

**Washington State Auditor's Office**  
**Financial Statements and Federal Single Audit Report**

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

Audit Period  
January 1, 2011 through December 31, 2011

Report No. 1008461

Issue Date  
**September 26, 2012**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

September 26, 2012

Board of Directors  
NORCOM  
Bellevue, Washington

***Report on Financial Statements and Federal Single Audit***

Please find attached our report on the NORCOM's financial statements and compliance with federal laws and regulations.

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

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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King County  
January 1, 2011 through December 31, 2011**

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# Federal Summary

## NORCOM King County January 1, 2011 through December 31, 2011

The results of our audit of the NORCOM are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### **FINANCIAL STATEMENTS**

An unqualified opinion was issued on the basic financial statements.

#### **Internal Control Over Financial Reporting:**

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Agency.

### **FEDERAL AWARDS**

#### **Internal Control Over Major Programs:**

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no deficiencies that we consider to be material weaknesses.

We issued an unqualified opinion on the Agency's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

***Identification of Major Programs:***

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
97.067	Homeland Security Grant Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The Agency qualified as a low-risk auditee under OMB Circular A-133.

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

## **NORCOM King County January 1, 2011 through December 31, 2011**

Board of Directors  
NORCOM  
Bellevue, Washington

We have audited the basic financial statements of the NORCOM, King County, Washington, as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated September 21, 2012.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

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

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

This report is intended for the information and use of management, the Board of Directors, federal awarding agencies and pass-through entities. 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.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

September 21, 2012

Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct  
and Material Effect on Each Major Program and  
on Internal Control over Compliance in  
Accordance with OMB Circular A-133

**NORCOM**  
**King County**  
**January 1, 2011 through December 31, 2011**

Board of Directors  
NORCOM  
Bellevue, Washington

**COMPLIANCE**

We have audited the compliance of the NORCOM, King County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2011. The Agency's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.



## **INTERNAL CONTROL OVER COMPLIANCE**

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended for the information of management, the Board of Directors, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

September 21, 2012

# Independent Auditor's Report on Financial Statements

**NORCOM  
King County  
January 1, 2011 through December 31, 2011**

Board of Directors  
NORCOM  
Bellevue, Washington

We have audited the accompanying basic financial statements of the NORCOM, King County, Washington, as of and for the years ended December 31, 2011 and 2010, as listed on page 9. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the NORCOM, as of December 31, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 15 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 the 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.

Our audits were performed for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with a large initial "B" and "S".

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

September 21, 2012

# Financial Section

**NORCOM  
King County  
January 1, 2011 through December 31, 2011**

***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2011

***BASIC FINANCIAL STATEMENTS***

Statement of Net Position – 2011 and 2010  
Statement of Revenues, Expenses and Changes in Net Position – 2011 and 2010  
Statement of Cash Flows – 2011 and 2010  
Notes to Financial Statements – 2011 and 2010

***SUPPLEMENTARY INFORMATION***

Schedule of Expenditures of Federal Awards and Notes – 2011

## ***Management Discussion and Analysis***

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 2011 by \$9,742,539. Of this amount, \$4,252,004 is unrestricted and may be used to meet the organization's ongoing activities and obligations.
- Net position improved \$2,719,919 from last year due to funds set aside toward the ongoing Integrated Technology project, additional revenue from King County E-9-1-1 for operating and equipment replacement reimbursements, and several vacant positions resulted in salary savings.
- 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 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 2010 and 2011. 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 2010 and 2011. 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, 2011 totaled \$9,742,539. Following is a condensed version of the statement of net position and compares NORCOM's net position for 2009, 2010 and 2011.

**NORCOM's NET POSITION**

	2011	2010	2009
Current and other assets	\$ 4,830,493	\$ 2,948,090	\$ 1,848,024
Capital assets, net	5,490,535	4,790,900	3,594,453
<b>Total assets</b>	<b>10,321,028</b>	<b>7,738,990</b>	<b>5,442,477</b>
Current liabilities	578,489	716,370	825,087
<b>Total liabilities</b>	<b>578,489</b>	<b>716,370</b>	<b>825,087</b>
Net Position			
Invested in capital assets	5,490,535	4,790,900	3,594,453
Unrestricted	4,252,004	2,231,720	1,022,935
<b>Total net position</b>	<b>\$ 9,742,539</b>	<b>\$ 7,022,620</b>	<b>\$ 4,617,388</b>

### *Total Assets*

NORCOM's total assets continue to increase over the last three years. The largest component of NORCOM's assets is capital assets, net of related debt and depreciation (53%). Work-in-progress increased 49% from 2010. Work-in-progress projects are capitalized like capital assets, but will not accumulate depreciation until the project is complete. At the end of 2011, three projects accounted for \$3.8 million work-in-progress balance. The status of these projects is discussed in Note 4 of the accompanying Notes to the Financial Statements.

