



Office of the Washington State Auditor

Pat McCarthy

Exit Conference: NORCOM

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share the results of your audit and our draft reporting. We value and appreciate your participation.

Audit Reports

We will publish the following reports:

- Accountability audit for January 1, 2018 through December 31, 2019 - see draft report.
- Financial statement audits for January 1, 2018 through December 31, 2019 – see draft report.

Audit Highlights

- We would like to thank Marianne Ryerson, Finance Manager, as well as other Agency staff for their cooperation and timely responses to our requests throughout the audit, especially since the audit was performed in a remote environment.
- We would like to thank the Agency for its professional and positive interactions with SAO throughout the audit.
- We thank the Agency for its commitment to strengthening the relationship with the Office of the Washington State Auditor.

Recommendations not included in the Audit Reports

Exit Items

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or non-compliance with laws or regulation that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

Communications required by audit standards

In relation to our financial statement audit report, we would like to bring to your attention:

- Uncorrected misstatements in the audited financial statements are summarized on the attached schedule. We agree with management's representation that these misstatements are immaterial to the fair presentation of the financial statements.
- There were no material misstatements in the financial statements corrected by management during the audit.

Finalizing Your Audit

Report Publication

Audit reports are published on our website and distributed via e-mail in an electronic .pdf file. We also offer a subscription service that allows you to be notified by email when audit reports are released or posted to our website. You can sign up for this convenient service at: <https://portal.sao.wa.gov/SAOPortal/>

Management Representation Letter

We have included a copy of representations requested of management.

Audit Cost

At the entrance conference, we estimated the cost of the audit to be \$52,100 and actual audit costs will approximate that amount.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in 2021 and will cover the following general areas:

- Accountability for Public Resources
- Financial Statement

The estimated cost for the next audit based on current rates is \$21,800 plus travel expenses. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

If expenditures of federal awards are \$750,000 or more in any fiscal year, notify our Office so we can schedule your audit to meet federal single audit requirements. Federal awards can include grants, loans, and non-cash assistance such as equipment and supplies.

Working Together to Improve Government

Audit Survey

When your report is released you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

Local Government Support Team

This team provides support services to local governments through technical assistance, comparative statistics, training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally this team assists with the online filing of your financial statements.

The Center for Government Innovation

The Center for Government Innovation of the Office of the Washington State Auditor is designed to offer services specifically to help you help the residents you serve at no additional cost to your government. What does this mean? We provide expert advice in areas like Lean, peer-to-peer networking and culture-building to help local governments find ways to be more efficient, effective and transparent. The Center can help you by providing assistance in financial management, cybersecurity and more. Check out our best practices and other resources that help local governments act on accounting standard changes, comply with regulations, and respond to

recommendations in your audit. The Center understands that time is your most precious commodity as a public servant, and we are here to help you do more with the limited hours you have. If you are interested in learning how we can help you maximize your effect in government, call us at (564) 999-0818 or email us at Center@sao.wa.gov.

Questions?

Please contact us with any questions about information in this document or related audit reports.

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Clay Trushinsky, Assistant Audit Manager, (425) 679-6245, Clay.Trushinsky@sao.wa.gov

Jessie Fleming, CFE, Audit Lead, (425) 502 - 7067, Jessica.Fleming@sao.wa.gov



Office of the Washington State Auditor
Pat McCarthy

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Accountability Audit Report

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

For the period January 1, 2018 through December 31, 2019

Published (Inserted by OS)

Report No. (Inserted by OS)



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Office of the Washington State Auditor Pat McCarthy

Issue Date – (Inserted by OS)

Governing Board
NORCOM
Bellevue, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Agency operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the Agency's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

Signature Here (Please do not remove this line)

Pat McCarthy
State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In those selected areas, Agency operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of NORCOM from January 1, 2018 through December 31, 2019.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the Agency's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the years ended December 31, 2019 and 2018, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- IT user access and data backup & recovery – access to systems and review of processes for data backup and recovery
- Electronic Fund Transfers (EFTs) – review of disbursements using EFTs
- Credit card disbursements
- Payroll disbursements – review of overtime, retro pay, holiday buyouts, and employee recognition
- Procurement, contracts & agreements, and payment approval processes

RELATED REPORTS

Financial

Our opinion on the Agency's financial statements is provided in a separate report, which includes the Agency's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE AGENCY

The North East King County Regional Public Safety Communication Agency (NORCOM) is a consolidated 911 call taking and dispatching communications center founded in 2007 through an interlocal agreement between twenty public safety organizations in the northeast region of King County. The Agency's purpose is to establish, maintain and operate a public safety communications center. NORCOM serves over 645,000 citizens through the 911 system and provides communication services for 20 public entities.

In addition to call taking and dispatching, NORCOM manages two radio systems, supports two computer aided dispatch (CAD) systems, hosts multiple technology solutions, and provides 24/7/365 IT support for its staff and user agencies. A Governing Board, comprised of one representative of each user agency or municipality, is the oversight structure, and the Board appoints an Executive Director to manage day-to-day operations. The Agency's annual operating revenue for fiscal years 2018 and 2019 was \$12.7 million and \$13 million, respectively.

Contact information related to this report

Address:	NORCOM PO Box 50911 Bellevue, WA 98015-0911
Contact:	Marianne Ryerson, Finance Manager
Telephone:	(425) 577-5700
Website:	www.norcom.org

Information current as of report publish date.

Audit history

You can find current and past audit reports for the NORCOM at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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Office of the Washington State Auditor
Pat McCarthy

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Financial Statements Audit Report

North East King County Regional Public Safety Communication Agency

(NORCOM)

For the period January 1, 2018 through December 31, 2019

Published (Inserted by OS)

Report No. (Inserted by OS)



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

Issue Date – (Inserted by OS)

Governing Board
NORCOM
Bellevue, Washington

Report on Financial Statements

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

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

Sincerely,

Signature Here (Please do not remove this line)

Pat McCarthy

State Auditor

Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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*

I-1

NORCOM

January 1, 2018 through December 31, 2019

Governing Board
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 NORCOM, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated April 9, 2021.

As discussed in Note 11 to the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Agency is unknown.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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Pat McCarthy

State Auditor

Olympia, WA

April 9, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

F-1

NORCOM

January 1, 2018 through December 31, 2019

Governing Board
NORCOM
Bellevue, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of NORCOM, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed on page {inserted by OS}.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NORCOM, as of December 31, 2019 and 2018, 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.

Matters of Emphasis

As discussed in Note 11 to the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Agency is unknown. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page {financial section page number inserted by OS} 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 April 9, 2021 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.

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Pat McCarthy

State Auditor

Olympia, WA

April 9, 2021

FINANCIAL SECTION

NORCOM

January 1, 2018 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019 and 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019 and 2018

Statement of Revenues, Expenses and Changes in Net Position – 2019 and 2018

Statement of Cash Flows – 2019 and 2018

Notes to Financial Statements – 2019 and 2018

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2019 and 2018

ABOUT THE STATE AUDITOR'S OFFICE

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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

- NORCOM's financial position remains steady due to strong planning decisions made by NORCOM's board. In 2019, NORCOM experienced new and one-time expenditures in the operating fund resulting in an increase of operating expenses of \$1,976,132.
- The assets of NORCOM exceed liabilities by \$2,378,327 at the close of 2019.
- NORCOM's Net Pension Liability is reported as \$2,490,668 and unrestricted net position is (\$297,034).
- NORCOM remains sensitive to the financial pressures of its Participants face. Unexpected fund balances are applied toward unanticipated expenses or placed in the Rate Stabilization Fund to be applied toward future years' budgets to help alleviate large increases.

Overview of 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 Financials 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 2019 fiscal year. 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 year. It presents information on where cash came from and its use.

The Notes to the Financial Statements provides 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 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 six funds which 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, 2019 totaled \$2,378,327. The following is a condensed version of the Statement of Net Position and compares NORCOM's net position for 2017, 2018, and 2019.

	2019	2018	2017
Current and other assets	\$5,059,356	\$6,534,741	\$6,426,591
Capital assets, net	2,675,362	3,260,115	3,384,475
Total Assets	7,734,718	9,794,856	9,811,066
Current liabilities	2,865,722	2,969,000	2,015,251
Net pension liability	2,490,668	3,337,568	4,889,381
Total Liabilities	5,356,390	6,306,568	6,904,632
Invested in capital assets	2,675,362	3,260,115	3,384,476
Unrestricted	(297,034)	228,172	(478,042)
Total Net Position	\$2,378,327	\$3,448,287	\$2,906,434

Total Assets

The largest component of NORCOM's assets remains capital assets, net of related debt and depreciation. Work-in-progress projects are capitalized like capital assets, but do not accumulate depreciation until the project is complete. NORCOM has one project yet to be completed in 2019 and reflects \$450,505 in work-in-progress.

Current assets, which consist of cash, receivables and prepaid expenses, as well as deferred outflows of resources decreased 23%.

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. Current liabilities, net of deferred inflows of resources for pensions decreased by 3.5% over 2018. Deferred Inflows of Resources for Pensions increased \$135,774.

Net Pension Liability is the difference between the total pension liability (the present value of the projected benefit payments to employees based on their past service) and the assets set aside to pay current employees, retirees, and beneficiaries. NORCOM participates in the Public Employees Retirement System (PERS) run by the state. More information on PERS can be found in Note 8.

Reporting requirements that became effective in 2015 introduced Deferred Inflows of Resources for Pensions reported in a separate section, following liabilities on the statement. A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. Rather than increasing net position, a deferred inflow offsets the asset and net position remains unchanged.

Total Net Position

Over time, increases or decreases in NORCOM's net position are an indicator of NORCOM's overall financial growth. Unrestricted net position includes fund balance available in the Equipment Replacement fund, Rate Stabilization fund and Operating Expenses Reserves fund. 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.

