington, 98015.

North East King County Regional Public Safety Communications Agency
Comparative Statement of Net Position
For the Periods Ending December 31, 2013 and 2012

ASSETS	2013	2012
Current Assets:		
Cash	$ 3,646,196	$ 3,292,039
Receivables, Net	-	72,561
Due from Other Government	379,829	125,000
Prepaid Expenses	201,712	146,874
Total Current Assets	**4,227,737**	**3,636,474**
Noncurrent Assets:		
Investments - Noncurrent	$ 1,125,748	$ 1,126,407
Capital Assets		
Other Improvements	468,360	468,360
Machinery and Equipment	3,543,807	3,429,578
Work in Progress	3,737,318	3,798,563
Property, plant, and equipment, at cost	7,749,485	7,696,501
Less: accumulated depreciation	(2,312,400)	(1,795,625)
Capital assets, net	5,437,085	5,900,876
Total Noncurrent Assets	**6,562,834**	**7,027,283**
TOTAL ASSETS	**$ 10,790,571**	**$ 10,663,757**
LIABILITIES AND FUND EQUITY		
Current Liabilities:		
Accounts payable	$ 295,389	$ 299,728
Accrued payroll	356,795	278,452
Use tax payable	12,343	46
Due to other governments	350,000	-
Compensated Absences Payable	293,117	239,612
Other accrued liabilities		
Total Current Liabilities	**1,307,645**	**817,839**
TOTAL LIABILITIES	**$ 1,307,645**	**$ 817,839**
NET POSITION:		
Net Investment in Capital Assets	$ 5,437,085	$ 5,900,876
Unrestricted	4,045,841	3,945,042
TOTAL NET POSITION	**9,482,926**	**9,845,918**
Total Liabilities and Fund Equity	**$ 10,790,571**	**$ 10,663,757**

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

North East King County Regional Public Safety Communications Agency

Comparative Statement of Net Position

For the Periods Ending December 31, 2012 and 2011

	2012	*2011*
ASSETS		
Current Assets:		
Cash	$ 3,292,039	$ 4,290,655
Receivables, Net	72,561	-
Due from Other Government	125,000	4,341
Prepaid Expenses	146,874	233,913
Total Current Assets	**3,636,474**	**4,528,909**
Noncurrent Assets:		
Investments - Noncurrent	$ 1,126,407	$ 301,584
Capital Assets		
Other Improvements	468,360	-
Machinery and Equipment	3,429,578	3,032,653
Work in Progress	3,798,563	3,866,353
Property, plant, and equipment, at cost	7,696,501	6,899,006
Less: accumulated depreciation	(1,795,625)	(1,408,471)
Capital assets, net	5,900,876	5,490,535
Total Noncurrent Assets	**7,027,283**	**5,792,119**
TOTAL ASSETS	**$ 10,663,757**	**$ 10,321,028**
LIABILITIES AND FUND EQUITY		
Current Liabilities:		
Accounts payable	$ 299,728	$ 117,477
Accrued payroll	278,452	235,040
Use tax payable	46	4,771
Compensated Absences Payable	239,612	221,201
Total Current Liabilities	**817,839**	**578,489**
TOTAL LIABILITIES	**$ 817,839**	**$ 578,489**
NET POSITION:		
Net Investment in Capital Assets	$ 5,900,876	$ 5,490,535
Unrestricted	3,945,042	4,252,004
TOTAL NET POSITION	**9,845,918**	**9,742,539**
Total Liabilities and Fund Equity	**$ 10,663,757**	**$ 10,321,028**

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

North East King County Regional Public Safety Communications Agency

Comparative Statement of Revenues, Expenses and Changes in Net Position

For the Periods Ending December 31, 2013 and 2012

	2013	*2012*
OPERATING REVENUES:		
Participating Agencies	$ 9,035,246	$ 8,535,615
Subscribing Agencies	584,925	568,010
Other Intergovernmental	1,635,399	1,514,275
TOTAL OPERATING REVENUES	11,255,570	10,617,900
OPERATING EXPENSES:		
Personnel Services	8,025,016	7,396,853
Taxes	135,514	120,136
Operating supplies	143,393	128,570
Operating services	2,816,422	2,500,550
Depreciation	516,774	387,154
TOTAL OPERATING EXPENSES	11,637,119	10,533,263
OPERATING INCOME (LOSS)	(381,550)	84,637
NONOPERATING REVENUES (EXPENSES):		
Interest and Investment Revenue	18,558	18,742
Grants for capital projects	-	-
Total Nonoperating Revenues (Expenses)	18,558	18,742
Income (Loss) before Contributions	(362,991)	103,379
Change in Net Position	(362,991)	103,379
Net Position - Beginning	9,845,918	9,742,539
Net Position - Ending	$ 9,482,927	$ 9,845,918

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

North East King County Regional Public Safety Communications Agency

Comparative Statement of Revenues, Expenses and Changes in Net Position

For the Periods Ending December 31, 2012 and 2011

	2012	2011
OPERATING REVENUES:		
Participating Agencies	$ 8,535,615	$ 8,845,395
Subscribing Agencies	568,010	479,888
Other Intergovernmental	1,514,275	2,137,837
TOTAL OPERATING REVENUES	10,617,900	11,463,120
OPERATING EXPENSES:		
Personnel Services	7,396,853	6,836,133
Taxes	120,136	114,976
Operating supplies	128,570	90,147
Operating services	2,500,550	2,131,471
Depreciation	387,154	591,957
TOTAL OPERATING EXPENSES	10,533,263	9,764,684
OPERATING INCOME (LOSS)	84,637	1,698,436
NONOPERATING REVENUES (EXPENSES):		
Interest and Investment Revenue	18,742	11,699
Grants for capital projects	-	1,009,784
Total Nonoperating Revenues (Expenses)	18,742	1,021,483
Income (Loss) before Contributions	103,379	2,719,919
Change in Net Position	103,379	2,719,919
Net Position - Beginning	9,742,539	7,022,620
Net Position - Ending	$ 9,845,918	$ 9,742,539

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

North East King County Regional Public Safety Communications Agency

Comparative Statement of Cash Flows

For the Periods Ending December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Cash received from customers and users	$ 9,437,904	$ 8,910,024
Cash paid to suppliers for goods and services	(2,668,993)	(2,359,828)
Cash paid to employees	(7,893,168)	(7,335,030)
Cash payments to taxes	(123,218)	(124,861)
Other receipts	1,635,399	1,514,275
Net Cash Provided (Used) by Operating Activies	387,924	604,580
Cash Flows from Capital and Related Financing Activities:		
Capital contributions	-	-
Purchases of capital assets	(52,984)	(797,495)
Net Cash Provided (Used) by Capital and Related Financing Activities	(52,984)	(797,495)
Cash Flows from Investing Activities:		
Purchase of investments	97	(827,392)
Cash Received from interest and dividends	19,120	21,691
Net Cash Provided (Used) by Investing Activities	19,217	(805,701)
Net Increase (Decrease) in Cash Balances	354,157	(998,616)
Cash Balance, Beginning of Year	3,292,039	4,290,655
Cash Balance, End of Year	$ 3,646,197	$ 3,292,039
Reconciliation of Operating Income to Net Cash Provided:		
Operating Income (Loss)	$ (381,550)	$ 84,637
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	516,774	387,154
Changes in Assets and Liabilities:		
(Increase) decrease in due from receivables	72,561	(72,561)
(Increase) decrease in due from other governments	(254,829)	(121,040)
(Increase) decrease in prepaid expenses	(54,838)	87,040
Increase (decrease) in due to other governments	350,000	-
Increase (decrease) in accounts payable	(4,339)	182,252
Increase (decrease) in payroll payable	78,343	43,412
Increase (decrease) in compensated absences payable	53,505	18,411
Increase (decrease) in taxes payable	12,297	(4,725)
Increase (decrease) in deferred revenue	-	-
Total Adjustments	769,474	519,943
Net Cash Provided (Used) by Operating Activities	$ 387,924	$ 604,580