The largest increases are in current and other assets, which consist of cash, receivables and prepaid expenses. Salary savings from telecommunicator position vacancies and additional revenue from King County E-9-1-1 for operating and equipment replacement reimbursements account for the 64% increase.

### *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 31<sup>st</sup> and compensated absences. The decrease in liabilities is attributed to a decrease in compensated absences due to an accounting error that was corrected in 2011.

### *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, \$5,490,535 or 53% 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 (\$722,737), and Operating Expense Reserve funds (\$105,241). While these funds are not restricted they are held for the use of replacing aging equipment 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 \$3,424,026 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 \$2,719,919 during the year. This increase is from the ongoing integrated technology project and the additional revenue from King County E-9-1-1 for operating expenses and equipment replacement reimbursements.

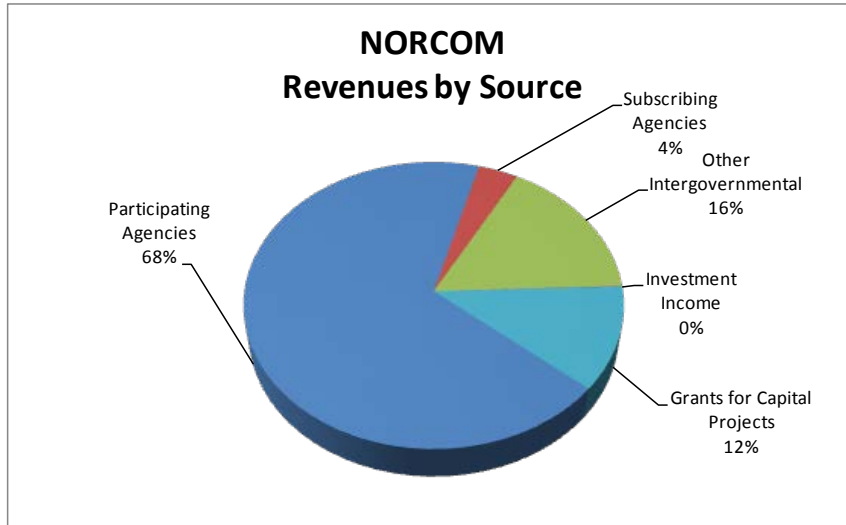
	<b>NORCOM CHANGE IN NET POSITION</b>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 11,463,120	\$ 10,527,118	\$ 7,786,998
Operating expenses	<u>9,764,684</u>	<u>9,639,033</u>	<u>6,095,975</u>
<b>Change in net position from operations</b>	<b>1,698,436</b>	<b>888,085</b>	<b>1,691,023</b>
Non-operating activity	1,021,483	1,517,147	965,080
Capital Contributions	<u>-</u>	<u>-</u>	<u>103,730</u>
<b>Increase in net position</b>	<b>2,719,919</b>	<b>2,405,232</b>	<b>2,759,833</b>
Beginning net position	7,022,620	4,617,388	1,857,555
<b>Ending net position</b>	<b>\$ 9,742,539</b>	<b>\$ 7,022,620</b>	<b>\$ 4,617,388</b>

#### *Revenue*

Principal and Subscriber fees increased 3% in 2011; while operating expenses increased only 1%, 2% less than anticipated. The decrease in operating expense is directly attributed to vacant telecommunicator positions and the outstanding amount due to New World Systems for the completion of the integrated technology project budgeted to be completed in 2011. The remainder of the increase in operating revenues is from the additional funding from King County E-9-1-1. These funds will be used to offset future increases in Participant fees. The decrease in Non-operating activity is due to the declining balance of grant funds used for the integrated technology project.