The largest component of NORCOM's net position is the investment in capital assets, less debt related to acquisition or construction of the assets. These capital assets, \$2,675,362 or 112% 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 operation and as a result, are not for sale and therefore not available to fund current or future obligations.

Statement of Revenues, Expenditures, and Changes in Net Position

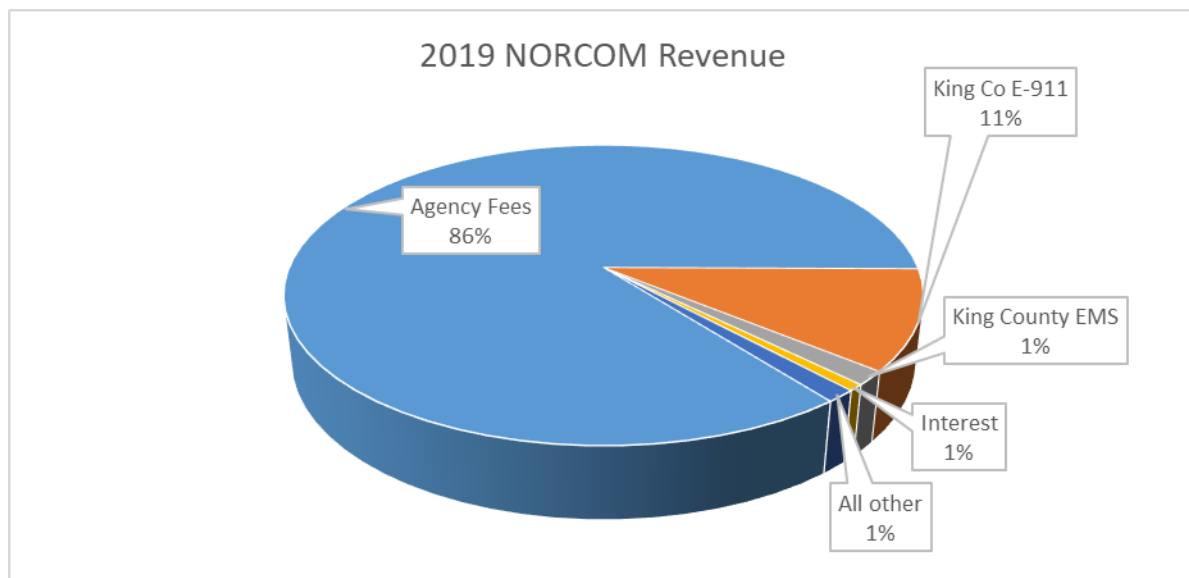
The condensed summary of activities reflects that net position decreased by \$1,109,960 during the year.

NORCOM's Change in Net Position

	2019	2018	2017
Operating Revenues	\$13,048,006	\$12,694,916	\$12,226,810
Operating Expenses	\$14,179,486	12,203,354	12,647,658
Change from Operations	(1,131,480)	491,562	(420,848)
Non-operating activity	21,521	90,291	43,362
Capital Contributions	0	0	0
Change in Net Position	(1,109,960)	581,853	(377,486)
Beginning Net Position	3,488,287	2,906,434	3,283,920
Ending Net Position	\$2,378,327	\$3,488,287	\$2,906,434

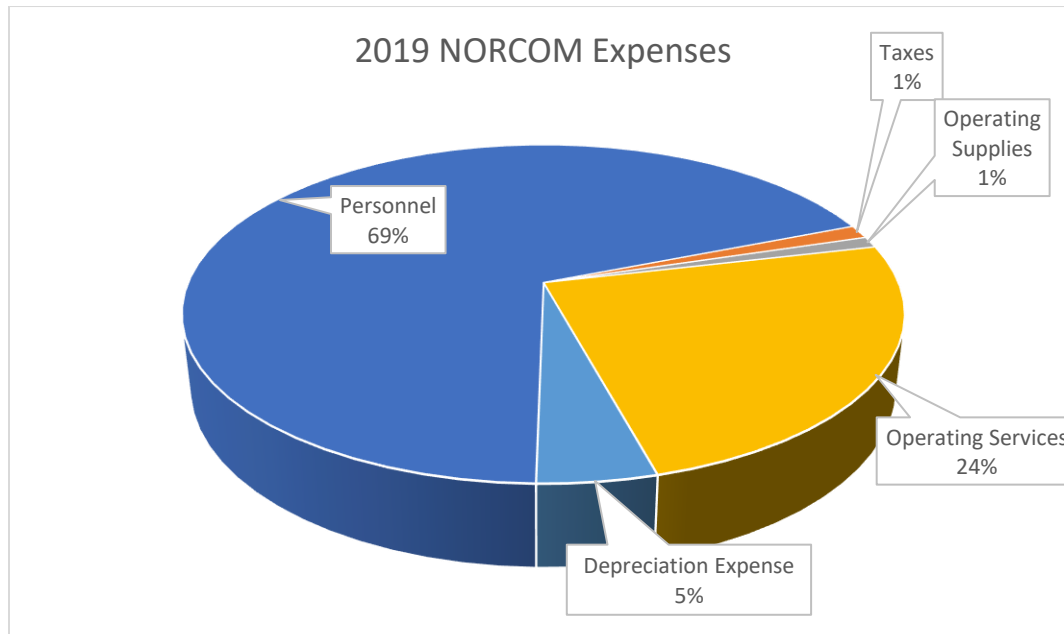
Revenue

The majority NORCOM's revenues are generated through charges for services. Principal fees increased in 2019 by 1%, while Other Intergovernmental Revenues provided by King County E-911 and EMS decreased 0.1%. The chart below graphically depicts the organization's revenue sources.



Expenses

Operating expenses increased 15.9% and is attributable to increases in personnel and operating services expenses over the prior year. Salaries and Benefits remains and will continue to be the majority of NORCOM's operating expense balance.



Capital Assets

At December 31, 2019, NORCOM had \$2,675,362 recorded in capital assets. Significant portions of NORCOM's capital assets include Data and Radio equipment, and intangible Computer Aided Dispatch (CAD) software.

Long-Term Debt

Section 13 of NORCOM's Interlocal agreement states that NORCOM does not have the authority to issue obligations or incur long-term debt.

Other Information

Public Employees Retirement System (PERS) rates increased from 12.83% to 12.86% in 2019.

NORCOM completed the final year of a 7-year lease with the City of Bellevue for NORCOM's operations at Bellevue City Hall in 2016. NORCOM and the City are currently operating on a year-to-year lease, with a four-year notification requirement to end the agreement.

A User Fee Policy Review and Analysis was completed in June 2014, which consisted of an overview of NORCOM's current User Fee Model, impacts to changing the current model, issues that will impact future funding formulas, and three different options for funding formulas. Note 1 – Revenue Rate Calculations provide more information on the results of the study for implementation of changes that began in 2017.

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, P.O. Box 50911, Bellevue, Washington, 98015.

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 financial position of NORCOM remains strong in 2018. NORCOM continues to work to control costs by increasing efficiencies in the operating fund resulting in a decrease of operating expenses of \$444,304.
- The assets of NORCOM exceed liabilities by \$3,448,287 at the close of 2018.
- NORCOM's Net Pension Liability is reported as \$3,337,568 and unrestricted net position is \$228,172.
- NORCOM remains sensitive to the financial pressures its Participants face. Unexpected fund balances are applied toward unanticipated expenses or placed in the Rate Stabilization Fund to be applied toward future years' budgets to help alleviate large increases.

Overview of 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 Financials 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 2018 fiscal year. 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 year. It presents information on where cash came from and its use.

The Notes to the Financial Statements provides 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 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 six funds which 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, 2018 totaled \$3,488,287. The following is a condensed version of the Statement of Net Position and compares NORCOM's net position for 2016, 2017, and 2018.

	2018	2017	2016
Current and other assets	\$6,534,741	\$6,426,591	\$7,319,198
Capital assets, net	3,260,115	3,384,475	4,105,849
Total Assets	9,794,856	9,811,066	11,425,047
Current liabilities	2,969,000	2,015,251	1,806,265
Net pension liability	3,337,568	4,889,381	6,334,862
Total Liabilities	6,306,568	6,904,632	8,141,127
Invested in capital assets	3,260,115	3,384,476	4,105,849
Unrestricted	228,172	(478,042)	(821,929)
Total Net Position	\$3,488,287	\$2,906,434	\$3,283,920

Total Assets

The largest component of NORCOM's assets remains capital assets, net of related debt and depreciation. Work-in-progress projects are capitalized like capital assets, but do not accumulate depreciation until the project is complete. NORCOM has one project yet to be completed in 2018 and reflects \$450,505 in work-in-progress.

Current assets, which consist of cash, receivables and prepaid expenses, as well as deferred outflows of resources increased 1.7%.

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. Current liabilities, net of deferred inflows of resources for pensions increased by 47.3% over 2017. Deferred Inflows of Resources for Pensions increased \$579,978.

Net Pension Liability is the difference between the total pension liability (the present value of the projected benefit payments to employees based on their past service) and the assets set aside to pay current employees, retirees, and beneficiaries. NORCOM participates in the Public Employees Retirement System (PERS) run by the state. More information on PERS can be found in Note 8.

Reporting requirements that became effective in 2015 introduced Deferred Inflows of Resources for Pensions reported in a separate section, following liabilities on the statement. A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. Rather than increasing net position, a deferred inflow offsets the asset and net position remains unchanged.

Total Net Position

Over time, increases or decreases in NORCOM's net position are an indicator of NORCOM's overall financial growth. Unrestricted net position includes fund balance available in the Equipment Replacement fund, Rate Stabilization fund and Operating Expenses Reserves fund. 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.