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

North East King County Regional Public Safety Communications Agency
Comparative Statement of Cash Flows
For the Periods Ending December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Cash received from customers and users	$ 8,910,024	$ 10,008,388
Cash paid to suppliers for goods and services	(2,359,828)	(2,433,368)
Cash paid to employees	(7,335,030)	(6,940,671)
Cash payments to taxes	(124,861)	(110,721)
Other receipts	1,514,275	2,137,837
Net Cash Provided (Used) by Operating Activies	604,580	2,661,465
Cash Flows from Capital and Related Financing Activities:		
Capital contributions	-	-
Purchases of capital assets	(797,495)	(1,291,592)
Proceeds from capital grant	-	1,009,785
Net Cash Provided (Used) by Capital and Related Financing Activities	(797,495)	(281,807)
Cash Flows from Investing Activities:		
Purchase of investments	(827,392)	(298,425)
Cash Received from interest and dividends	21,691	8,230
Net Cash Provided (Used) by Investing Activities	(805,701)	(290,195)
Net Increase (Decrease) in Cash Balances	(998,616)	2,089,463
Cash Balance, Beginning of Year	4,290,655	2,201,192
Cash Balance, End of Year	$ 3,292,039	$ 4,290,655
Reconciliation of Operating Income to Net Cash Provided:		
Operating Income (Loss)	$ 84,637	$ 1,698,436
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	387,154	591,957
Changes in Assets and Liabilities:		
(Increase) decrease in due from receivables	(72,561)	166,594
(Increase) decrease in due from other governments	(121,040)	516,511
(Increase) decrease in prepaid expenses	87,040	(174,151)
Increase (decrease) in due to other governments	-	-
Increase (decrease) in accounts payable	182,252	(37,599)
Increase (decrease) in payroll payable	43,412	40,000
Increase (decrease) in compensated absences payable	18,411	(144,537)
Increase (decrease) in taxes payable	(4,725)	4,254
Increase (decrease) in deferred revenue	-	-
Total Adjustments	519,943	963,029
Net Cash Provided (Used) by Operating Activities	$ 604,580	$ 2,661,465

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

North East King County Regional Public Safety Communications Agency
Notes to Financial Statements
January 1, 2013 through December 31, 2013

Note 1 - Summary of Significant Accounting Policies

Organization - In the interest of enhanced efficiencies and improved service levels that could be realized with a regional partnership approach to dispatch, in 2004 the members of the NORCOM Steering Committee entered into a Joint Powers Agreement to complete a Business and Services Plan for a joint operation of a public safety communication center. The North East King County Regional Public Safety Communications Agency (NORCOM), was formed in 2009 as a Washington not-for-profit corporation created by an interlocal agreement between the City of Bellevue, City of Bothell, City of Clyde Hill, City of Kirkland, City of Medina, City of Mercer Island, City of Snoqualmie, Eastside Fire and Rescue, King County Fire Protection District 27, King County Fire Protection District 45, King and Kittitas County Fire Protection District 51, Northshore Fire Department, Shoreline Fire Department, and Woodinville Fire and Life Safety District as authorized by the Interlocal Cooperation Act under Chapters 39.34 and 24.06 of the Revised Code of Washington.

In 2008, the City of Redmond entered into a contract with NORCOM to become a subscriber to NORCOM's emergency fire and medical unit dispatch services as provided for in the Interlocal agreement. In June of 2009 the Governing Board of NORCOM voted to approve King County Fire District #50 as a principal member according to the terms of the Principal Agreement and NORCOM Interlocal agreement.

NORCOM was formed to provide emergency service communications and all related incidental functions for communicating and dispatching services between the public and participating agencies' directly served public safety departments in the furtherance of improved public safety and emergency response, including but not limited to:

- Receiving 9-1-1 calls and routine calls for police, fire and medical services;
- Directing a response to said calls by either dispatching the appropriate emergency police, fire or medical unit or forwarding the call to the appropriate agency for response;
- Providing on-going communication support to personnel in the field;
- Updating, maintaining and managing the radio communications systems (excluding, unless specifically approved by the Governing Board, the 800 MHz system), computer systems, support files and resource materials necessary to accomplish the above;
- Initiating public safety records for all dispatched calls and providing such records services, including the updating, maintaining and managing of records systems as may be determined by the Governing Board; and
- Establishing and updating from time to time standard protocols for communications to and from personnel in the field.

The financial statements of NORCOM 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 NORCOM are described below.

Fund Accounting - The accounts of NORCOM are organized on the fund basis, with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses. NORCOM's resources are allocated to and accounted for in funds as summarized in the financial statements. Following is a description of the proprietary fund type used by NORCOM.

Proprietary Fund Types - Proprietary funds are reported using the economic resources measurement focus and accrual basis of accounting. This means that all assets and all liabilities (whether current or non-current) associated with the activity are included on balance sheets. Reported net position is segregated into capital assets, net of related debt, restricted and unrestricted components. Proprietary fund operating statements present increases (revenues and gains) and decreases (expenses and losses) in net total fund equities. The proprietary fund measurement focus is upon the determination of financial position, net income, and cash flow.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 NORCOM is charges to participants for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, taxes and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NORCOM has six Funds: Operations, Capital Projects, Equipment Replacement, Operating Expense Reserve, Rate Stabilization Reserve, and the King County E-9-1-1 Escrow Account. All funds are combined and reported as one for financial statement purposes.

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.

Revenue Rate Calculations - The participating agencies provide the majority of operating revenue to NORCOM. The method of allocating this revenue source is defined in the Interlocal Agreement, Appendix A. NORCOM's budget is allocated into two separate cost pools – 50% of the operation budget is allocated to police and 50% of the operating budget is allocated to fire. The 50/50 split was determined by an average of two factors – the staffing allocated to each Charged Operation (Police or Fire) and the volume of calls attributed to each Charged Operation. The City of Bellevue committed $5.5 million to help other participating agencies and reduce costs over the first seven years of NORCOM's operations. This Smoothing allocation is distributed to all initial participants except Bellevue. Smoothing is split 30% to police agencies and 70% to fire agencies and is distributed based on the agencies percentage of calls less Bellevue's calls.