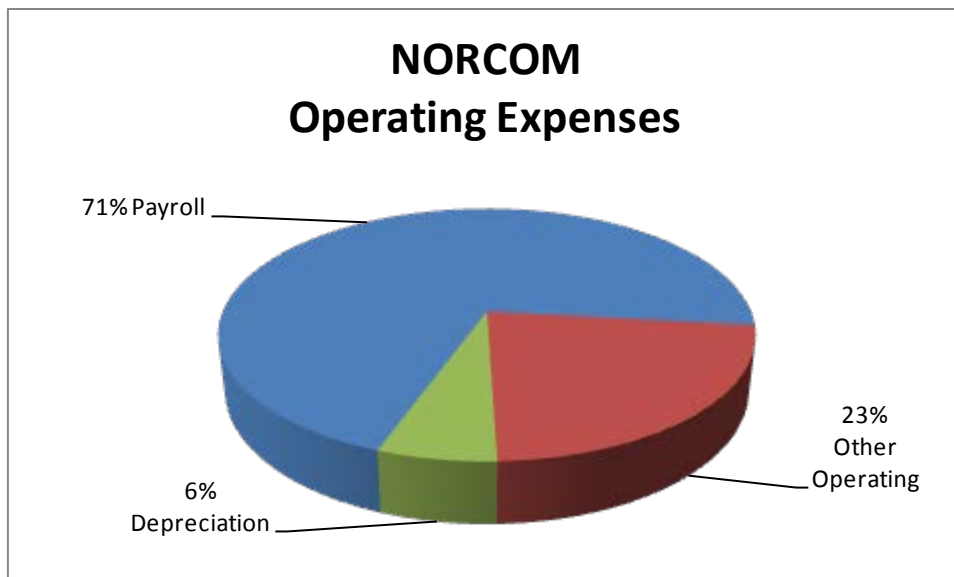


Most of NORCOM's revenues are generated through charges for services. The chart below graphically depicts the Organization's revenue sources.



*Expense*

Operating expenses increased 1% primarily due to the increase in the cost of medical benefits. Medical benefit cost increases were over 40% for the second year in a row. Since these types of increases cannot be sustained, steps are being taken to determine how to best mitigate future increases.



**Capital Assets** - At December 31, 2011, NORCOM had \$5,490,535 recorded in capital assets, of which \$3,866,353 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 2011 were \$1,245,414 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 have been engaged in active bargaining over the last few months and look forward to a positive outcome in the near future. The Guild represents telecommunicators employed by NORCOM.

Employee medical benefit costs rose by 41% in 2011. Steps are being taken to research other benefit options and reduce costs without diminishing employee benefits.

Public Employees Retirement System (PERS) rates increased from 5.31% to 7.07% in July of 2011 and to 7.25% in September 2011. It is anticipated that rates will remain around this level for the next year.

The process to replace NORCOM's legacy technology with an integrated technology system continues. While there have been delays in the project schedule, a revised schedule is under development with the vendor.

NORCOM completed year two of a 7 year lease with the City of Bellevue for NORCOM's operation at Bellevue City Hall in 2011.

To gain economies of scale and increase overall public safety value, King County is moving forward with a study of county wide consolidations of communications centers (2012 and beyond).

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**  
**Statement of Net Position**  
**December 31, 2011**

<b>ASSETS</b>	<i>2011</i>	<i>2010</i>
<b>Current Assets:</b>		
Cash	\$ 4,290,655	\$ 2,201,192
Receivables, Net	-	166,665
Due from Other Government	4,341	520,471
Prepaid Expenses	233,913	59,762
<b>Total Current Assets</b>	<b>4,528,909</b>	<b>2,948,090</b>
<b>Noncurrent Assets:</b>		
Investments - Noncurrent	\$ 301,584	\$ -
<b>Capital Assets</b>		
Machinery and Equipment	3,032,653	3,014,535
Work in Progress	3,866,353	2,592,879
Property, plant, and equipment, at cost	6,899,006	5,607,414
Less: accumulated depreciation	(1,408,471)	(816,514)
Depreciable capital assets, net	5,490,535	4,790,900
<b>Total Noncurrent Assets</b>	<b>5,792,119</b>	<b>4,790,900</b>
<b>TOTAL ASSETS</b>	<b>\$ 10,321,028</b>	<b>\$ 7,738,990</b>
<b>LIABILITIES AND FUND EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 117,477	\$ 155,075
Accrued payroll	235,040	195,040
Use tax payable	4,771	517
Compensated Absences Payable	221,201	365,738
<b>Total Current Liabilities</b>	<b>578,489</b>	<b>716,370</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 578,489</b>	<b>\$ 716,370</b>
<b>NET POSITION:</b>		
Net Investment in Capital Assets	\$ 5,490,535	\$ 4,790,900
Unrestricted	4,252,004	2,231,720
<b>TOTAL NET POSITION</b>	<b>9,742,539</b>	<b>7,022,620</b>