The largest component of NORCOM's net position is the investment in capital assets, less debt related to acquisition or construction of the assets. These capital assets, \$3,260,115 or 93.5% 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 operation and as a result, are not for sale and therefore not available to fund current or future obligations.

Statement of Revenues, Expenditures, and Changes in Net Position

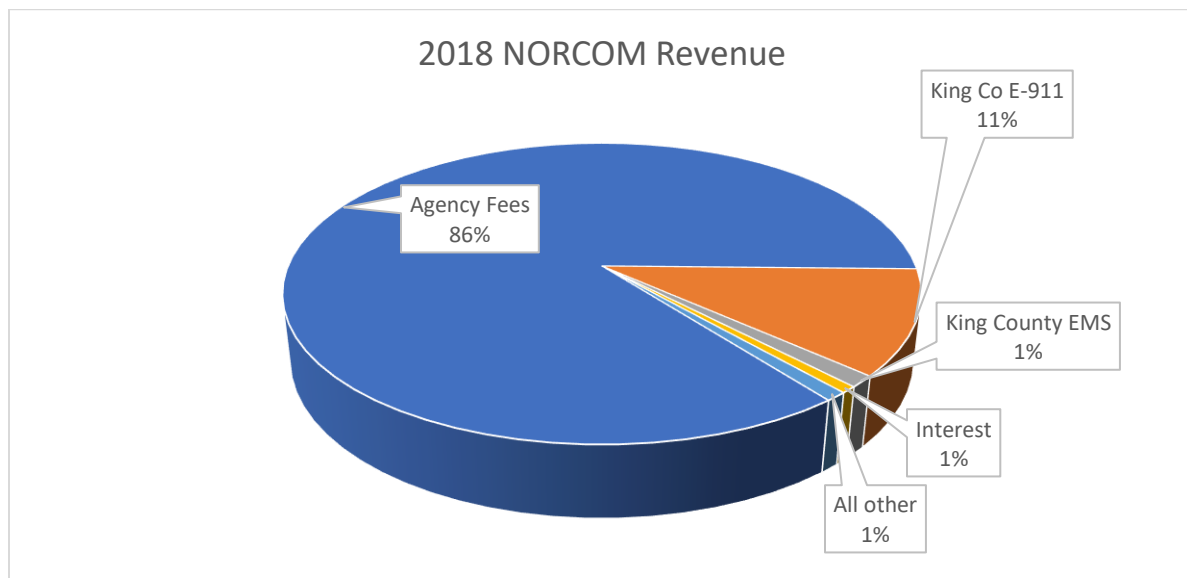
The condensed summary of activities reflects that net position increased by \$581,853 during the year.

NORCOM's Change in Net Position

	2018	2017	2016
Operating Revenues	\$12,694,916	\$12,226,810	\$12,338,508
Operating Expenses	12,203,354	12,647,658	13,257,871
Change from Operations	491,562	(420,848)	(919,363)
Non-operating activity	90,291	43,362	24,581
Capital Contributions	0	0	0
Change in Net Position	581,853	(377,486)	(894,782)
Beginning Net Position	2,906,434	3,283,920	4,178,702
Changes in Accounting Principal	0	0	0
Ending Net Position	\$3,488,287	\$2,906,434	\$3,283,920

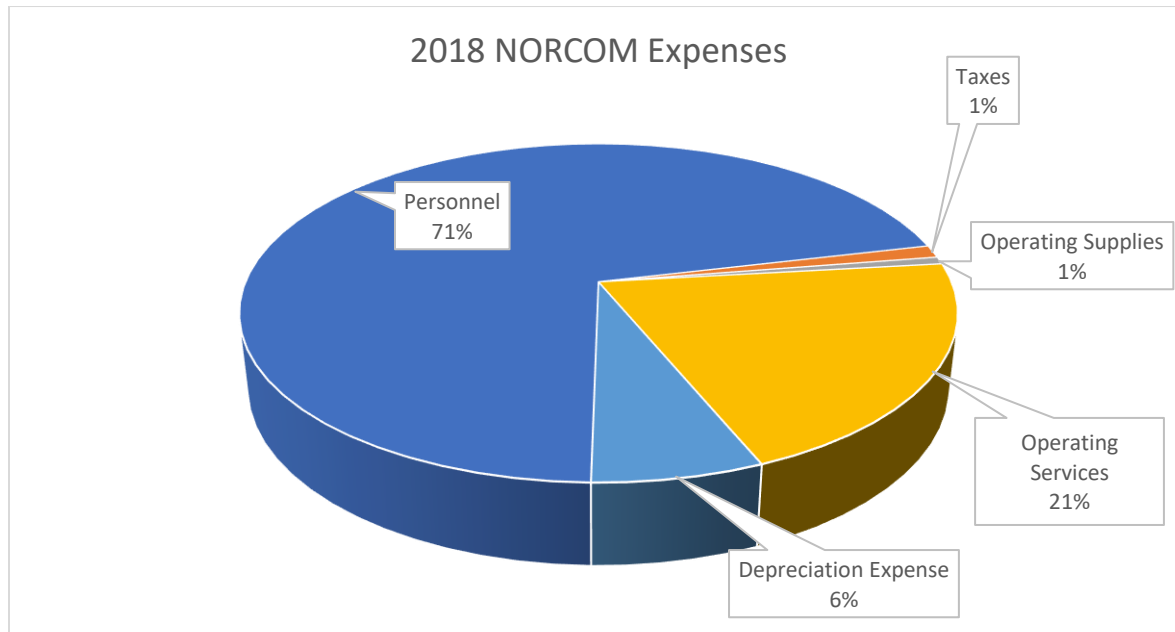
Revenue

The majority NORCOM's revenues are generated through charges for services. Principal fees increased in 2018 by 6.2%, while Other Intergovernmental Revenues provided by King County E-911 and EMS decreased 6.6%. The chart below graphically depicts the organization's revenue sources.



Expenses

Operating expenses decreased 3.6% and is attributable to a decrease in personnel expenses over the prior year. Salaries and Benefits remains and will continue to be the majority of NORCOM's operating expense balance.



Capital Assets

At December 31, 2018, NORCOM had \$3,260,115 recorded in capital assets. Significant portions of NORCOM's capital assets include Data and Radio equipment, and intangible Computer Aided Dispatch (CAD) software.

Long-Term Debt

Section 13 of NORCOM's Interlocal agreement states that NORCOM does not have the authority to issue obligations or incur long-term debt.

Other Information

In April 2014, NORCOM's Governing Board approved a recommendation to apply for membership in the Association of Washington Cities Employee Benefit Trust, saving approximately \$500,000 in benefit costs. In 2017, NORCOM once again achieved the status of a "Well City" and receives a 2% premium reduction.

Public Employees Retirement System (PERS) rates increased from 12.70% to 12.83% in 2018.

NORCOM completed the final year of a 7-year lease with the City of Bellevue for NORCOM's operations at Bellevue City Hall in 2016. NORCOM and the City are currently operating on a year-to-year lease, with a four-year notification requirement to end the agreement.

A User Fee Policy Review and Analysis was completed in June 2014, which consisted of an overview of NORCOM's current User Fee Model, impacts to changing the current model, issues that will impact future

funding formulas, and three different options for funding formulas. Note 1 – Revenue Rate Calculations provide more information on the results of the study for implementation of changes that began in 2017.

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North East King County Regional Public Safety Communications Agency
Statement of Net Position
December 31, 2019

Assets	2019
Current Assets:	
Cash	3,522,670
Receivables, net	90,599
Due from Other Governments	258,833
Prepaid Expenses	471,461
Total Current Assets	4,343,563
Noncurrent Assets:	
Capital Assets	
Work in Progress	450,505
Other Improvements	72,172
Machinery and Equipment	4,031,068
Property, Plant & Equipment, at cost	4,553,745
Less: Accumulated Depreciation	(3,796,717)
Property, Plant & Equipment, net	757,027
Intangible Assets	4,216,045
Less: Accumulated Amortization	(2,297,710)
Intangible Assets, net	1,918,334
Total Capital Assets, net	2,675,362
Total Noncurrent Assets	2,675,362
Total Assets	7,018,924
Deferred Outflows of Resources	715,793
Total Assets and Deferred Outflows of Resources	7,734,717
Liabilities and Fund Equity	
Current Liabilities:	
Accounts Payable	183,132
Accrued Payroll	557,191
Taxes Payable	85,674
Compensated Absences Payable	471,584
Total Current Liabilities	1,297,581
Net Pension Liability	2,490,668
Total Liabilities	3,788,249
Deferred Inflows of Resources	1,568,141
Total Liabilities and Inflows of Resources	5,356,390
Net Position:	
Net Investment in Capital Assets	2,675,362
Unrestricted	(297,034)
Total Net Position	2,378,327
Total Liabilities and Fund Equity	7,734,717

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

North East King County Regional Public Safety Communications Agency
Statement of Net Position
December 31, 2018

Assets	2018
Current Assets:	
Cash	5,245,411
Receivables, net	34,973
Due from Other Governments	170,735
Prepaid Expenses	472,134
Total Current Assets	5,923,253
Noncurrent Assets:	
Capital Assets	
Work in Progress	450,505
Other Improvements	72,171
Machinery and Equipment	4,031,980
Property, Plant & Equipment, at cost	4,554,656
Less: Accumulated Depreciation	(3,657,189)
Property, Plant & Equipment, net	897,467
Intangible Assets	4,288,273
Less: Accumulated Amortization	(1,925,625)
Intangible Assets, net	2,362,648
Total Capital Assets, net	3,260,115
Total Noncurrent Assets	3,260,115
Total Assets	9,183,368
Deferred Outflows of Resources	611,488
Total Assets and Deferred Outflows of Resources	9,794,856
Liabilities and Fund Equity	
Current Liabilities:	
Accounts Payable	613,731
Accrued Payroll	460,612
Taxes Payable	51,278
Compensated Absences Payable	411,012
Total Current Liabilities	1,536,633
Net Pension Liability	3,337,569
Total Liabilities	4,874,202
Deferred Inflows of Resources	1,432,367
Total Liabilities and Inflows of Resources	6,306,569
Net Position:	
Net Investment in Capital Assets	3,260,115
Unrestricted	228,172
Total Net Position	3,488,287
Total Liabilities and Fund Equity	9,794,856