The annual average Calls for Service are determined based on the number of Calls for Service for the Charged Operation over the two-year historical Call Calculation Period. The Call Calculation period is defined at the first calendar quarter of the preceding budget year, and the 7 calendar quarters preceding that. The allocation of financial participation among the participating and subscribing agencies is the percentage of dispatched calls attributed to each jurisdiction averaged over two years compared to the total two year average of actual dispatched calls, for the two year period of April 1 through March 31. The percentages are applied to the current approved budget, less revenue from all other sources.

Subscriber User Fees are calculated at 106% of the User Fee that an agency would pay if it were a Principal.

In June of 2011, the Governing Board voted to approve Resolution 30 to amend the Calls for Service definition using the "one call, one bill" philosophy. This new definition produced shifting in volumes between fire agencies until 2013 when all 8 quarters will be counted using the new definition. Because of this unanticipated shift in calls for service and the financial burden it places on the fires agencies that provide Advanced Life Support Services (ALS), a method was designed to assist with the increase in costs due to the declining calls for service from the new Calls for Service definition.

The ALS Smoothing model, as it has been named, estimates each agencies 2013 allocation and then, based on the overall increase or decrease and number of quarters counted using the new method, applies a variance to the actual call volume. The biggest increase happened in 2012 as NORCOM moved from 3 quarters of data to 7 quarters of data to calculate the 8 quarter average. 2013 is the final year the ALS smoothing allocation will be applied.

The cost distribution for the participating and subscribing agencies for 2013 was as follows:

Jurisdiction	Average Call Volume from April 01, 2010 to March 31, 2012	Percent of Total	2013 ALS Smoothing VARIANCE	2013 with ALS Smoothing	2013 Operating Assessment
Participating Fire Agencies					
Fire Smoothing Allocation					$486,150
Bellevue Fire	14,199	25.47%	-0.95%	24.52%	$1,189,822
Bothell	3,866	6.93%	0.37%	7.30%	$298,705
Duvall Fire	685	1.23%	0.07%	1.30%	$53,204
Eastside Fire and Rescue	7,072	12.69%	0.21%	12.90%	$531,631
Fall City Fire	401	0.72%	0.13%	0.85%	$33,873
KCFD #50	212	0.38%	0.01%	0.39%	$16,178
Kirkland Fire	5,804	10.41%	0.53%	10.94%	$447,547
Mercer Island Fire	2,008	3.60%	0.04%	3.64%	$150,324
Northshore Fire	2,412	4.33%	0.38%	4.71%	$191,134
Shoreline Fire	7,661	13.74%	-0.90%	12.84%	$540,048
Snoqualmie	716	1.28%	-0.01%	1.27%	$52,993
Snoqualmie Pass Fire	255	0.46%	0.04%	0.50%	$20,023
Woodinville Fire & Safety	2,777	4.98%	0.86%	5.84%	$233,435
Subscribing Fire Agencies					
Redmond Fire (inc. FD 34)	7,679	13.78%	-0.78%	13.00%	$584,925
TOTAL FIRE AGENCIES	**55,747**	**100.0%**			**$4,829,992**
Participating Police Agencies					
Police Smoothing Allocation					$208,350
Bellevue Police	53,309	46.94%			$2,248,300
Clyde Hill	1,428	1.26%			$55,289
Kirkland Police	46,457	40.90%			$1,798,699
Medina	1,595	1.40%			$61,755
Mercer Island Police	10,791	9.50%			$417,786
TOTAL POLICE AGENCIES	**113,580**	**100.0%**			**$4,790,179**

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

Cash - It is NORCOM's policy to invest temporary cash surpluses. As of December 31, 2013, all cash surpluses were held in insured bank accounts, the Local Government Investment Pool (LGIP) and the King County Residual Investment Pool.

Cash includes all monies in checking and savings accounts, petty cash funds, the Local Government Investment Pool and the King County Residual Investment Pool. For purposes of the Statement of Cash Flows, NORCOM considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments – Cash in excess of anticipated needs for operation and equipment replacement is invested and the proceeds are returned to the investing source. Investments are held only in qualified institutions and reported at fair value.

Receivables - Customer accounts receivable consists of amounts owed from organizations for services received including amounts owed for which billings have not been prepared.

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements.

Capital Assets and Depreciation - Capital assets, which consist of other improvements, machinery & equipment, and construction work-in-progress, are defined by NORCOM 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.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

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 category upon completion.

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

Other Improvements	3-15 Years
Machinery & Equipment	3-20 Years

Compensated Absences – Compensated absences are absences for which employees will be paid, such as vacation leave and paid time off (PTO). Accumulated amounts of vacation leave and paid time off are accrued as expenses when incurred in proprietary funds, and included in liabilities under Compensated Absences Payable as applicable.

The NORCOM Associated Guild contract states the maximum accrued vacation and holiday leave carryover from one year to another is 300 hours. Sick leave maximum accrual is 1,220 hours. There is no payment for accrued sick leave at termination for Guild employees. However, there is a provision for partial payment upon retirement with a maximum payout of 10% of sick leave balances. The contract with NORCOM's Associated Guild was ratified in June of 2012 and will expire in December of 2015.

Non-represented employees are covered under an Administrative Policy that states maximum accrued PTO carry over from one year to another is 480 hours and accrued Holiday carry over from one year to another is 16 hours. Upon termination, non-represented employees will be compensated for up to 160 hours of accrued PTO and all accrued Holiday hours.

Personnel Benefit Contributions - NORCOM contributes to personnel benefit plans. The plans include group medical, dental, retirement, industrial insurance, unemployment compensation, life insurance, Social Security (Medicare portion only), and disability for employees. In November 2007, NORCOM elected not to participate in the Federal Social Security System. Retirement, industrial insurance, unemployment compensation, and Medicare are established by federal/state regulations.

Net position - Net position for equipment are reserved for future use, as reflected in the financial statements as follows:

	2013	2012
Invested in Capital Assets, Net of Related Debt	$ 5,437,085	$ 5,900,876
Unrestricted	4,045,841	3,945,042
TOTAL NET POSITION	**9,482,926**	**9,845,918**

When both restricted and unrestricted resources are available for use, it is NORCOM's policy to use restricted resources first, then unrestricted resources as they are needed.

Stabilization Arrangements – During the 2012 budget process, the Governing Board approved Resolution 43 creating a Rate Stabilization fund, initially financed with $800,000 of 2012 ending fund balance. Future funding options include onetime revenues, new agency assessments/fees, ending fund balance, or other sources deemed appropriate by the Governing Board.

Funds shall accumulate from year to year until a Super Majority Vote of the Governing Board appropriates all or part of the available funds. Once the funds have been appropriated they will be applied to the overall budget to offset transition to higher rates. These funds may also be used to offset one time expenditures or other exigent circumstances.

In 2013, $620,100 was transferred out of the Rate Stabilization fund to pay for the ICRM project.