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

**North East King County Regional Public Safety Communications Agency**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the period ended December 31, 2011**

	<i>2011</i>	<i>2010</i>
<b>OPERATING REVENUES:</b>		
Participating Agencies	\$ 8,845,395	\$ 8,633,319
Subscribing Agencies	479,888	506,613
Other Intergovernmental	2,137,837	1,387,186
TOTAL OPERATING REVENUES	11,463,120	10,527,118
 <b>OPERATING EXPENSES:</b>		
Personnel Services	6,836,133	6,577,758
Taxes	114,976	160,613
Operating supplies	90,147	76,303
Operating services	2,131,471	2,234,990
Depreciation	591,957	589,369
TOTAL OPERATING EXPENSES	9,764,684	9,639,033
 OPERATING INCOME (LOSS)	 1,698,436	 888,085
 <b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest and Investment Revenue	11,699	6,082
Grants for capital projects	1,009,784	1,511,065
Total Nonoperating Revenues (Expenses)	1,021,483	1,517,147
 Income (Loss) before Contributions	 2,719,919	 2,405,232
 Change in Net Position	 2,719,919	 2,405,232
 Net Position - Beginning	 7,022,620	 4,617,388
Net Position - Ending	\$ 9,742,539	\$ 7,022,620

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

**North East King County Regional Public Safety Communications Agency**  
**Statement of Cash Flows**  
**For the period ended December 31, 2011**

	2011	2010
<b>Cash Flows from Operating Activities:</b>		
Cash received from customers and users	\$ 10,008,388	\$ 8,762,268
Cash paid to suppliers for goods and services	(2,433,368)	(2,342,107)
Cash paid to employees	(6,940,671)	(6,474,745)
Cash payments to taxes	(110,721)	(173,694)
Other receipts	2,137,837	1,387,186
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>2,661,465</b>	<b>1,158,908</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Capital contributions	-	-
Purchases of capital assets	(1,291,592)	(1,785,817)
Proceeds from capital grant	1,009,785	1,511,065
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(281,807)</b>	<b>(274,752)</b>
<b>Cash Flows from Investing Activities:</b>		
Purchase of investments	(298,425)	-
Cash Received from interest and dividends	8,230	6,123
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>(290,195)</b>	<b>6,123</b>
<b>Net Increase (Decrease) in Cash Balances</b>	<b>2,089,463</b>	<b>890,279</b>
Cash Balance, Beginning of Year	2,201,192	1,310,913
<b>Cash Balance, End of Year</b>	<b>\$ 4,290,655</b>	<b>\$ 2,201,192</b>
<b>Reconciliation of Operating Income to Net Cash Provided:</b>		
<b>Operating Income (Loss)</b>	<b>\$ 1,698,436</b>	<b>\$ 888,085</b>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	591,957	589,369
Changes in Assets and Liabilities:		
(Increase) decrease in due from receivables	166,594	61,574
(Increase) decrease in due from other governments	516,511	(314,705)
(Increase) decrease in prepaid expenses	(174,151)	43,303
Increase (decrease) in due to other governments	-	(129,553)
Increase (decrease) in accounts payable	(37,599)	55,436
Increase (decrease) in payroll payable	40,000	61,359
Increase (decrease) in compensated absences payable	(144,537)	41,653
Increase (decrease) in taxes payable	4,254	(13,081)
Increase (decrease) in deferred revenue	-	(124,532)
<b>Total Adjustments</b>	<b>963,029</b>	<b>270,823</b>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 2,661,465</b>	<b>\$ 1,158,908</b>

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, 2011 through December 31, 2011**

**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 five Enterprise Funds; Operations, Capital Projects, Equipment Replacement, Operating Expense Reserve, and the King County E-9-1-1 Escrow Account. All funds are combined and reported as one for financial statement purposes.