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
Year Ended December 31, 2019

	2019
Operating Revenues	
Participating Agencies	11,133,542
Other Intergovernmental	1,769,453
Miscellaneous	145,011
Total Operating Revenues	13,048,006
Operating Expenses	
Personnel	9,744,465
Taxes	181,672
Operating Supplies	149,824
Operating Services	3,462,976
Depreciation Expense	640,549
Total Operating Expenses	14,179,486
Operating Income/(Loss)	(1,131,480)
Nonoperating Revenues/(Expenses)	
Interest and Investment Revenue	90,830
Grants	-
Gain/(Loss) on Disposals	(69,309)
Total Nonoperating Revenues/(Expenses)	21,521
Income Before Contributions	(1,109,960)
Capital Contributions	-
Change in Net Position	(1,109,960)
Net Position - Beginning	3,488,287
Net Position - Ending	2,378,327

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
Year Ended December 31, 2018

	2018
Operating Revenues	
Participating Agencies	10,977,335
Other Intergovernmental	1,679,062
Miscellaneous	38,519
Total Operating Revenues	12,694,916
Operating Expenses	
Personnel	8,678,517
Taxes	146,121
Operating Supplies	84,110
Operating Services	2,495,398
Depreciation Expense	799,208
Total Operating Expenses	12,203,354
Operating Income/(Loss)	491,562
Nonoperating Revenues/(Expenses)	
Interest and Investment Revenue	90,291
Grants	
Settlements	
Gain/(Loss) on Disposals	
Total Nonoperating Revenues/(Expenses)	90,291
Income Before Contributions	581,853
Capital Contributions	-
Change in Net Position	581,853
Net Position - Beginning	2,906,434
Net Position - Ending	3,488,287

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 Year Ended December 31, 2019

	<u>2019</u>
Cash Flows from Operating Activities:	
Cash received from customers and users	10,989,818
Cash paid to suppliers for goods and services	(4,042,720)
Cash paid to employees	(10,402,745)
Cash payments to taxes	(147,276)
Other receipts	1,914,464
Net Cash Provided (Used) by Operating Activities	<u>(1,688,459)</u>
Cash Flows from Capital and Related Financing Activities:	
Capital adjustments	-
Purchases of capital assets	(125,112)
Capital expenditures and deferred charges	-
Proceeds from sale of capital assets	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(125,112)</u>
Cash Flows from Investing Activities:	
Purchase of investments	-
Matured Investment	-
Cash Received from interest and dividends	90,830
Net Cash Provided (Used) by Investing Activities	<u>90,830</u>
Net Increase (Decrease) in Cash Balances	(1,722,741)
Cash Balance, Beginning of Year	<u>5,245,411</u>
Cash Balance, End of Year	<u><u>3,522,670</u></u>
Reconciliation of Operating Income to Net Cash Provided:	
Operating Income (Loss)	(1,131,480)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	640,549
Adjustments to Pension Expense	(815,426)
Changes in Assets and Liabilities:	
(Increase) decrease in due from receivables	(55,626)
(Increase) decrease in due from other governments	(88,098)
(Increase) decrease in prepaid expenses	673
Increase (decrease) in accounts payable	(430,599)
Increase (decrease) in payroll payables	96,579
Increase (decrease) in compensated absences payable	60,572
Increase (decrease) in taxes payable	34,396
Increase (decrease) in deferred revenue	-
Total Adjustments	<u>(556,979)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(1,688,459)</u></u>

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 Year Ended December 31, 2018

	<u>2018</u>
Cash Flows from Operating Activities:	
Cash received from customers and users	10,914,871
Cash paid to suppliers for goods and services	(2,504,372)
Cash paid to employees	(9,592,097)
Cash payments to taxes	(149,004)
Other receipts	2,894,300
Net Cash Provided (Used) by Operating Activities	<u>1,563,698</u>
Cash Flows from Capital and Related Financing Activities:	
Capital adjustments	(26,842)
Purchases of capital assets	(674,849)
Capital expenditures and deferred charges	-
Proceeds from sale of capital assets	-
Proceeds from Mediation Settlement	-
Loss on Disposal of Assets	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(701,691)</u>
Cash Flows from Investing Activities:	
Purchase of investments	-
Matured Investment	313,000
Cash Received from interest and dividends	97,098
Net Cash Provided (Used) by Investing Activities	<u>410,098</u>
Net Increase (Decrease) in Cash Balances	1,272,105
Cash Balance, Beginning of Year	<u>3,973,306</u>
Cash Balance, End of Year	<u><u>5,245,411</u></u>
Reconciliation of Operating Income to Net Cash Provided:	
Operating Income (Loss)	491,561
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	799,208
Adjustments to Pension Expense	(836,969)
Changes in Assets and Liabilities:	
(Increase) decrease in due from receivables	(7,422)
(Increase) decrease in due from other governments	1,121,677
(Increase) decrease in prepaid expenses	(378,129)
Increase (decrease) in due to other governments	-
Increase (decrease) in accounts payable	453,266
Increase (decrease) in payroll payables	45,022
Increase (decrease) in compensated absences payable	(121,634)
Increase (decrease) in taxes payable	(2,883)
Increase (decrease) in deferred revenue	-
Total Adjustments	<u>1,072,137</u>
Net Cash Provided (Used) by Operating Activities	<u><u>1,563,698</u></u>

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, 2019 through December 31, 2019

Note 1 – Summary of Significant Accounting Principles

The financial statements of NORCOM have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounts 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.

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 communications center. The North East King County Regional Public Safety Communications Agency (NORCOM) was formed in 2007 as a Washington not-for-profit corporation created by an Interlocal agreement between the founding agencies as authorized by the Interlocal Cooperation Act under Chapter 39.34 and 24.06 of the Revised Code of Washington.

Current principal agencies of NORCOM include City of Bellevue, City of Bothell, City of Clyde Hill, City of Kirkland, City of Medina, City of Mercer Island, City of Snoqualmie, City of Redmond, City of Normandy Park, 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. NORCOM was formed to provide emergency service communications and all related incidental functions for communicating and dispatching services between the public and participating agencies' direct service public safety departments in the furtherance of improved public safety and emergency response including but not limited to:

- Receiving 911 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 an 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.

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 full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

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 proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NORCOM has six funds: Operations, Capital Projects, Equipment Replacement, Operating Expense Reserve, King County E-911 Escrow Account, and the Rate Stabilization Reserve. All funds are combined and reported as one for financial statement purposes.

Revenue Rate Calculations – The participating agencies provide the majority of operating revenue to NORCOM. The method of allocating these revenue sources are defined in the Interlocal Agreement, Appendix A.

NORCOM's current formula is defined in the Interlocal Agreement, however it can be changed as part of the budget process. Changing the formula will have impacts to Participants, both positive and negative, depending on when the change is made, the implementation process and the size of the agency. Issues that may impact future funding models are related to using two CAD systems and the impacts to staff, and the technology service level agreements that are being developed.

The User Fee Policy Review and analysis presented three approaches to user fees; the Calls for Service Distribution model, where fees are based solely on the number of calls an agency generate, the Functional Distribution model, which takes into consideration Calls for Service and staff distribution for functions performed (call-taking, police dispatch, fire dispatch and police data), and the Service Metric Distribution model, which uses both Calls for Service and staff distribution, but also includes agency population and commissioned officer as a metric.

After analyzing each option for sustainability, predictability, understandability, equity, and administrative ease, the Functional Distribution model was determined to be the best option based on the criteria. A comparative analysis was provided to the Governing Board and the Board voted unanimously to adopt the Functional Distribution Model with implementation that began January 1, 2017.

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.

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 seven calendar quarters preceding that. The amount of financial participation allocated to the participating and subscribing agencies is the percentage of dispatched calls attributed to each jurisdiction average over two year compared to the total two-year average of actual dispatched calls of 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.

The cost distribution for the participating and subscribing agencies for 2019 was as follows:

Jurisdiction	Average Call Volume	Percentage of Total	2019 Operating Assessment
Participating Fire Agencies			
Bellevue Fire	16,090	8.5%	\$ 1,172,653
Bothell Fire	5,045	2.7%	367,660
Duvall Fire	757	0.4%	55,188
Eastside Fire and Rescue	8,755	4.6%	639,538
Fall City Fire	468	0.2%	34,108
Kirkland Fire	6,719	3.5%	489,642
Mercer Island Fire	2,325	1.2%	169,409
Northshore Fire	1,596	0.8%	189,159
Redmond Fire	8,107	4.3%	590,836
Shoreline Fire	8,775	4.6%	639,501
Skykomish Fire	299	0.2%	21,809
Snoqualmie Fire	655	0.3%	47,736
Snoqualmie Pass Fire*	-	-	35,000
Woodinville Fire	2,508	1.3%	182,764
TOTAL FIRE AGENCIES	62,099	32.8%	\$ 4,635,004
Participating Police Agencies			
Bellevue Police	66,025	34.8%	\$ 3,509,321
Clyde Hill Police	2,305	1.2%	101,742
Kirkland Police	43,503	23.0%	2,085,308
Medina Police	1,814	1.0%	80,393
Mercer Island Police	13,806	7.3%	616,775
Normandy Park Police*	-	-	105,000
TOTAL POLICE AGENCIES	127,453	67.2%	\$ 6,498,538

*The agreements approving Normandy Park Police and Snoqualmie Pass Fire joining NORCOM services established flat fees for 2019, and their call volume was not considered for the fee distribution.