Federal Income Tax - NORCOM is exempt from federal income tax under Internal Revenue Code Section 501(c)(3); accordingly, no provision has been made for federal income tax in the accompanying financial statements.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These affect the reported amounts of assets, liabilities, revenues, and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Note 2 - Stewardship, Compliance and Accountability

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

Note 3 - Deposits and Investments

Deposits - NORCOM's bank deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All deposits not covered by the FDIC are covered by the PDPC.

Cash held in the King County E-9-1-1 Escrow account is manage by the King County Investment Pool. The King County Investment Pool invests cash reserves for all County agencies and approximately 100 special districts and other public entities such as fire, school, sewer and water districts and other public authorities. It is one of the largest investment pools in the State, with an average asset balance of about $4 billion. On average, County agencies comprise 40 percent of the pool and outside districts 60 percent. The Executive Finance Committee

(EFC) establishes County investment policies and oversees the investment portfolio to ensure that specific investments comply with both those investment policies and State law. The Pool is only allowed to invest in certain types of highly-rated securities, including certificates of deposit, U.S. treasury obligations, federal agency obligations, municipal obligations, repurchase agreements and commercial paper.

Cash held in the Local Government Investment Pool (LGIP) is managed and operated by the Office of the State Treasurer (OST). This pool represents an interest in a group of securities and has no specific security subject to custodial risk. The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews it annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP.

Investments - Investment of funds can be in the form of federal government securities, repurchase agreements, banker's acceptances, certificates of deposit, Local Government Investment Pool (LGIP), and savings accounts. Investments are stated at fair value as of the year-end. Available cash is deposited into savings accounts and/or other types of investments, as cash flow allows. Interest earned is credited to the appropriate investing source. The book value of deposits does not differ materially from the bank balance of deposits.

NORCOM's deposits and investment position at fair value at the end of fiscal year 2013 and 2012 (excluding petty cash) are:

		December 31, 2013		December 31, 2012
Checking	$	1,577,112	$	834,206
Municipal Investor Savings	$	5,371		
E-9-1-1 Escrow Account		1,461,957		1,856,970
LGIP Operation		601,557		600,613
US Gov't Securities - LT		1,125,748		1,126,407
Total	$	4,771,745	$	4,418,196

Credit Risk - Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. NORCOM's investment policy applies the prudent person standard; Investments will be made with judgment and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes. The credit ratings on securities held by NORCOM on December 31, 2013 are listed below:

The Washington State Local Government Investment Pool is a 2a7-like pool and is unrated.
The King County Investment Pool is unrated.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, NORCOM would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. NORCOM's Investment Policy requires that all security transactions entered into by NORCOM will be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in safekeeping by a third party custodian designated. All of NORCOM's securities at year end were held in safekeeping by a third party custodian. While NORCOM has investments that are exposed to custodial credit risk, the exposure is minimal and all investments are guaranteed by the US government.

Interest Rate Risk - Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, NORCOM's policy limits investments in securities to those maturing no more than five years from the date of purchase and limits the average weighted maturity for the portfolio to 3 years. The average weighted maturity on December 31, 2013 was 2.75 years.

The Washington State Local Government Investment Pool is an unrated 2a-7 like pool as defined by GASB 31, accordingly participants balances are not subject to interest rate risk as the weighted average maturity of the portfolio will not exceed 90 days. The Average Days to Maturity on December 31, 2013 was 57 days.

The King County Investment Pool is an unrated pool. As a means to limit its exposure to rising interest rates, securities purchased in the pool must have a final maturity, or weighted average life, no longer than 5 years. While the Pool's market value is calculated on a monthly basis unrealized gains and losses are not distributed to participants. The Pool distributes earnings only using an amortized cost methodology. The Pools average duration on December 31, 2013 was 1.23 years.

Note 4 - Capital Assets

Capital Assets - Capital assets of proprietary funds are capitalized in the balance sheets. These assets are stated at cost or estimated cost when original cost is not available, or appraised 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 20 years.
A summary of NORCOM's property, plant and equipment at December 31, 2013 and 2012 is shown below:

	Beginning Balance as of 1/1/2013	Additions	Deletions	Ending Balance as of 12/31/2013
Capital Assets, not being depreciated:				
Work in progress	$ 3,798,563	$ -	$ 61,245	$ 3,737,318
Capital assets, being depreciated:				
Machinery and Equipment	3,897,938	114,229	-	4,012,167
Less: Accumulated Depreciation	(1,795,625)	(516,774)	-	(2,312,399)
Capital Assets, being depreciated net	$ 2,102,313	$ (402,545)	$ -	$ 1,699,768
Total Capital Assets, net	$ 5,900,876	$ (402,545)	$ 61,245	$ 5,437,085

	Beginning Balance as of 1/1/2012	Additions	Deletions	Ending Balance as of 12/31/2012
Capital Assets, not being depreciated:				
Work in progress	$ 3,866,353	$ 630,028	$ (697,818)	$ 3,798,563
Capital assets, being depreciated:				
Other Improvements	-	468,360	-	468,360
Machinery and Equipment	3,032,653	396,925	-	3,429,578
Less: Accumulated Depreciation	(1,408,471)	(387,154)	-	(1,795,625)
Capital Assets, being depreciated net	$ 1,624,182	$ 478,131	$ -	$ 2,102,313
Total Capital Assets, net	$ 5,490,535	$ 1,108,159	$ (697,818)	$ 5,900,876

In 2007 the Board authorized the start of the technology project with the release of the technology RFP on November 5, 2007. The goal of this project is to replace the existing CAD, mobile computing and records management systems used by NORCOM agencies with a new integrated system that meets current requirements and allows for future growth. The Integrated Communications and Records Management (ICRM) project began in 2008 with an initial budget of $5.065 million, and was scheduled to be completed in 2010. This project is being funded with a technology assessment to Participating and Subscriber agencies, grant awards, and available reserves.

In July 2008 the NORCOM Governing Board reviewed and unanimously agreed to accept the recommendation of the Joint Operations Board and directed staff to initiate negotiations with preliminary preferred vendor New World Systems (NWS) and in December 2008 the Governing Board authorized the signing of a contract with New World Systems for an Integrated Public Safety System and Records Management System (ICRM). Since that time, NORCOM has paid New World approximately $3.0 million of the $3.9 million contract. Six years have passed and NWS has yet to deliver a fully functional integrated ICRM. NORCOM has expended significant additional funds related to project management and development the NWS failed to provide under its contract with NORCOM.

In 2012, NORCOM also restructured management and oversight of the ICRM project. NORCOM formed a Technology Committee to assist with decision making and in early 2012 a contract was signed with DeltaWrx to provide and independent analysis of the New World System software implementation. From this analysis, it was determined NORCOM would benefit with more resources and a project manager. An RFP was done and a contract was signed with On-Line Business Systems (OBS). Along with OBS, Memos of Understanding were signed with the cities of Bellevue, Kirkland, and Mercer Island to provide Subject Matter Experts (SME's) in the area of police and fire, and to assist with the testing and documentation of the software. A Steering Committee was formed to help with project decisions and direction and the Governing Board authorized the Executive Director to enter into an agreement with Foster Pepper for special counsel to support NORCOM. $600,000 from reserves was appropriated to fund the additional costs. In 2013, $600,000 was transferred from reserves and $780,000 from E-911 escrow to fund the ongoing expenses for special counsel, project management, and subject matter experts.