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

**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 2010, 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 fire 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 will happen in 2012 as NORCOM moves 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 2011 was as follows:



Jurisdiction	Average Call Volume from April 01, 2008 to March 31, 2010	Percent of Total	2011 ALS Smoothing VARIANCE	2011 with ALS Smoothing	2011 Operating Assessment
<b>Participating Fire Agencies</b>					
Fire Smoothing Allocation					\$697,200
Bellevue Fire	13,619	24.2%	-0.59%	23.60%	\$1,082,803
Bothell	4,076	7.2%	0.23%	7.47%	\$276,179
Duvall Fire	832	1.5%	0.05%	1.53%	\$56,349
Eastside Fire and Rescue	7,912	14.1%	0.13%	14.18%	\$521,656
Fall City Fire	490	0.9%	0.08%	0.95%	\$35,606
KCFD #50	310	0.6%	0.01%	0.56%	\$20,575
Kirkland Fire	5,979	10.6%	0.33%	10.95%	\$413,467
Mercer Island Fire	2,108	3.7%	0.02%	3.76%	\$138,462
Northshore Fire	2,701	4.8%	0.24%	5.04%	\$186,901
Shoreline Fire	7,160	12.7%	-0.56%	12.16%	\$440,894
Snoqualmie	684	1.2%	0.00%	1.21%	\$44,388
Snoqualmie Pass Fire	229	0.4%	0.02%	0.43%	\$15,909
Woodinville Fire & Safety	3,046	5.4%	0.53%	5.94%	\$214,228
<b>Subscribing Fire Agencies</b>					
Redmond Fire (inc. FD 34)	7,160	12.7%	-0.49%	12.23%	\$479,888
<b>TOTAL FIRE AGENCIES</b>	<b>56,306</b>	<b>100.0%</b>			<b>\$4,624,505</b>
<b>Participating Police Agencies</b>					
Police Smoothing Allocation					\$298,800
Bellevue Police	52,476	48.5%			\$2,009,557
Clyde Hill	2,545	2.4%			\$85,997
Kirkland Police	38,090	35.2%			\$1,795,812
Medina	3,053	2.8%			\$103,153
Mercer Island Police	12,059	11.1%			\$407,427
<b>TOTAL POLICE AGENCIES</b>	<b>108,223</b>	<b>100.0%</b>			<b>\$4,700,746</b>

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, 2011, 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 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:

Machinery & Equipment	3-20 Years
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**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 implemented proposal for the NORCOM Associated Guild states the maximum accrued vacation and holiday leave carryover from one year to another is 316 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. It is anticipated the contract with NORCOM's Associated Guild will be 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.

**Deferred Revenue** - Fees for services received in advance is deferred and recognized over the periods to which the fees relate.

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

	<u>2011</u>	<u>2010</u>
Invested in Capital Assets, Net of Related Debt	\$ 5,490,535	\$ 4,790,900
Unrestricted	4,252,004	2,231,720
<b>TOTAL NET POSITION</b>	<b><u>9,742,539</u></b>	<b><u>7,022,620</u></b>

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 2011 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 managed 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 2011 and 2010 are:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Checking	\$ 1,495,497	\$ 1,244,133
E-9-1-1 Escrow Account	1,596,049	10,200
LGIP Operation	1,021,347	510,444
LGIP Equipment Replacement	72,271	375,000
LGIP Contingency	105,241	61,165
US Gov't Securities - LT	301,584	-
Total	<u>\$ 4,591,989</u>	<u>\$ 2,200,942</u>

**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, 2011 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 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, 2011 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, 2011 was 0.72 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, 2011 and 2010 is shown below:

	<b>Beginning Balance as of <u>1/1/2011</u></b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance as of <u>12/31/2011</u></b>
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	<u>(816,514)</u>	<u>(591,956)</u>	-	<u>(1,408,470)</u>
Capital Assets, being depreciated net	\$ 2,198,021	\$ (573,839)	\$ -	\$ 1,624,182
 Total Capital Assets, net	 <u>\$ 4,790,900</u>	 <u>\$ 699,635</u>	 <u>\$ -</u>	 <u>\$ 5,490,535</u>