Cash – It is the policy of NORCOM to invest all temporary cash surpluses. As of December 31, 2019, 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 operations 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. See Note 6 – Deposits and Investments.

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

Capital Assets and Depreciation – Capital assets, which include other improvement, machinery & equipment, intangible assets (software), 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 estimate 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 operation 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
Intangible Assets	10 years

Compensated Absences – Compensated absences are absences for which employees will be paid, such as vacation and paid time off. Accumulated amounts of vacation leave and paid time off (PTO) 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 600 hours. PTO accumulated in excess of the maximum limit shall be cashed out on the last paycheck issued in the year. A portion of the PTO accrued is designated as sick leave, and accumulates at the rate of 0.025 PTO hours for every hour worked. At the end of each calendar year, up to 40 hours of unused designated sick leave PTO will be rolled in to the following calendar year. The contract with NORCOM's Associated Guild was ratified in 2015 and runs from January 1, 2019 through December 31, 2021.

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

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of all State sponsored pension plans and additions to and deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems (DRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position – Net position for equipment is reserved for future use as reflected in the financial statements as follows:

NET POSITION:	2019	2018
Invested in Capital Assets	\$2,675,362	\$3,260,115
Unrestricted	(297,034)	228,172
TOTAL NET POSITION	\$2,378,327	\$3,488,287

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

Stabilization Agreements – During the 2012 budget process, the Governing Board approved Resolution 43, creating a Rate Stabilization fund that was financed with \$800,000 of 2012 ending fund balance. Future funding options include one-time revenues, new agency assessments and 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 GAAP in the United States, 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 – Accounting and Reporting Changes

Not Applicable

Note 3 – Capital Assets

Capital Assets of proprietary funds are capitalized in the Statement of Net Position. These assets are stated at cost or estimated cost when original cost is not available or appraised value at the time received as in the case of donations. Depreciation expense is charged to operations 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, 2018 is shown below:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not being Depreciated				
Work in Progress	\$ 450,505	\$ -	\$ -	\$ 450,505
Capital Assets, depreciated				
Machinery & Equipment	4,104,151	125,112	(126,017)	4,103,246
Intangible Assets	4,288,273	-	(72,228)	4,216,045
Less Accumulated Depreciation for:				
Machinery & Equipment	(3,657,189)	(196,236)	56,708	(3,796,717)
Intangible Assets	(1,925,624)	(444,313)	72,227	(2,297,710)
Capital Assets, net of depreciation	2,809,611	(515,437)	(69,310)	2,224,863
Total Capital Assets, Net	\$ 3,260,116			\$ 2,675,368

Note 4 – Construction and Other Significant Commitments

NORCOM has one active information technology project as of December 31, 2019. The project is directly related to “Disaster Recovery” and work in progress is \$450,505.

Note 5 – Contingencies and Litigation

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

Note 6 – Deposit and Investments

Deposits – NORCOM’s deposits are mostly covered by federal deposit insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

NORCOM’s deposits and investment position at fair value at the end of the fiscal year 2019 (excluding petty cash) is:

	December 31, 2019
Checking	\$217,467
Savings	909,996
Municipal Investor Savings	312,988
E-911 Escrow	809,078
LGIP	1,272,941
Total	\$3,552,470

Cash held in the King County E-911 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, which an average asset balance of about \$4 billion. On average, County agencies comprise 40% of the pool and outside districts 60%. The Executive Finance Committee (EFC) established 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 an investment policy of 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. The LGIP portfolio will be managed to meet the portfolio maturity, quality, diversification and liquidity requirements set forth in GASB 79.

Investments – Investment of funds can be in the form of federal government securities, repurchase agreements, banker's acceptances, certificates of deposit, 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.

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 LGIP is a 2a7-like pool and is unrated. The King County Investment Pool is also 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 by NORCOM will be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in safekeeping by a designated third-party custodian. All 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 U.S. 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.

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

Investments in the LGIP, a qualified external investment pool are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manager that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB 79 for external investments pools that elect to measure, for financial reporting purposes, investments at

amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

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

The Washington State Local Government Investment Pool is an unrated 2a7-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, 2018 was 42 days.

NORCOM is a participant in the King County Investment Pool, an external investment pool. NORCOM reports its investment in the Pool at the fair value amount, which is the same as the value of the Pool per share. The responsibility for managing the pool resides with the County Treasurer. The Pool is established from the RCW 36.29 which authorizes the County Treasurer to invest the funds of participants. NORCOM's investments policy is established by the Governing Board consisting of representatives from NORCOMS participating and subscribing agencies. The county external investment pool does not have a credit rating and had a weighted average maturity of 0.94 years as of December 31, 2018.

Investments Measured at Fair Value – NORCOM measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

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

At December 31, 2018, NORCOM had the following investments measured at fair value:

King County Investment Pool	\$809,078

At December 31, 2018, NORCOM had the following investments measured at amortized cost:

Local Government Investment Pool	\$1,272,941

Concentration of Risk – Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. NORCOM does not have a formal policy for concentration of credit risk.

Note 7 – Operating Leases

NORCOM leases office space, radio sites, and other equipment under non-cancelable operating leases. Total cost for such leases was \$655,510 for the year ended December 31, 2019. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2019	655,510
2020	666,528
2021	714,382

Note 8 – Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions*, for the year 2019:

Aggregate Pension Amounts – All Plans	
Pension Liabilities	(\$2,490,668)
Pension Assets	-
Deferred Outflows of Resources	715,794
Deferred Inflows of Resources	(1,568,141)
Pension Expense	\$127,309

State Sponsored Pension Plans

Substantially all NORCOM 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 (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The State Legislature established, and amends, laws pertaining to the creation and administration of all public retirement systems.

The DRS, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employee's Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement

programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – June 2019		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%
July – December 2019		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2019		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%
July – December 2019		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%

NORCOM's actual PERS plan contribution were \$369,404 to PERS Plan 1 and \$573,310 to PERS Plan 2/3 for the year ended December 31, 2019.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study and the 2017 Economic Experience Study.

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

- Inflation: 2.75% total economic inflation; 3.50% salary inflation
- Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.4%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions since the last valuation.

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents NORCOM's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the (city/county/district's) proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$2,351,703	\$1,877,879	\$1,466,775
PERS 2/3	\$4,699,850	\$612,789	(\$2,740,914)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities/(Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2019, NORCOM reported a total pension liability of \$2,490,668 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$1,877,879
PERS 2/3	\$612,789

At December 31, 2019, NORCOM's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 12/31/18	Proportionate Share 12/31/19	Change in Proportion
PERS 1	0.050217%	0.048835%	-0.001382%
PERS 2/3	0.064124%	0.063087%	-0.001037%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans.

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

Pension Expense

For the year ended December 31, 2019, NORCOM recognized pension expense as follows:

	Pension Expense
PERS 1	\$18,764
PERS 2/3	108,545
TOTAL	\$127,309

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	-
Net Difference between projected and actual investment earnings on pension plan investments	-	(\$125,458)
Changes of Assumptions	-	-
Changes in proportion and differences between contribution and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	\$194,527	-
TOTAL	\$194,527	(\$125,458)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$175,566	(\$131,746)
Net Difference between projected and actual investment earnings on pension plan investments	-	(\$891,972)
Changes of Assumptions	\$15,692	\$(257,106)
Changes in proportion and differences between contribution and proportionate share of contributions	\$6,344	(\$161,859)
Contributions subsequent to the measurement date	\$323,666	-
TOTAL	\$521,267	(\$1,442,683)

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$175,566	(\$131,746)
Net Difference between projected and actual investment earnings on pension plan investments	-	(\$1,017,430)
Changes of Assumptions	\$15,692	(\$257,106)
Changes in proportion and differences between contribution and proportionate share of contributions	\$6,344	(\$161,859)
Contributions subsequent to the measurement date	\$518,193	\$-
TOTAL	\$715,794	(\$1,568,141)

Deferred outflows of resources related to pensions resulting from NORCOM's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows or resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2020	(\$27,696)
2021	(65,603)
2022	(23,411)
2023	(8,749)
2024	-
Thereafter	\$-

Year ended December 31:	PERS 2/3
2020	(\$297,944)
2021	(488,507)
2022	(233,741)
2023	(139,373)
2024	(79,595)
Thereafter	(\$5,922)

Year ended December 31:	TOTAL All Plans
2019	(\$325,639)
2020	(554,110)
2021	(257,152)
2022	(148,122)
2023	(79,595)
Thereafter	(\$5,922)

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 2019 was \$468,345 which represents its full liability. NORCOM's MEBT covered payroll for the year ending December 31, 2019, was \$7,553,952.

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 9 – Health & Welfare

NORCOM is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2019, over 280 cities, towns and non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and the AWC Board of Directors President and Vice President. The Trustees or its appointed delegates review and analyze Health Care Program options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

Note 10 - 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 11 – Subsequent Events

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

NORCOM continues to operate, as 911 is an essential service to the public. Most administrative service functions are performed remotely during the State's stay at home order.

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

North East King County Regional Public Safety Communications Agency

Notes to Financial Statements January 1, 2018 through December 31, 2018

Note 1 – Summary of Significant Accounting Principles

The financial statements of NORCOM have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounts 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.

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 communications center. The North East King County Regional Public Safety Communications Agency (NORCOM) was formed in 2007 as a Washington not-for-profit corporation created by an Interlocal agreement between the founding agencies as authorized by the Interlocal Cooperation Act under Chapter 39.34 and 24.06 of the Revised Code of Washington.

Current principal agencies of NORCOM include City of Bellevue, City of Bothell, City of Clyde Hill, City of Kirkland, City of Medina, City of Mercer Island, City of Snoqualmie, City of Redmond, City of Normandy Park, 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. NORCOM was formed to provide emergency service communications and all related incidental functions for communicating and dispatching services between the public and participating agencies' direct service public safety departments in the furtherance of improved public safety and emergency response including but not limited to:

- Receiving 911 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 an 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.

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 full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

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 proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NORCOM has six funds: Operations, Capital Projects, Equipment Replacement, Operating Expense Reserve, King County E-911 Escrow Account, and the Rate Stabilization Reserve. All funds are combined and reported as one for financial statement purposes.

Revenue Rate Calculations – The participating agencies provide the majority of operating revenue to NORCOM. The method of allocating these revenue sources are defined in the Interlocal Agreement, Appendix A.

NORCOM's current formula is defined in the Interlocal Agreement, however it can be changed as part of the budget process. Changing the formula will have impacts to Participants, both positive and negative, depending on when the change is made, the implementation process and the size of the agency. Issues that may impact future funding models are related to using two CAD systems and the impacts to staff, and the technology service level agreements that are being developed.

The User Fee Policy Review and analysis presented three approaches to user fees; the Calls for Service Distribution model, where fees are based solely on the number of calls an agency generate, the Functional Distribution model, which takes into consideration Calls for Service and staff distribution for functions performed (call-taking, police dispatch, fire dispatch and police data), and the Service Metric Distribution model, which uses both Calls for Service and staff distribution, but also includes agency population and commissioned officer as a metric.

After analyzing each option for sustainability, predictability, understandability, equity, and administrative ease, the Functional Distribution model was determined to be the best option based on the criteria. A comparative analysis was provided to the Governing Board and the Board voted unanimously to adopt the Functional Distribution Model with implementation that began January 1, 2017.

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.

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 seven calendar quarters preceding that. The amount of financial participation allocated to the participating and subscribing agencies is the percentage of dispatched calls attributed to each jurisdiction average over two year compared to the total two-year average of actual dispatched calls of 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.

The cost distribution for the participating and subscribing agencies for 2018 was as follows:

Jurisdiction	Average Call Volume from April 1, 2015 to March 31, 2017	Percentage of Total	2018 Operating Assessment
Participating Fire Agencies			
Bellevue Fire	15,904	8.6%	\$1,165,657
Bothell Fire	5,045	2.7%	369,765
Duvall Fire	741	0.4%	54,310
Eastside Fire and Rescue	8,474	4.6%	621,088
Fall City Fire	474	0.3%	34,741
King Co. Fire District 50	283	0.2%	20,742
Kirkland Fire	6,921	3.7%	507,263
Mercer Island Fire	2,244	1.2%	164,470
Northshore Fire	2,584	1.4%	189,390
Redmond Fire	8,037	4.4%	589,059
Shoreline Fire	8,748	4.7%	641,170
Snoqualmie Fire	693	0.4%	50,792
Woodinville Fire & Safety	2,489	1.3%	182,427
TOTAL FIRE AGENCIES	62,637	33.9%	\$4,590,874
Participating Police Agencies			
Bellevue Police	60,557	32.8%	\$3,320,461
Clyde Hill Police	2,190	1.2%	100,222
Kirkland Police	43,400	23.5%	2,145,225
Medina Police	2,030	1.1%	93,565
Mercer Island Police	13,903	7.5%	631,988
Normandy Park Police*	-	-	95,000
TOTAL POLICE AGENCIES	122,080	66.1%	\$6,386,461

*As a new agency to NORCOM in 2018, Normandy Park Police call volume was not included in the distribution calculations

Cash – It is the policy of NORCOM to invest all temporary cash surpluses. As of December 31, 2018, 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 operations 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. See Note 6 – Deposits and Investments.

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

Capital Assets and Depreciation – Capital assets, which include other improvement, machinery & equipment, intangible assets (software), 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 estimate 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 operation 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
Intangible Assets	10 years

Compensated Absences – Compensated absences are absences for which employees will be paid, such as vacation and paid time off. Accumulated amounts of vacation leave and paid time off (PTO) 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 for employees who have worked 5 to 20 years, 20% of balances for employees who have worked 20 to 25 years and 25% of balances for employees who have worked more than 25 years. The contract with NORCOM's Associated Guild was ratified in 2015 and runs from January 1, 2016 through December 31, 2018.

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

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of all State sponsored pension plans and additions to and deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems (DRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position – Net position for equipment is reserved for future use as reflected in the financial statements as follows:

NET POSITION:	2018	2017
Invested in Capital Assets	\$3,260,115	\$3,384,476
Unrestricted	228,172	(478,042)
TOTAL NET POSITION	\$3,488,287	\$2,906,434

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

Stabilization Agreements – During the 2012 budget process, the Governing Board approved Resolution 43, creating a Rate Stabilization fund that was financed with \$800,000 of 2012 ending fund balance. Future funding options include one-time revenues, new agency assessments and 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 GAAP in the United States, 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 – Accounting and Reporting Changes

Not Applicable

Note 3 – Capital Assets

Capital Assets of proprietary funds are capitalized in the Statement of Net Position. These assets are stated at cost or estimated cost when original cost is not available or appraised value at the time received as in the case of donations. Depreciation expense is charged to operations 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, 2018 is shown below:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not being Depreciated				
Work in Progress	-	450,505	-	450,505
Capital Assets, depreciated				
Machinery & Equipment	4,165,105	45,139	(106,093)	4,104,151
Intangible Assets	4,109,068	179,205	-	4,288,273
Less Accumulated Depreciation for:				
Machinery & Equipment	(3,503,921)	(259,361)	106,093	(3,657,189)
Intangible Assets	(1,385,776)	(539,848)		(1,925,624)
Capital Assets, net of depreciation	3,384,476	(574,865)	-	2,809,611
Total Capital Assets, Net	3,384,476			3,260,115

Note 4 – Construction and Other Significant Commitments

NORCOM has one active information technology project as of December 31, 2018. The project is directly related to “Disaster Recovery” and work in progress is \$450,505.

Note 5 – Contingencies and Litigation

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

Note 6 – Deposit and Investments

Deposits – NORCOM’s deposits are mostly covered by federal deposit insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

NORCOM’s deposits and investment position at fair value at the end of the fiscal year 2018 (excluding petty cash) is:

	December 31, 2018
Checking	\$222,537
Savings	2,542,215
Municipal Investor Savings	313,012
E-911 Escrow	923,497
LGIP	1,243,950
Total	<u>\$5,245,211</u>

Cash held in the King County E-911 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, which an average asset balance of about \$4 billion. On average, County agencies comprise 40% of the pool and outside districts 60%. The Executive Finance Committee (EFC) established 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 an investment policy of 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. The LGIP portfolio will be managed to meet the portfolio maturity, quality, diversification and liquidity requirements set forth in GASB 79.

Investments – Investment of funds can be in the form of federal government securities, repurchase agreements, banker’s acceptances, certificates of deposit, 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.

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 LGIP is a 2a7-like pool and is unrated. The King County Investment Pool is also 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 by NORCOM will be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in safekeeping by a designated third-party custodian. All 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 U.S. 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.

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

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

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

The Washington State Local Government Investment Pool is an unrated 2a7-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, 2018 was 42 days.

NORCOM is a participant in the King County Investment Pool, an external investment pool. NORCOM reports its investment in the Pool at the fair value amount, which is the same as the value of the Pool per share. The responsibility for managing the pool resides with the County Treasurer. The Pool is established from the RCW 36.29 which authorizes the County Treasurer to invest the funds of participants. NORCOM's investments policy is established by the Governing Board consisting of representatives from NORCOMS participating and subscribing agencies. The county external investment pool does not have a credit rating and had a weighted average maturity of 0.94 years as of December 31, 2018.

Investments Measured at Fair Value – NORCOM measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

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

At December 31, 2018, NORCOM had the following investments measured at fair value:

King County Investment Pool	\$923,497

At December 31, 2018, NORCOM had the following investments measured at amortized cost:

Local Government Investment Pool	\$1,243,950

Concentration of Risk – Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. NORCOM does not have a formal policy for concentration of credit risk.

Note 7 – Operating Leases

NORCOM leases office space, radio sites, and other equipment under non-cancelable operating leases. Total cost for such leases was \$639,395 for the year ended December 31, 2018. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2018	639,395
2019	654,065
2020	660,085

Note 8 – Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions*, for the year 2018:

Aggregate Pension Amounts – All Plans	
Pension Liabilities	(\$3,337,569)
Pension Assets	-
Deferred Outflows of Resources	611,488
Deferred Inflows of Resources	(1,432,367)
Pension Expense	\$10,418

State Sponsored Pension Plans

Substantially all NORCOM 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 (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution

retirement plans. The State Legislature established, and amends, laws pertaining to the creation and administration of all public retirement systems.

The DRS, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employee's Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local government; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the state Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – August 2018		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%
September – December 2018		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as a two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on year of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the State Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as percentage of covered payroll) for 2018 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – August 2018		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.70%	7.38%
September – December 2018		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%

NORCOM's actual PERS plan contribution were \$341,244 to PERS Plan 1 and \$506,143 to PERS Plan 2/3 for the year ended December 31, 2018.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

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

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

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions since the last valuation.

- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, employers, whose rates include a component for the PERS 1). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents NORCOM's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what NORCOM's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.4 percent) and one percentage point higher (8.4%) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$2,756,148	\$2,242,708	\$1,797,965
PERS 2/3	\$5,007,916	\$1,094,860	(\$2,113,409)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities/(Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2018, NORCOM reported a total pension liability of \$3,337,569 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$2,242,709
PERS 2/3	\$1,094,860

At December 31, 2018, NORCOM's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 12/31/17	Proportionate Share 12/31/18	Change in Proportion
PERS 1	0.053063%	0.050217%	-0.002846%
PERS 2/3	0.068254%	0.064124%	-0.004130%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans.

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

Pension Expense

For the year ended December 31, 2018, NORCOM recognized pension expense as follows:

	Pension Expense
PERS 1	\$54,010
PERS 2/3	(\$43,592)
TOTAL	\$10,418

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$-	\$-
Net Difference between projected and actual investment earnings on pension plan investments	\$-	(\$89,124)
Changes of Assumptions	\$-	\$-
Changes in proportion and differences between contribution and proportionate share of contributions	\$-	\$-
Contributions subsequent to the measurement date	\$172,382	\$-0
TOTAL	\$172,382	(\$89,124)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$134,201	(\$191,690)
Net Difference between projected and actual investment earnings on pension plan investments	\$-	(\$671,857)
Changes of Assumptions	\$12,808	(\$311,588)
Changes in proportion and differences between contribution and proportionate share of contributions	\$38,065	(\$168,108)
Contributions subsequent to the measurement date	\$254,032	\$-
TOTAL	\$439,106	(\$1,343,243)

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$134,201	(\$191,690)
Net Difference between projected and actual investment earnings on pension plan investments	\$-	(\$760,981)
Changes of Assumptions	\$12,808	(\$311,588)
Changes in proportion and differences between contribution and proportionate share of contributions	\$38,065	(\$168,108)
Contributions subsequent to the measurement date	\$426,414	\$-
TOTAL	\$611,488	(\$1,432,367)

Deferred outflows of resources related to pensions resulting from NORCOM's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows or resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2019	\$3,899
2020	(\$19,483)
2021	(\$58,463)
2022	(\$15,077)
2023	\$-
Thereafter	\$-

Year ended December 31:	PERS 2/3
2019	(\$111,436)
2020	(\$241,771)
2021	(\$435,362)
2022	(\$176,408)
2023	(\$80,489)
Thereafter	(\$112,702)

Year ended December 31:	TOTAL All Plans
2019	(\$107,537)
2020	(\$261,254)
2021	(\$493,825)
2022	(\$191,485)
2023	(\$80,489)
Thereafter	(\$112,702)

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 2018 was \$420,314 which represents its full liability. NORCOM's MEBT covered payroll for the year ending December 31, 2018, was \$6,784,379.

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 9 –Health & Welfare

NORCOM is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2018, over 280 cities, towns and non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and the AWC Board of Directors President and Vice President. The Trustees or its appointed delegates review and analyze Health Care Program options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required

by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

Note 10 - 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.

NORCOM
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2019
Last 5 Fiscal Years

	2019	2018	2017	2016	2015
<u>Employer's proportion of the net pension liability (asset)</u>	0.048835%	0.050217%	0.053063%	0.053620%	0.050637%
<u>Employer's proportionate share of the net pension liability</u>	\$ 1,877,879	\$ 2,242,708	\$ 2,517,881	\$2,879,647	\$ 2,648,786
<u>Covered payroll</u>	\$ 6,893,230	\$ 6,654,687	\$ 6,737,348	\$6,482,263	\$ 5,798,681
<u>Employer's proportionate share of the net pension liability as a percentage of covered payroll</u>	27.24%	33.70%	37.37%	44.42%	45.68%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	61.12%	63.22%	61.24%	57.03%	59.10%

NORCOM
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2019
Last 5 Fiscal Years

	2019	2018	2017	2016	2015
<u>Employer's proportion of the net pension liability (asset)</u>	0.063087%	0.064124%	0.068254%	0.068625%	0.065408%
<u>Employer's proportionate share of the net pension liability</u>	\$ 612,789	\$ 1,094,860	\$ 2,371,500	3,455,215	\$2,337,065
<u>Covered payroll</u>	\$ 6,893,230	\$ 6,654,687	\$ 6,737,348	\$6,482,263	\$ 5,798,681
<u>Employer's proportionate share of the net pension liability as a percentage of covered payroll</u>	8.89%	16.45%	35.20%	53.30%	40.30%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	97.99%	95.77%	90.97%	85.82%	89.20%

NORCOM
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2018
Last 4 Fiscal Years

	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.050217%	0.053063%	0.053620%	0.050637%
Employer's proportionate share of the net pension liability	\$ 2,242,708	\$ 2,517,881	\$2,879,647	\$ 2,648,786
Covered payroll	\$ 6,654,687	\$ 6,737,348	\$6,482,263	\$ 5,798,681
Employer's proportionate share of the net pension liability as a percentage of covered payroll	33.70%	37.37%	44.42%	45.68%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	61.24%	57.03%	59.10%

NORCOM
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2018
Last 4 Fiscal Years

	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.064124%	0.068254%	0.068625%	0.065408%
Employer's proportionate share of the net pension liability	\$ 1,094,860	\$ 2,371,500	3,455,215	\$2,337,065
Covered payroll	\$ 6,654,687	\$ 6,737,348	\$6,482,263	\$ 5,798,681
Employer's proportionate share of the net pension liability as a percentage of covered payroll	16.45%	35.20%	53.30%	40.30%
Plan fiduciary net position as a percentage of the total pension liability	95.77%	90.97%	85.82%	89.20%

NORCOM
Schedule of Employer Contributions
PERS 1
For the year ended December 31, 2019
Last 5 Fiscal Years

	2019	2018	2017	2016	2015
<u>Statutorily or contractually required contributions</u>	\$ 369,404	\$ 341,244	\$ 327,073	\$ 315,031	\$262,214
<u>Contributions in relation to the statutorily or contractually required contributions*</u>	\$ (369,404)	\$ (341,244)	\$ (327,073)	\$ (315,031)	\$ (262,214)
<u>Contribution deficiency (excess)</u>	\$ -	\$ -	\$ -	\$ -	\$ -
<u>Covered payroll</u>	\$ 7,444,278	\$ 6,750,879	\$ 6,737,348	\$6,482,263	\$ 5,798,681
<u>Contributions as a percentage of covered payroll</u>	4.96%	5.05%	4.85%	4.86%	4.52%

NORCOM
Schedule of Employer Contributions
PERS 2/3
For the year ended December 31, 2019
Last 5 Fiscal Years

	2019	2018	2017	2016	2015
<u>Statutorily or contractually required contributions</u>	\$ 573,310	\$ 506,143	\$ 452,290	\$411,456	\$ 335,840
<u>Contributions in relation to the statutorily or contractually required contributions*</u>	\$ (573,310)	\$ (506,143)	\$ (452,290)	\$ (411,456)	\$ (335,840)
<u>Contribution deficiency (excess)</u>	\$ -	\$ -	\$ -	\$ -	\$ -
<u>Covered payroll</u>	\$ 7,444,278	\$ 6,750,879	\$ 6,737,348	\$6,482,263	\$ 5,798,681
<u>Contributions as a percentage of covered payroll</u>	7.70%	7.50%	6.71%	6.35%	5.79%

NORCOM
Schedule of Employer Contributions
PERS 1
For the year ended December 31
Last 4 Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Statutorily or contractually required contributions</u>	\$ 341,244	\$ 327,073	\$ 315,031	\$262,214
<u>Contributions in relation to the statutorily or contractually required contributions*</u>	<u>\$ (341,244)</u>	<u>\$ (327,073)</u>	<u>\$ (315,031)</u>	<u>\$ (262,214)</u>
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Covered payroll</u>	\$ 6,750,879	\$ 6,737,348	\$6,482,263	\$ 5,798,681
<u>Contributions as a percentage of covered payroll</u>	5.05%	4.85%	4.86%	4.52%

NORCOM
Schedule of Employer Contributions
PERS 2/3
For the year ended December 31
Last 4 Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Statutorily or contractually required contributions</u>	\$ 506,143	\$ 452,290	\$411,456	\$ 335,840
<u>Contributions in relation to the statutorily or contractually required contributions*</u>	<u>\$ (506,143)</u>	<u>\$ (452,290)</u>	<u>\$ (411,456)</u>	<u>\$ (335,840)</u>
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Covered payroll</u>	\$ 6,750,879	\$ 6,737,348	\$6,482,263	\$ 5,798,681
<u>Contributions as a percentage of covered payroll</u>	7.50%	6.71%	6.35%	5.79%



Exit Recommendations
NORCOM
Audit Period Ending: 12/31/2019

We are providing the following exit recommendations for management's consideration. They are not referenced in the audit report. We may review the status of the following exit items in our next audit.

Accountability:

Annual Report Filing

The Agency filed their FY2019 annual report 161 days late due to turnover in key finance positions.

We recommend the Agency continue to improve controls to ensure the annual report is filed by the statutory deadline, as required by RCW 43.09.230.

Purchase/Travel Cards

We reviewed the Agency's controls over purchase and travel cards and tested selected transactions. During our testing, we noted the following:

- 14 out of 21 credit card purchases reviewed did not include an itemized receipt as required by Agency policy and RCW 42.24.115. Instead, the transactions had a credit card slip showing the total amount of the purchase.
- 15 out of 21 credit card purchases reviewed did not include the Transaction Detail Report used in the p-card reconciliation process as required by Agency policy.

We recommend the Agency establish procedures to ensure:

- Itemized receipts are obtained to support all purchase card transactions
- Reconciled and signed Transaction Reports are submitted to the Finance Department before processing for payment and records are properly maintained to support all purchase card transactions

Financial Statements:

Cash and Investment Reconciliations

The Agency did not perform the December 2019 bank reconciliation until July 2020, and bank reconciliations for the months June 2019 through April 2020 were not performed timely due to changes in key accounting personnel. The Agency has since performed reconciliations for each month during this time period with the on boarding of a new Finance Manager.

We recommend the Agency continue to improve controls to perform and review its monthly



Exit Recommendations
NORCOM
Audit Period Ending: 12/31/2019

bank reconciliations timely.

Capital Asset Controls

We reviewed the Agency's capital asset policy and noted the following procedures that deviate from the policy:

- The policy specifies the use of an "Asset Control Sheet", but this sheet is no longer used because the process is now electronic.
- The policy specifies asset depreciation begins the next full year from when the asset is put in service, however, this was not applied uniformly in the previous years. Assets were amortized and depreciated in fiscal years 2018 and 2019 by prorating the number of months of the year the asset was in service when it is first capitalized.
- Asset Disposition Forms for all assets disposed in FY 2018 and FY 2019 were not completely filled-out as required by policy.

Further, we noted the following control deficiencies during our testing:

- The Agency capitalized 134 items with a per unit cost below the \$5,000 capitalization threshold outlined in policy. This resulted in the Machinery and Equipment balance being overstated by \$177,058 for both fiscal years 2018 and 2019.
- The Agency did not perform a physical inventory for fiscal years 2018 and 2019, causing assets that were disposed of in 2017 to be included in the FY 2018 and FY 2019 balances. This resulted in the Machinery and Equipment balance being overstated by \$530,438 for both fiscal years 2018 and 2019.
- The Agency capitalized \$31,217 more than what could be substantiated from the provided invoices and support for its Intangible Asset balance. This resulted in the Intangible Assets balance being overstated by \$31,217 for both fiscal years 2018 and 2019.

We recommend the Agency:

- Update its policy to ensure it reflects the Agency's current procedures.
- Establish procedures to ensure a physical inventory is performed and the capital asset reported balances are reduced with asset disposals during the period.
- Establish procedures to ensure that documentation is properly obtained for any disposition of capital assets.



Exit Recommendations
NORCOM
Audit Period Ending: 12/31/2019

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- Review the capital asset listing and ensure only assets above the capitalization threshold are included.

NORCOM
January 1, 2018 through December 31, 2018
Schedule of Uncorrected Misstatements

Statement / Schedule	Description
Statement of Net Position	<u>Cash and Investments:</u> Cash on the Statement of Net Position is understated by \$6,802.
Statement of Net Position	<u>Capital Assets - Machinery and Equipment balance:</u> <ul style="list-style-type: none"> • The Agency capitalized 134 Machinery and Equipment assets that were below its capitalization threshold of \$5,000 per unit as required by policy. Due to this error, the reported balance of Machinery and Equipment was overstated by \$177,058. • Based on our evaluation on the beginning balance of Machinery and Equipment, we noted three assets disposed in the fiscal year 2017 for a total of \$77,883 were included in the calculation of the Machinery and Equipment reported balance for fiscal year 2018. By including the disposed assets, the Machinery and Equipment balance was overstated. Since we performed a substantive sampling to test for our assertion, the known misstatement of \$77,883 projected a total over statement (known and likely) of \$530,438. • The Machinery and Equipment balance in aggregate is overstated by \$707,496
Statement of Net Position	<u>Capital Assets - Intangible Asset balance:</u> <ul style="list-style-type: none"> • Intangible Assets is overstated by \$31,217

NORCOM
January 1, 2019 through December 31, 2019
Schedule of Uncorrected Misstatements

Statement / Schedule	Description
Statement of Net Position	<p><u>Capital Assets - Machinery and Equipment balance:</u></p> <ul style="list-style-type: none"> • The Agency capitalized 134 Machinery and Equipment assets that were below its capitalization threshold of \$5,000 per unit as required by policy. Due to this error, the reported balance of Machinery and Equipment was overstated by \$177,058. • Based on our evaluation on the beginning balance of Machinery and Equipment, we noted three assets disposed in the fiscal year 2017 for a total of \$77,883 were included in the calculation of the Machinery and Equipment reported balance for fiscal year 2018. By including the disposed assets, the Machinery and Equipment balance was overstated. Since we performed a substantive sampling to test for our assertion, the known misstatement of \$77,883 projected a total over statement (known and likely) of \$530,438. • The Machinery and Equipment balance in aggregate is overstated by \$707,496
Statement of Net Position	<p><u>Capital Assets - Intangible Asset balance:</u></p> <ul style="list-style-type: none"> • Intangible Assets is overstated by \$31,217

LETTER OF REPRESENTATION TO BE TYPED ON CLIENT LETTERHEAD

April 9, 2021

Office of the Washington State Auditor
40 Lake Bellevue Drive Suite 123
Bellevue, WA 98005

To the Office of the Washington State Auditor:

We are providing this letter in connection with your audit of NORCOM for the period from January 1, 2018 through December 31, 2019. Representations are in relation to matters existing during or subsequent to the audit period up to the date of this letter.

Certain representations in this letter are described as being limited to matters that are significant or material. Information is considered significant or material if it is probable that it would change or influence the judgment of a reasonable person.

We confirm, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, the following representations made to you during your audit. If we subsequently discover information that would change our representations related to this period, we will notify you in a timely manner.

General Representations:

1. We have provided you with unrestricted access to people you wished to speak with and made available requested and relevant information of which we are aware, including:
 - a. Financial records and related data.
 - b. Minutes of the meetings of the governing body or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. Other internal or external audits, examinations, investigations or studies that might concern the objectives of the audit and the corrective action taken to address significant findings and recommendations.
 - d. Communications from regulatory agencies, government representatives or others concerning possible material noncompliance, deficiencies in internal control or other matters that might concern the objectives of the audit.
 - e. Related party relationships and transactions.
 - f. Results of our internal assessment of business risks and risks related to financial reporting, compliance and fraud.
2. We acknowledge our responsibility for compliance with requirements related to confidentiality of certain information, and have notified you whenever records or data containing information subject to any confidentiality requirements were made available.

3. We acknowledge our responsibility for compliance with applicable laws, regulations, contracts and grant agreements.
4. We have identified and disclosed all laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
5. We have complied with all material aspects of laws, regulations, contracts and grant agreements.
6. We acknowledge our responsibility for establishing and maintaining effective internal controls over compliance with applicable laws and regulations and safeguarding of public resources, including controls to prevent and detect fraud.
7. We have established adequate procedures and controls to provide reasonable assurance of safeguarding public resources and compliance with applicable laws and regulations.
8. We have no knowledge of any loss of public funds or assets or other illegal activity, or any allegations of fraud or suspected fraud involving management or employees.
9. In accordance with RCW 43.09.200, all transactions have been properly recorded in the financial records, notwithstanding immaterial uncorrected items referenced below.

Additional representations related to the financial statements:

10. We acknowledge our responsibility for fair presentation of financial statements and believe financial statements are fairly presented in conformity with generally accepted accounting principles in the United States of America.
11. We acknowledge our responsibility for establishing and maintaining effective internal control over financial reporting.
12. The financial statements include financial information of the primary government and all component units, fiduciary and other activity required by generally accepted accounting principles to be included in the financial reporting entity.
13. The financial statements properly classify all funds and activities.
14. All funds that meet the quantitative criteria in GASB requirements or are otherwise particularly important to financial statement users, are presented as major funds.
15. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported and depreciated as applicable.
16. We have no plans or intentions that may materially affect the reported value or classification of assets, liabilities or net position.
17. Revenues are appropriately classified by fund and account.

18. Expenses have been appropriately classified by fund and account, and allocations have been made on a reasonable basis.
19. Net position components (net investment in capital assets, restricted and unrestricted) are properly classified and, as applicable, approved.
20. Significant assumptions we used in making accounting estimates are reasonable.
21. The following have been properly classified, reported and disclosed in the financial statements, as applicable:
 - a. Interfund, internal, and intra-entity activity and balances.
 - b. Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - c. Joint ventures and other related organizations.
 - d. Guarantees under which the government is contingently liable.
 - e. All events occurring subsequent to the fiscal year end through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
 - f. Effects of all known actual or possible litigation, claims, assessments, violations of laws, regulations, contracts or grant agreements, and other loss contingencies.
22. We have accurately disclosed to you all known actual or possible pending or threatened litigation, claims or assessments whose effects should be considered when preparing the financial statements. We have also accurately disclosed to you the nature and extent of our consultation with outside attorneys concerning litigation, claims and assessments.
23. We acknowledge our responsibility for reporting supplementary information in accordance with applicable requirements and believe supplementary information is fairly presented, in both form and content in accordance with those requirements.
24. We have disclosed to you all significant changes to the methods of measurement and presentation of supplementary information, reasons for any changes and all significant assumptions or interpretations underlying the measurement or presentation.
25. We acknowledge our responsibility for the supplementary information required by generally accepted accounting principles in the United States (RSI) and believe RSI is measured and presented within prescribed guidelines.
26. We have disclosed to you all significant changes in the methods of measurement and presentation of RSI, reasons for any changes and all significant assumptions or interpretations underlying the measurement or presentation of the RSI.

27. We believe the effects of uncorrected financial statement misstatements summarized in the schedule of uncorrected items provided to us by the auditor are not material, both individually and in the aggregate, to each applicable opinion unit.
28. We acknowledge our responsibility not to publish any document containing the audit report with any change in the financial statements, supplementary and other information referenced in the auditor's report. We will contact the auditor if we have any needs for publishing the audit report with different content included.

Bill Hamilton
Executive Director

Marianne Ryerson
Finance Manager