Late in 2012, NORCOM initiated dispute resolution with New World Systems with respect to delays in delivery of the software as well as defects in the software that has been delivered. 2013 began with high hopes that NWS would finally deliver on its long overdue contractual commitment to deliver a fully Integrated Communication Records Management System (ICRM) that would serve both police and fire agencies. Unfortunately, 2013 ended with the recognition that NWS had failed to deliver a fully-functional, defect-free system for police; and had yet to deliver any system for fire.

As a result of these delivery delays and defects, the NORCOM Governing Board engaged in a strategic reassessment of the entire project. Online Business Systems conducted an Alternative Strategies Assessment (ASA) in an effort to assist NORCOM in identifying a new roadmap for the ICRM project. The result of the ASA acknowledged the viability of a new path for Fire Computer Aided Dispatch (CAD), mobile and Records Management System (RMS), instead of the original Integrated CAD/Mobile/RMS that was to be shared with Police. The ICRM vendor, New World Systems, proposed a change in contract whereby New World Systems would no longer be the provider for the Fire portion of the ICRM system. Since that time, NORCOM and New World Systems have been working towards this model.

Mediation was scheduled in Detroit, Michigan on March 3, 2014. Although both parties left mediation without an agreement, a Mediators Agreement was approved by the Governing Board in April, and in May the Board approved the Settlement Agreement and Third Amendment to the New World Systems Contract. Once the agreement is signed a budget adjustment will be drafted amending the contract amount and recognizing the $850,000 New World will remit to NORCOM per the Settlement Agreement.

This change from an integrated Police/Fire CAD/Mobile/RMS system to two separate tracks has prompted reorganization within the ICRM program, new stakeholder groups, and a new method for identifying and approving projects.

The ICRM program is now defined as a collection of several projects that have related goals and shared resources. Projects are identified within the new Fire and Police Stakeholder groups and presented to the Executive Director, IT Director, IT Program Manager and Finance Manager for prioritization based on available personnel and funding resources.

Construction Commitments - NORCOM has one active project as of December 31, 2013, the ICRM project.

At year-end NORCOM's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
New World CAD/RMS System	$ 3,037,030	$ 925,020
Total	$ 3,037,030	$ 925,020

Note 5 – Pension Plans

Substantially all NORCOM's full-time and qualifying part-time 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 retirement plans. 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 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50*, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member’s self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS’ fiscal year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Non-vested	44,273
Total	263,347

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both NORCOM and the employees made the required contributions. NORCOM's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
2013	$0	$367,088	$80,581
2012	$0	$336,512	$54,917
2011	$0	$484,202	$80,507

Municipal Employees Benefit Trust

The Municipal Employees' Benefit Trust (MEBT) is a multiple-employer defined contribution pension plan which was established as an alternative to the federal Social Security System. All regular full-time and qualifying part-time employees are required to participate in the defined contribution plan. By resolution, the Governing Board established the NORCOM Employees' Benefit Plan in lieu of Social Security as authorized by the Federal Social Security Act (Subchapter II, 42 USCA Section 401, et. seq) and other applicable federal and state laws (RCW 41.48.050) to be effective July 1, 2009.

Employees who customarily work 1,000 or more hours per year and who otherwise would be eligible for Social Security coverage and benefits are required to participate. Both NORCOM and participants are required to contribute an amount equal to the current Federal Insurance Contributions Act (FICA) tax rate.

NORCOM contributions shall be reduced by the amount of insurance premiums necessary to fund the Employer's survivor and disability insurance programs for the then current year. Employee contributions are pre-tax and the tax rates for the Plan correspond to the FICA rate. In January of 2011, the first amendment to NORCOM's Plan was approved. This amendment determined the employee and employer contributions required or permitted under Article 4, the OASDI rates as they existed as of January 1, 2010, shall be used. NORCOM's contribution for the fiscal year 2013 was $363,999 which represents its full liability. NORCOM's MEBT covered payroll for the year ending December 31, 2013, was $5,967,131.

Assets of the Plan are not the property of NORCOM, but are maintained in Trust at Wilmington Trust; therefore, the assets are not included in the accompanying financial statements.

Actuarial determinations are not required because each participant shall, at his/her normal retirement, instruct the Trustee to (a) acquire a non-forfeitable, non-transferable annuity contract, (b) pay his/her retirement benefit from his/her account (no contributions by NORCOM or the Participant shall be added to his/her account after retirement), (c) pay a single sum in cash. In the event a participant terminates, the Trustee shall be instructed to pay the full amount of the participant's contributions plus the vested portion credited to his/her account.

Note 6 - Risk Management

NORCOM purchases commercial insurance policies to cover property, liability, crime, business auto, and umbrella. Deductibles vary by type of coverage and range from zero to $1,000. The umbrella limits are $6 million for general aggregate limit, $6 million for products completed operations aggregate limit, $3 million each occurrence limit and $1 million personal and advertising limit. There have been no settlements that have exceeded the agency's insurance coverage.

Note 7 – Operating Leases

NORCOM leases office space and other equipment under non-cancelable operating leases. Total cost for such leases was $451,245 for the year ended December 31, 2013. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2009	212,212
2010	422,083
2011	426,520
2012	437,162
2013	445,245
2014	451,887
2015	461,401
2016	234,110
Total	$ 3,090,619

Note 8 - Contingencies and Litigation

NORCOM's financial statements include all material liabilities. There are no material contingent liabilities to record.

Note 9 – Subsequent Event

On July 24, 2014, NORCOM received a payment of $850,000 from New World Systems as part of the Settlement Agreement signed June 16, 2014. The Settlement Agreement was the result of the mediation that is discussed in Note 4.

North East King County Regional Public Safety Communications Agency
Notes to Financial Statements
January 1, 2012 through December 31, 2012

Note 1 - Summary of Significant Accounting Policies

Organization - In the interest of enhanced efficiencies and improved service levels that could be realized with a regional partnership approach to dispatch, in 2004 the members of the NORCOM Steering Committee entered into a Joint Powers Agreement to complete a Business and Services Plan for a joint operation of a public safety communication center. The North East King County Regional Public Safety Communications Agency (NORCOM), was formed in 2009 as a Washington not-for-profit corporation created by an interlocal agreement between the City of Bellevue, City of Bothell, City of Clyde Hill, City of Kirkland, City of Medina, City of Mercer Island, City of Snoqualmie, Eastside Fire and Rescue, King County Fire Protection District 27, King County Fire Protection District 45, King and Kittitas County Fire Protection District 51, Northshore Fire Department, Shoreline Fire Department, and Woodinville Fire and Life Safety District as authorized by the Interlocal Cooperation Act under Chapters 39.34 and 24.06 of the Revised Code of Washington.