	<b>Beginning Balance as of <u>1/1/2010</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b>Ending Balance as of <u>12/31/2010</u></b>
Capital Assets, not being depreciated:				
Work in progress	\$ 1,493,881	\$ 1,098,998	\$ -	\$ 2,592,879
Capital assets, being depreciated:				
Machinery and Equipment	2,328,509	691,573	(5,546)	3,014,536
Less: Accumulated Depreciation	<u>(227,937)</u>	<u>(589,369)</u>	<u>792</u>	<u>(816,514)</u>
Capital Assets, being depreciated net	\$ 2,100,572	\$ 102,203	\$ (4,754)	\$ 2,198,021
 Total Capital Assets, net	 <u>\$ 3,594,453</u>	 <u>\$ 1,201,201</u>	 <u>\$ (4,754)</u>	 <u>\$ 4,790,900</u>

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 and grant awards.

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 2011 and 2010 were \$1,245,414 and \$1,700,779 respectively, which includes expenses not capitalized.

**Construction Commitments** - NORCOM has one active construction projects as of December 31, 2011, the Integrated Technology System.

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

<b>Project</b>	<b>Spent to Date</b>	<b>Remaining Commitment</b>
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](http://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 (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. 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. An employee is reported in Plan 2 until a choice is made. 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 Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. 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. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 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. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. 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 payable to the age of 60. The allowance 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. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance 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. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. 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 members can receive credit for military. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

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. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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.



- 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. 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.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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 prior to 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 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

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. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also 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, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by 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 said member’s covered employment, if found eligible by the Department of Labor and Industries.

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Non-vested	51,005
<b>Total</b>	<b>262,285</b>

**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. All employers are required to contribute at the level established by the Legislature. 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.

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, 2011, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.25%**	7.25%**	7.25%***
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 10.80% for Plan 1 and 7.25% 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
2011	\$0	\$484,202	\$80,507
2010	\$0	\$412,538	\$66,688
2009	\$0	\$148,875	\$0

### 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 2011 was \$332,827 which represents its full liability. NORCOM's MEBT covered payroll for the year ending December 31, 2011, was \$5,320,447.

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 \$426,520 for the year ended December 31, 2011. 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	435,496
2013	447,917
2014	461,354
2015	475,195
2016	241,109
Total	\$ 3,121,886

**Note 8 - Contingencies and Litigation**

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

NORCOM participates in some federal- and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures as allowed under the terms of the grants. NORCOM management believes that such disallowances, if any, will be immaterial.

***Note 9 – Accounting and Reporting Changes***

NORCOM implemented GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position at December 31, 2011. This statement replaced the term net assets in the Financial Statements with net position. The Statement of Net Assets was replaced with the Statement of Net Position. It also introduced deferred outflows and inflows as a separate category on the Statement of Net Position. At December 31, 2011 NORCOM had no deferred outflows or deferred inflows.

**North East King County Regional Public Safety Communications Agency  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended December 31, 2011**

Federal Agency Name / Pass Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot-note Ref.
				From Pass-Through Awards	From Direct Awards	Total	
U.S. Department of Homeland Security/Pass Through from City of Bellevue Fire Department	Homeland Security Grant Program	97.067	UASI 2008-GE-T8-0038	867,160.00		\$ 867,160.00	1
						\$ -	
						\$ -	
<b>Total Federal Awards Expended</b>						<b><u>\$ 867,160.00</u></b>	

*The Accompanying Notes To The Schedule Of Expenditures of Federal Awards Are An Integral Part Of This Schedule.*

**Note 1 - Basis of Presentation**

This schedule includes the federal grant activity of NORCOM and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from amount presented in, or used in the preparation of, the basic financial statements.



## **ABOUT THE STATE AUDITOR'S OFFICE**

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The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

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

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

**State Auditor**  
**Chief of Staff**  
**Deputy Chief of Staff**  
**Chief Policy Advisor**  
**Director of Audit**  
**Director of Performance Audit**  
**Director of Special Investigations**  
**Director for Legal Affairs**  
**Director of Quality Assurance**  
**Local Government Liaison**  
**Communications Director**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Brian Sonntag, CGFM**  
**Ted Rutt**  
**Doug Cochran**  
**Jerry Pugnetti**  
**Chuck Pfeil, CPA**  
**Larisa Benson**  
**Jim Brittain, CPA**  
**Jan Jutte, CPA, CGFM**  
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