In 2008, the City of Redmond entered into a contract with NORCOM to become a subscriber to NORCOM's emergency fire and medical unit dispatch services as provided for in the Interlocal agreement. In June of 2009 the Governing Board of NORCOM voted to approve King County Fire District #50 as a principal member according to the terms of the Principal Agreement and NORCOM Interlocal agreement.

NORCOM was formed to provide emergency service communications and all related incidental functions for communicating and dispatching services between the public and participating agencies' directly served public safety departments in the furtherance of improved public safety and emergency response, including but not limited to:

- Receiving 9-1-1 calls and routine calls for police, fire and medical services;
- Directing a response to said calls by either dispatching the appropriate emergency police, fire or medical unit or forwarding the call to the appropriate agency for response;
- Providing on-going communication support to personnel in the field;
- Updating, maintaining and managing the radio communications systems (excluding, unless specifically approved by the Governing Board, the 800 MHz system), computer systems, support files and resource materials necessary to accomplish the above;
- Initiating public safety records for all dispatched calls and providing such records services, including the updating, maintaining and managing of records systems as may be determined by the Governing Board; and
- Establishing and updating from time to time standard protocols for communications to and from personnel in the field.

The financial statements of NORCOM 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 NORCOM are described below.

Fund Accounting - The accounts of NORCOM are organized on the fund basis, with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses. NORCOM's resources are allocated to and accounted for in funds as summarized in the financial statements. Following is a description of the proprietary fund type used by NORCOM.

Proprietary Fund Types - Proprietary funds are reported using the economic resources measurement focus and accrual basis of accounting. This means that all assets and all liabilities (whether current or non-current) associated with the activity are included on balance sheets. Reported net position is segregated into capital assets, net of related debt, restricted and unrestricted components. Proprietary fund operating statements present increases (revenues and gains) and decreases (expenses and losses) in net total fund equities. The proprietary fund measurement focus is upon the determination of financial position, net income, and cash flow.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 NORCOM is charges to participants for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, taxes and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NORCOM has six Funds: Operations, Capital Projects, Equipment Replacement, Operating Expense Reserve, Rate Stabilization Reserve, and the King County E-9-1-1 Escrow Account. All funds are combined and reported as one for financial statement purposes.

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.

Revenue Rate Calculations - The participating agencies provide the majority of operating revenue to NORCOM. The method of allocating this revenue source is defined in the Interlocal Agreement, Appendix A. NORCOM's budget is allocated into two separate cost pools – 50% of the operation budget is allocated to police and 50% of the operating budget is allocated to fire. The 50/50 split was determined by an average of two factors – the staffing allocated to each Charged Operation (Police or Fire) and the volume of calls attributed to each Charged Operation. The City of Bellevue committed $5.5 million to help other participating agencies and reduce costs over the first seven years of NORCOM's operations. This Smoothing allocation is distributed to all initial participants except Bellevue. Smoothing is split 30% to police agencies and 70% to fire agencies and is distributed based on the agencies percentage of calls less Bellevue's calls.

The annual average Calls for Service are determined based on the number of Calls for Service for the Charged Operation over the two-year historical Call Calculation Period. The Call Calculation period is defined at the first calendar quarter of the preceding budget year, and the 7 calendar quarters preceding that. The allocation of financial participation among the participating and subscribing agencies is the percentage of dispatched calls attributed to each jurisdiction averaged over two years compared to the total two year average of actual dispatched calls, for the two year period of April 1 through March 31. The percentages are applied to the current approved budget, less revenue from all other sources.

Subscriber User Fees are calculated at 106% of the User Fee that an agency would pay if it were a Principal.

In June of 2011, the Governing Board voted to approve Resolution 30 to amend the Calls for Service definition using the "one call, one bill" philosophy. This new definition produced shifting in volumes between fire agencies until 2013 when all 8 quarters will be counted using the new definition. Because of this unanticipated shift in calls for service and the financial burden it places on the fires agencies that provide Advanced Life Support Services (ALS), a method was designed to assist with the increase in costs due to the declining calls for service from the new Calls for Service definition.

The ALS Smoothing model, as it has been named, estimates each agencies 2013 allocation and then, based on the overall increase or decrease and number of quarters counted using the new method, applies a variance to the actual call volume. The biggest increase happened in 2012 as NORCOM moved from 3 quarters of data to 7 quarters of data to calculate the 8 quarter average.

The cost distribution for the participating and subscribing agencies for 2012 was as follows:

Jurisdiction	Average Call Volume from April 01, 2009 to March 31, 2011	Percent of Total	2012 ALS Smoothing VARIANCE	2012 with ALS Smoothing	2012 Operating Assessment
Participating Fire Agencies					
Fire Smoothing Allocation					$582,400
Bellevue Fire	14,201	25.35%	-1.11%	24.24%	$1,163,011
Bothell	3,860	6.89%	0.43%	7.32%	$262,349
Duvall Fire	735	1.31%	0.09%	1.40%	$49,975
Eastside Fire and Rescue	7,171	12.80%	0.24%	13.04%	$487,383
Fall City Fire	430	0.77%	0.15%	0.92%	$29,227
KCFD #50	238	0.43%	0.01%	0.44%	$16,194
Kirkland Fire	5,883	10.50%	0.61%	11.11%	$399,888
Mercer Island Fire	2,008	3.58%	0.05%	3.63%	$136,485
Northshore Fire	2,502	4.47%	0.44%	4.91%	$170,045
Shoreline Fire	7,698	13.74%	-1.05%	12.69%	$523,220
Snoqualmie	714	1.27%	0.00%	1.27%	$48,531
Snoqualmie Pass Fire	228	0.41%	0.04%	0.45%	$15,514
Woodinville Fire & Safety	2,575	4.60%	0.99%	5.59%	$174,990
Subscribing Fire Agencies					
Redmond Fire (inc. FD 34)	7,785	13.89%	-0.90%	12.99%	$568,010
TOTAL FIRE AGENCIES	**56,028**	**100.0%**			**$4,627,222**
Participating Police Agencies					
Police Smoothing Allocation					$249,600
Bellevue Police	53,363	40.19%			$1,844,194
Clyde Hill	1,556	1.17%			$48,892
Kirkland Police	65,047	48.99%			$2,043,518
Medina	1,821	1.37%			$57,209
Mercer Island Police	10,979	8.27%			$344,919
TOTAL POLICE AGENCIES	**132,766**	**100.0%**			**$4,588,332**

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

Cash - It is NORCOM's policy to invest temporary cash surpluses. As of December 31, 2012, all cash surpluses were held in insured bank accounts, the Local Government Investment Pool (LGIP) and the King County Residual Investment Pool.

Cash includes all monies in checking and savings accounts, petty cash funds, the Local Government Investment Pool and the King County Residual Investment Pool. For purposes of the Statement of Cash Flows, NORCOM considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments – Cash in excess of anticipated needs for operation and equipment replacement is invested and the proceeds are returned to the investing source. Investments are held only in qualified institutions and reported at fair value.

Receivables - Customer accounts receivable consists of amounts owed from organizations for services received including amounts owed for which billings have not been prepared.

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements.

Capital Assets and Depreciation - Capital assets, which consist of other improvements, machinery & equipment, and construction work-in-progress, are defined by NORCOM 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.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

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 category upon completion.

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

Other Improvements	3-15 Years
Machinery & Equipment	3-20 Years

Compensated Absences – Compensated absences are absences for which employees will be paid, such as vacation leave and paid time off (PTO). Accumulated amounts of vacation leave and paid time off are accrued as expenses when incurred in proprietary funds, and included in liabilities under Compensated Absences Payable as applicable.

The NORCOM Associated Guild contract states the maximum accrued vacation and holiday leave carryover from one year to another is 300 hours. Sick leave maximum accrual is 1,220 hours. There is no payment for accrued sick leave at termination for Guild employees. However, there is a provision for partial payment upon retirement with a maximum payout of 10% of sick leave balances. The contract with NORCOM's Associated Guild was ratified in June of 2012 and will expire in December of 2015.

Non-represented employees are covered under an Administrative Policy that states maximum accrued PTO carry over from one year to another is 480 hours and accrued Holiday carry over from one year to another is 16 hours. Upon termination non-represented employees will be compensated for up to 160 hours of accrued PTO and all accrued Holiday hours.

Personnel Benefit Contributions - NORCOM contributes to personnel benefit plans. The plans include group medical, dental, retirement, industrial insurance, unemployment compensation, life insurance, Social Security (Medicare portion only), and disability for employees. In November 2007, NORCOM elected not to participate in the Federal Social Security System. Retirement, industrial insurance, unemployment compensation, and Medicare are established by federal/state regulations.

Net position - Net position for equipment are reserved for future use, as reflected in the financial statements as follows:

	2012	2011
Invested in Capital Assets, Net of Related Debt	$5,900,876	$ 5,490,535
Unrestricted	3,945,042	4,252,004
TOTAL NET POSITION	**9,845,918**	**9,742,539**

When both restricted and unrestricted resources are available for use, it is NORCOM's policy to use restricted resources first, then unrestricted resources as they are needed.

Stabilization Arrangements – During the 2012 budget process, the Governing Board approved Resolution 43 creating a Rate Stabilization fund, initially financed with $800,000 of 2012 ending fund balance. Future funding options include onetime revenues, new agency assessments/fees, ending fund balance, or other sources deemed appropriate by the Governing Board.

Funds shall accumulate from year to year until a Super Majority Vote of the Governing Board appropriates all or part of the available funds. Once the funds have been appropriated they will be applied to the overall budget to offset transition to higher rates. These funds may also be used to offset one time expenditures or other exigent circumstances.

Federal Income Tax - NORCOM is exempt from federal income tax under Internal Revenue Code Section 501(c)(3); accordingly, no provision has been made for federal income tax in the accompanying financial statements.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These affect the reported amounts of assets, liabilities, revenues, and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Note 2 - Stewardship, Compliance and Accountability

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

Note 3 - Deposits and Investments

Deposits - NORCOM's bank deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All deposits not covered by the FDIC are covered by the PDPC.

Cash held in the King County E-9-1-1 Escrow account is manage by the King County Investment Pool. The King County Investment Pool invests cash reserves for all County agencies and approximately 100 special districts and other public entities such as fire, school, sewer and water districts and other public authorities. It is one of the largest investment pools in the State, with an average asset balance of about $4 billion. On average, County agencies comprise 40 percent of the pool and outside districts 60 percent. The Executive Finance Committee (EFC) establishes County investment policies and oversees the investment portfolio to ensure that specific investments comply with both those investment policies and State law. The Pool is only allowed to invest in certain types of highly-rated securities, including certificates of deposit, U.S. treasury obligations, federal agency obligations, municipal obligations, repurchase agreements and commercial paper.

Cash held in the Local Government Investment Pool (LGIP) is managed and operated by the Office of the State Treasurer (OST). This pool represents an interest in a group of securities and has no specific security subject to custodial risk. The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews it annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP.

Investments - Investment of funds can be in the form of federal government securities, repurchase agreements, banker's acceptances, certificates of deposit, Local Government Investment Pool (LGIP), and savings accounts. Investments are stated at fair value as of the year-end. Available cash is deposited into savings accounts and/or other types of investments, as cash flow allows. Interest earned is credited to the appropriate investing source. The book value of deposits does not differ materially from the bank balance of deposits.

NORCOM's deposits and investment position at fair value at the end of fiscal year 2012 and 2011 (excluding petty cash) are:

	December 31, 2012	December 31, 2011
Checking	$ 834,206	$ 1,495,497
E-9-1-1 Escrow Account	1,856,970	1,596,049
LGIP Operation	600,613	1,198,859
US Gov't Securities - LT	1,126,407	301,584
Total	$ 4,418,196	$ 4,591,989

Credit Risk - Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. NORCOM's investment policy applies the prudent person standard; Investments will be made with judgment and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes. The credit ratings on securities held by NORCOM on December 31, 2012 are listed below:

The Washington State Local Government Investment Pool is a 2a7-like pool and is unrated.
The King County Investment Pool is unrated.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, NORCOM would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. NORCOM's Investment Policy requires that all security transactions entered into by NORCOM will be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in safekeeping by a third party custodian designated. All of NORCOM's securities at year end were held in safekeeping by a third party custodian. While NORCOM has investments that are exposed to custodial credit risk, the exposure is minimal and all investments are guaranteed by the US government.

Interest Rate Risk - Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, NORCOM's policy limits investments in securities to those maturing no more than five years from the date of purchase and limits the average weighted maturity for the portfolio to 3 years. The average weighted maturity on December 31, 2012 was 2.95 years.

The Washington State Local Government Investment Pool is an unrated 2a-7 like pool as defined by GASB 31, accordingly participants balances are not subject to interest rate risk as the weighted average maturity of the portfolio will not exceed 90 days. The Average Days to Maturity on December 31, 2012 was 32 days.

The King County Investment Pool is an unrated pool. As a means to limit its exposure to rising interest rates, securities purchased in the pool must have a final maturity, or weighted average life, no longer than 5 years. While the Pool's market value is calculated on a monthly basis unrealized gains and losses are not distributed to participants. The Pool distributes earnings only using an amortized cost methodology. The Pools average duration on December 31, 2012 was 1.36 years.

Note 4 - Capital Assets

Capital Assets - Capital assets of proprietary funds are capitalized in the balance sheets. These assets are stated at cost or estimated cost when original cost is not available, or appraised 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 NORCOM's property, plant and equipment at December 31, 2012 and 2011 is shown below:

	Beginning Balance as of 1/1/2012	Additions	Deletions	Ending Balance as of 12/31/2012
Capital Assets, not being depreciated:				
Work in progress	$ 3,866,353	$ 630,028	$ (697,818)	$ 3,798,563
Capital assets, being depreciated:				
Other Improvements	-	468,360	-	468,360
Machinery and Equipment	3,032,653	396,925	-	3,429,578
Less: Accumulated Depreciation	(1,408,471)	(387,154)	-	(1,795,625)
Capital Assets, being depreciated net	$ 1,624,182	$ 478,131	$ -	$ 2,102,313
Total Capital Assets, net	$ 5,490,535	$ 1,108,159	$ (697,818)	$ 5,900,876

	Beginning Balance as of 1/1/2011	Additions	Deletions	Ending Balance as of 12/31/2011
Capital Assets, not being depreciated:				
Work in progress	$ 2,592,879	$ 1,273,474	$ -	$ 3,866,353
Capital assets, being depreciated:				
Machinery and Equipment	3,014,536	18,117	-	3,032,653
Less: Accumulated Depreciation	(816,514)	(591,957)	-	(1,408,471)
Capital Assets, being depreciated net	$ 2,198,021	$ (573,840)	$ -	$ 1,624,181
Total Capital Assets, net	$ 4,790,900	$ 699,634	$ -	$ 5,490,534

In 2007 the Board authorized the start of the technology project with the release of the technology RFP on November 5, 2007. The goal of this project is to replace the existing CAD, mobile computing and records management systems used by NORCOM agencies with a new integrated system that meets current requirements and allows for future growth. This project is being funded with a technology assessment to Participating and Subscriber agencies, grant awards, and available reserves.

In July 2008 the NORCOM Governing Board reviewed and unanimously agreed to accept the recommendation of the Joint Operations Board and directed staff to initiate negotiations with preliminary preferred vendor New World Systems and in December 2008 the Governing Board authorized the signing of a contract with New World Systems for an Integrated Public Safety System.

The Project has three phases:

> Phase 0 – Add Bellevue and Clyde Hill police to Kirkland's servers, work stations etc.
> Phase 1 – Implement New World's technology for all police agencies on NORCOM's servers work stations, etc.
> Phase 2 – Implement New World's technology for all fire and EMS agencies on NORCOM's servers work stations, etc.

Phase 0 has been completed. Work continues on Phase 1 and Phase 2. Actual expenditures for 2012 and 2011 were $666,833 and $1,245,414 respectively, which includes expenses not capitalized.

In 2012, NORCOM initiated dispute resolution with New World Systems with respect to delays in delivery of the software as well as defects in the software that has been delivered. The contract provides for dispute resolution in such instances. If dispute resolution is unsuccessful, the next step would be non-binding mediation. Mediation cannot be scheduled until the dispute resolution process is completed. As a result of the delivery delays and defects, the NORCOM Governing Board is engaged in a strategic reassessment of the entire project. As of this time, no decisions have been made with respect to changing any aspect of the project.

In 2012, NORCOM also restructured management and oversight of the ICRM project. NORCOM formed a Technology Committee to assist with decision making and in early 2012 a contract was signed with DeltaWrx to provide and independent analysis of the New World System software implementation. From this analysis, it was determined NORCOM would benefit with more resources and a project manager. An RFP was done and a contract was signed with On-Line Business Systems (OBS). Along with OBS, Memos of Understanding were signed with the cities of Bellevue, Kirkland, and Mercer Island to provide Subject Matter Experts (SME's) in the area of police and fire, and to assist with the testing and documentation of the software. A Steering Committee was formed to help with project decisions and direction and the Governing Board authorized the Executive Director to enter into an agreement with Foster Pepper for special counsel to support NORCOM. $600,000 from reserves was appropriated to fund the additional costs.

Construction Commitments - NORCOM has three active projects as of December 31, 2012, the ICRM project, the Springbrook Financial Software implementation, and the Tritech Upgrade.

At year-end NORCOM's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
New World CAD/RMS System	$ 3,037,030	$ 925,020
Springbrook Financial Software	$ 43,011	$ 27,175
TriTech Upgrade	$ 18,234	$ 18,109
Total	$ 3,098,275	$ 970,304

Note 5 – Pension Plans

Substantially all NORCOM's full-time and qualifying part-time 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 retirement plans. 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 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50*, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 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 3 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 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were $95.2 million, and plan refunds paid out were $66.2 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject to a benefit cap; continue to participate in JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
Total	261,705

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both NORCOM and the employees made the required contributions. NORCOM's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
2012	$0	$336,512	$54,917
2011	$0	$484,202	$80,507
2010	$0	$412,538	$66,688

Municipal Employees Benefit Trust

The Municipal Employees' Benefit Trust (MEBT) is a multiple-employer defined contribution pension plan which was established as an alternative to the federal Social Security System. All regular full-time and qualifying part-time employees are required to participate in the defined contribution plan. By resolution, the Governing Board established the NORCOM Employees' Benefit Plan in lieu of Social Security as authorized by the Federal Social Security Act (Subchapter II, 42 USCA Section 401, et. seq) and other applicable federal and state laws (RCW 41.48.050) to be effective July 1, 2009.

Employees who customarily work 1,000 or more hours per year and who otherwise would be eligible for Social Security coverage and benefits are required to participate. Both NORCOM and participants are required to contribute an amount equal to the current Federal Insurance Contributions Act (FICA) tax rate.

NORCOM contributions shall be reduced by the amount of insurance premiums necessary to fund the Employer's survivor and disability insurance programs for the then current year. Employee contributions are pre-tax and the tax rates for the Plan correspond to the FICA rate. In January of 2011, the first amendment to NORCOM's Plan was approved. This amendment determined the employee and employer contributions required or permitted under Article 4, the OASDI rates as they existed as of January 1, 2010, shall be used. NORCOM's contribution for the fiscal year 2012 was $346,053 which represents its full liability. NORCOM's MEBT covered payroll for the year ending December 31, 2012, was $4,522,520.

Assets of the Plan are not the property of NORCOM, but are maintained in Trust at Wilmington Trust; therefore, the assets are not included in the accompanying financial statements.

Actuarial determinations are not required because each participant shall, at his/her normal retirement, instruct the Trustee to (a) acquire a non-forfeitable, non-transferable annuity contract, (b) pay his/her retirement benefit from his/her account (no contributions by NORCOM or the Participant shall be added to his/her account after retirement), (c) pay a single sum in cash. In the event a participant terminates, the Trustee shall be instructed to pay the full amount of the participant's contributions plus the vested portion credited to his/her account.

Note 6 - Risk Management

NORCOM purchases commercial insurance policies to cover property, liability, crime, business auto, and umbrella. Deductibles vary by type of coverage and range from zero to $1,000. The umbrella limits are $6 million for general aggregate limit, $6 million for products completed operations aggregate limit, $3 million each occurrence limit and $1 million personal and advertising limit. There have been no settlements that have exceeded the agency's insurance coverage.

Note 7 – Operating Leases

NORCOM leases office space and other equipment under non-cancelable operating leases. Total cost for such leases was $437,162 for the year ended December 31, 2012. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2009	212,212
2010	422,083
2011	426,520
2012	437,162
2013	445,269
2014	455,979
2015	469,659
2016	238,300
Total	$ 3,107,183

Note 8 - Contingencies and Litigation

NORCOM's financial statements include all material liabilities. There are no material contingent liabilities to record.

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

Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov