



**KIM WYMAN
AUDITOR**

TO THE CITIZENS OF THURSTON COUNTY:

July 22, 2003

I am pleased to present the 2002 Comprehensive Annual Financial Report (CAFR) of the Thurston County government for your review. The CAFR is prepared in accordance with generally accepted accounting principles and provides detailed financial information on the revenues, expenditures, assets, and liabilities of Thurston County government for the fiscal year ending December 31, 2002. The major objective of the CAFR is to describe the County's financial condition and the financial results of its operations. As such, it is designed to provide information to our county commission, legislative bodies, creditors, investors, bond counsels, students of public finance, political scientists, and the public we serve on the financial status of the County.

This is the first year Thurston County is preparing their annual report in compliance with the new Governmental Accounting Standards Board Statement 34. I am proud to be able to present our financial information in a format that gives our readers an objective and easily readable analysis of our county's financial performance for the year. The CAFR is available upon request in hard copy, or via the Internet at the following address: <http://www.co.thurston.wa.us/auditor>.

REPORT SECTIONS

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes a transmittal letter, the County's organization chart, and a list of principal elected officials. The transmittal letter will present an overview of the report, the County's economic conditions and outlook, and identifies current issues that affect the government's financial circumstances. The financial section contains the general-purpose financial statements, including the management discussion and analysis (MD&A) notes, and the entity wide/individual fund/account groups' financial schedules. The statistical section presents a history of selected financial and demographic information over the past ten years.

THE COUNTY

Thurston County, Washington, is located at the southern end of Puget Sound in the beautiful Pacific Northwest. Majestic Mount Rainier and the rugged Cascade Mountains are nearby to the east, while Washington's Pacific Ocean coast is just an hour's drive to the west. Thurston County is 60 miles south of Seattle, Washington and is 100 miles north of Portland, Oregon. Thurston County is home to more than 200,000 residents. Nearly 100,000 residents live in the more urban north county areas in and around the cities of Lacey, Olympia, and Tumwater. The rest live in and around the smaller towns of Bucoda, Tenino, Rainier, and Yelm and in the more rural areas of Thurston County. Thurston County is the eighth most populated county among Washington State's 39 counties and is among the fastest growing counties in the Pacific Northwest.

Thurston County was created on January 12, 1852, by the Oregon Territorial Legislature and operates under the laws of the State of Washington applicable to county governments. The County is managed by a three member Board of Commissioners and provides a full range of municipal services, including: public safety (sheriff, judicial, and emergency services), construction and maintenance of roads and bridges, water and waste management, health and social services, cultural and recreational facilities and activities, planning and zoning services, job training, and general administrative services. The financial statements present Thurston County as the primary government as required by generally accepted accounting principles.

Thurston County is a statute county, which means the organization of the County is prescribed by state statute. Locally elected officials include the County Assessor, Auditor, Clerk, Prosecuting Attorney, Sheriff, Treasurer, seven Superior Court Judges, two District Court Judges and the three member Board of County Commissioners. These elected officials govern the County and establish policies on the basis of the local community's needs and preferences. The Board of County Commissioners acts as the County's legislative body and appoints a County Administrator who acts as the chief administrative officer of the County and oversees twelve major departments. By virtue of the County's authority over their operations, this CAFR includes financial data for all the funds and account groups of the County, including activities considered to meet the entity definition criteria established in Governmental Accounting Standards Board Statement No. 14 and No.34.

ECONOMIC CONDITIONS

Economic conditions play a significant role in the financial stability of Thurston County. The economy is dependent on many factors. In part, these are a product of (a) population and demographic trends; (b) employment and housing factors; (c) per capita income and inflation; and (d) retail sales. From 1990 to 2000, the Thurston County economy continued to increase steadily, but not at the same rate as the prior two decades. In 2001, the economy became stagnant as growth in both public and private employment was impacted first by the Boeing cutbacks and State budget, and secondly by the tragic events of September 11, 2001. This recession was further extended by a recent decision to close the local Miller Brewing Company and continued efforts to hold down government spending. The economic downturn in Thurston County in 2002 was somewhat mitigated by the opening of two large retail stores and two large warehouse distribution centers. The statistics and information that follows highlight the changes in the County's economic conditions for 2001 and 2002.

Population and Demographic Trends:

The population of Thurston County has grown from 174,300 in 1992 to 210,200 in 2001. This is an increase of 35,900 residents and an average growth rate of 2.3 percent per year. The majority of the population increase has been due to the continued in-migration of people into the County. Thurston County continues to be a desirable place to live, and has been one of the fastest growing of our State's 39 counties over the past decade. In 2002 the County's population increased slightly to 212,300. This reflected a much slower growth rate of approximately 1 percent. This is the result of a relatively stable economy, less job opportunities, and less in-migration.

Seniors continue to be one of the fastest growing segments of Thurston County's population. From 1980 to 2000, the population aged 65 and older increased from 12,230 to 23,629, basically doubling in number. Today our senior citizens constitute 11 percent of our total population. Projections show that by the year 2010, the population of people aged 65 or over will have increased to 13 percent of our total population and by the year 2020 to 17 percent. This is a trend that will place increased pressures on our public health care services and retirement facilities.

Thurston County, Washington 2002

Over the past twenty years, population growth has been fairly evenly distributed between the incorporated and unincorporated areas of the county. This is in stark contrast to the two previous decades of the 60's and 70's, when major shifts in population occurred in both directions. In calendar year 2001, approximately 55 percent of our population lived in unincorporated areas and 45 percent in incorporated jurisdictions.

The growth within our municipal cities has not been constant however. During the past decade, the cities of Lacey, Rainier and Yelm were all growing at an annual rate of 3.8 percent or better. Growth in Tumwater and Olympia, on the other hand, was slightly below the statewide average at 2.4 and 2.3 percent respectively. For 2001, growth rates slowed down in all jurisdictions, with only Yelm exceeding the statewide average at 4 percent. Much of the growth in Yelm took place through annexation.

Employment and Housing:

Between 1990 and 2000 (the most recent statistical year), the number of jobs available in the County has increased by 32 percent. By far, the largest percentage of increase over this 10-year span occurred in the Service industry, showing an increase of over 50 percent. For the most recent statistical period 1999 to 2000, the Service sector showed a growth rate in covered employment of 4.6 percent from 18,732 jobs in 1999 to 19,603 jobs in 2000. It was closely followed by the Transportation and Public Utilities Sector, which grew 3.3 percent from 2,152 jobs to 2,216 jobs in the same time period. The greatest overall increase in the actual number of jobs was in the Service sector, accounting for 871 new jobs, a 2.5 percent increase over 1999. The second largest number of new jobs was provided by the Government sector with 820 new jobs, a 2.5 percent increase. Local government increased by 211 jobs, or 2.2 percent. Employment in Thurston County was very stable, increasing by only 10 positions.

Despite an increase in total jobs in the County, the Manufacturing sector continues to lose overall market share in Thurston County. Manufacturing pays the third highest average wage but only accounts for about 5 percent of County jobs. In 2000, there was a very slight decrease in manufacturing employment of 184 jobs with 10 less companies. This trend will continue with the closure of Miller Brewing Company in 2003, and a possible reduction of another 400 jobs.

Over the past decade, new housing starts in Thurston County have proven to be quite steady. There were 2,789 residential housing permits in 1990, 2,029 in 1995, and 1,537 in 2000. Fifty percent of these permits were located within the urban growth boundaries. The average sales price for a home in 1990 was \$91,568. In 2001, the average sales price was \$163,989.

Per Capita Income and Inflation:

In 2000, the median household income for Thurston County was \$46,975, up from \$43,475 in 1999. In comparison with adjacent counties, Thurston County continues to experience a higher median household income than Lewis, Mason, Pierce and Grays Harbor counties, and is slightly higher than the Washington State average based on the last census. Real personal income for Thurston County, which is measured by dividing total personal income by population and adjusted for inflation, has increased slightly from \$23,299 in 1990 to \$26,460 in 2000 (the latest statistical year). This is a real per capita increase of \$3,161.

Taxable Retail Sales:

Another indication of economic conditions, especially as it applies to local government, is "taxable retail sales". This indicator measures purchasing and consumption activity in the County. In the last reported year, 2001, the County experienced a 5 percent increase in taxable retail sales. The "taxable retail sales" for the County has increased by an average of 6.3 percent annually from 1990 to 2000. In 2001, the rate of growth in taxable retail sales slowed slightly to 5.2 percent, and communities such as Rainier and Tenino actually experienced decreases in sales growth. The largest retail sales growth areas in 2001 occurred in Lacey and Tumwater, both increased over 11 percent. Preliminary figures for 2002 also show a very positive growth in local retail sales, possibly due to low interest rate loans on large consumer items such as cars and trucks.

FUTURE ECONOMIC OUTLOOK

Thurston Regional Planning predicts that the population in the year 2025 will be over 334,000, an increase of 58 percent over this twenty-five-year period. The Thurston Regional Planning Council also has projected an increase in employment for Thurston County from 112,000 persons to 161,000 by the year 2025. This is an increase of 44 percent over the twenty-five year period. The number of local jobs available is expected to increase at about the same rate as the labor force, with government and the service industry continuing to be the dominant employment base.

Thurston County's economic vitality has traditionally come from being the state capital. State government, with its substantial employment base, has significant ripple effects in the consumer business trade and services sectors. However, recent downturns in the economy and shortfalls in revenues are expected to continue to reduce government employment in the Thurston County area in the immediate future.

Most recently, Thurston County is working to solidify its role as a regional retail and services center as it attempts to draw customers from nearby counties. Recent construction of large warehouses for Target and Home Depot will help to establish this niche. Currently more people commute out of the County to work every day than those who commute into the County. The trend is expected to continue over the next 25 years. One of the keys to Thurston County's economy will be the success of efforts to have Thurston County residents purchase goods and services locally. Another is continued diversification in the work force, with a growth in business-to-business services.

Health care services, in particular, present the county with significant growth opportunities and challenges. Thurston County health care services are among the most comprehensive in southwest Washington, and Providence St. Peter Hospital just completed a major expansion project of their emergency rooms. On the other hand, rising health care costs and reduced government reimbursement rates are driving private health care providers out of the county and state.

Local governments in Thurston County are also experiencing a slow down in employment growth. Passage of new Initiatives has placed tight limits on revenue increases from traditional sources such as property taxes. Coupled with reductions in state grant funds from the limit on Motor Vehicle Excise Taxes, many local cities and the county are facing potential employment reductions beginning in 2002. Thurston County governments' strong reserve base will be a significant factor in recovering from the economic downturn in 2001 and in offsetting future reductions in state and federal support.

MAJOR ACCOMPLISHMENTS AND SERVICE EFFORTS

Like the previous year, 2002 brought with it many challenges. The combination of the February 2001 earthquake and the September 2001 terrorist attack led many counties, including Thurston, to put a high emphasis on security, preservation, and fiscal conservatism. Even while resources were limited and caution was an undertone to most decisions, Thurston experienced several significant accomplishments and ventures worthy of note.

Jail overcrowding continues to be a major challenge for Thurston County. Pressures on jail costs and security became so severe that the County Sheriff was forced to turn away new custody referrals from the local cities. To address this rising issue, local governments formed a committee in 2002 to look into a regional jail. The committee recommended a regional justice center be located near the Family and Juvenile Court facility in Tumwater. The justice center could include correctional, court, and associated law and justice facilities. Discussions are ongoing, but it is likely the inter-governmental committee will be advocating for a local property tax levy to be approved by the voters in the fall of 2003 or spring of 2004 to help construct and operate the new facility.

Thurston County, Washington 2002

Given the continued pressure on the State and local economy, County offices succeeded in holding down expenditures below budgets by almost \$1 million in 2002. One example was in printing of the budget. In an effort to reduce printing expenses, the County's adopted budget for 2002 was made available on the Internet.

One of the most significant accomplishments in 2002 was the review process leading to the successful selection of a new vendor, MUNIS Corporation, for Thurston County's financial system. A very detailed screening process was undertaken to review proposals from the three finalists. This was a true team effort, involving many hours of coordinating, planning and implementation from Central Services, Human Resources, the County Treasurer, the County Auditor, and department accountants. The contract was negotiated within budget and signed in early 2003. Implementation is scheduled for completion by the end of December 2003.

This partnership was also evident in other projects undertaken by the County. An interdepartmental Compliance team was formed with representatives from Development Services, Public Health, and Water and Waste Management. The objective is to have a coordinated approach to address any potential solid waste violations in the future without the consequences of costly litigation.

In 2002, Thurston County became one of the first counties in the nation to receive a grant entitled "Weed and Seed". The grant is a partnership with local law enforcement entities, local community volunteer groups and the Rochester School District. The central purpose of the grant focuses on cleaning up drug operations in and around the Rochester community and educating children about the dangers of drugs and alcohol. The County Prosecuting Attorney's Office was a major lead in procuring the grant funds.

In the spring of 2002, Thurston County opened a new Fair Exhibition and Meeting building at the County fairgrounds on Carpenter Road. This was just in time to help address the critical need for increased space when the fair started in August, and in helping to make the fair become more self-sufficient. The new facility is available for rental use on a year-round basis.

The County's Internal Audit program undertook one of its first performance audits in 2002 with a review of sales tax collections in incorporated vs. non-incorporated areas. The review was directed at ensuring that businesses located and doing business in the county vs. city were remitting their sales tax to Thurston County and not to the nearest city. The audit was successful in identifying a number of firms that were reported incorrectly and resulted in an increase of \$10,000 in annual collections.

Thurston County qualified for a national Certificate of Achievement for Excellence in Financial Reporting for the 2001 CAFR. The certificate of achievement is the highest form of recognition in government accounting and financial reporting. This is the third year in a row that Thurston County has been recognized. Unfortunately, due to budget cutbacks, the County will not be submitting the 2002 financial statements for national recognition. Possibly, this activity can be renewed in future years if resources are made available.

INTERNAL CONTROLS

In developing and evaluating the County's accounting systems, the County Auditor's Office has continued to give special consideration to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable assurance to citizens regarding: (1) accountability for assets, and safeguards against their loss through unauthorized use or disposition; and (2) the reliability of financial records as the basis for preparation of financial statements. The concept of "reasonable assurance" recognizes that: (a) the costs of control should not exceed the derived benefits; and (b) management is required to make estimates and use its judgement in evaluating all of the costs and benefits.

Thurston County management recognizes the importance of adequate internal controls and has an Internal Audit Committee. The Internal Audit Committee is comprised of the County Auditor, County Treasurer, and the Chief Administrative Officer. The County Internal Auditor reports to the committee, and works with county departments and offices to improve the effectiveness and efficiency of administrative and financial internal controls. We believe that the County's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording and presentation of financial transactions.

BUDGETARY CONTROLS

The 2002 Thurston County budget, including approved modifications, is \$324.8 million in all funds and \$52.1 million in General Funds (excluding the fund balance and residual equity transfers). This is only \$12.7 million more than the 2001 budget in all funds, and \$6.8 million more in General Funds. A combination of higher than expected revenues from sales taxes and fines, and tight budget controls, has resulted in an increase of \$2.5 million in available reserves. These additional reserves will be useful in meeting future budget challenges, as revenues continue to lag expenditure needs. For management purposes, budgets are maintained by establishing detailed line items. The Chief Administrative Officer is the only position authorized to transfer appropriation units between offices and departments within a fund.

Reports are prepared monthly for all department managers, comparing current budget appropriation levels to actual expenditures by detailed line items. The financial system also provides managers with on-line access to current expenditure and revenue balances, activities, and budgets. At year-end, the County utilizes a "13th month" accounting period to post all financial transactions attributable to the appropriate fiscal year.

The County Budget Team reviews the budget status of offices and departments at the mid-point of the fiscal year. If there is a need for budget modifications, requests are submitted to the County Auditor's Office, Chief Administrative Officer, and/or Board of County Commission (BoCC). Only the BoCC can approve budget extensions.

FINANCIAL INFORMATION

The financial information section provides detailed data on revenues, expenditures, assets and liabilities. Various schedules and notes show comparisons and trends between budgets and actuals. Financial summary information is grouped into categories entitled: General Government Functions, Proprietary Operations and Fiduciary Operations. Entity wide statements are shown for the first time in compliance with GASB 34, including the capitalization of assets such as roads, bridges, and parks.

CASH MANAGEMENT

In order to obtain maximum return on secure investments, the County Treasurer invests cash in certificates of deposit with qualified Washington State public depositories, U.S. Treasury and Agency securities, bankers acceptances, commercial paper and investments in the Washington State Treasurer's Local Government Investment Pool. Over 80% of invested cash held by the County are in US Agency and Instrumentality Securities. All investments at year-end 2002 were insured, registered, and/or held by the County or its agent in the County's name. All of these investments are classified in the lowest-risk category, as defined by the Governmental Accounting Standards Board (GASB).

RISK MANAGEMENT

Thurston County acquires insurance for general risk liability through the Washington Counties Risk Pool. Thurston County's insurance, loss expenditures, and accounting activities are centrally tracked within the County's Insurance Risk Internal Service Fund. The County presently purchases insurance for workers' compensation liabilities.

INDEPENDENT AUDIT

Washington State laws require an annual audit by the Washington State Auditor's Office (SAO) of the financial records and transactions of the County. SAO consistently performs this audit annually and I am pleased to report that Thurston County has continued to receive an unqualified opinion.

FINANCIAL MANAGEMENT COMMITTEE

The Financial Management Committee (FMC), formerly called the Financial Policy Committee, was established in 1989 to oversee the development of financial/accounting policies and procedures for the overall county, and to serve as an internal audit committee to ensure that proper financial controls are being used in county departments and offices. FMC members are Thurston County Auditor (chair), Thurston County Treasurer, and Thurston County Chief Administrative Officer.

MANAGEMENT RESPONSIBILITY

The County Auditor is responsible to accurately, completely, and fairly present financial data contained in this CAFR. It is presented in a manner that fairly states the financial position and results of operations of the County, as measured by the financial activity of its various funds in accordance with generally accepted accounting principles. The CAFR also includes all disclosures necessary to enable the reader to gain an understanding of the County's financial affairs. To the best of my knowledge and belief, the enclosed statements are accurate in all material respects.

ACKNOWLEDGMENTS

Thurston County Auditor's Division of Financial Services prepared the CAFR, with assistance from the staff of the Thurston County Treasurer's Office. I appreciate the efforts of accounting staff members in all County departments, who contributed information necessary for compilation of this report. And I express our thanks to the Thurston County Board of Commissioners and the Financial Management Committee for their responsible interest in, and progressive support of, the conduct of financial operations and systems of Thurston County government.

Respectfully Submitted,



KIM WYMAN
THURSTON COUNTY AUDITOR

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Thurston County,
Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2001

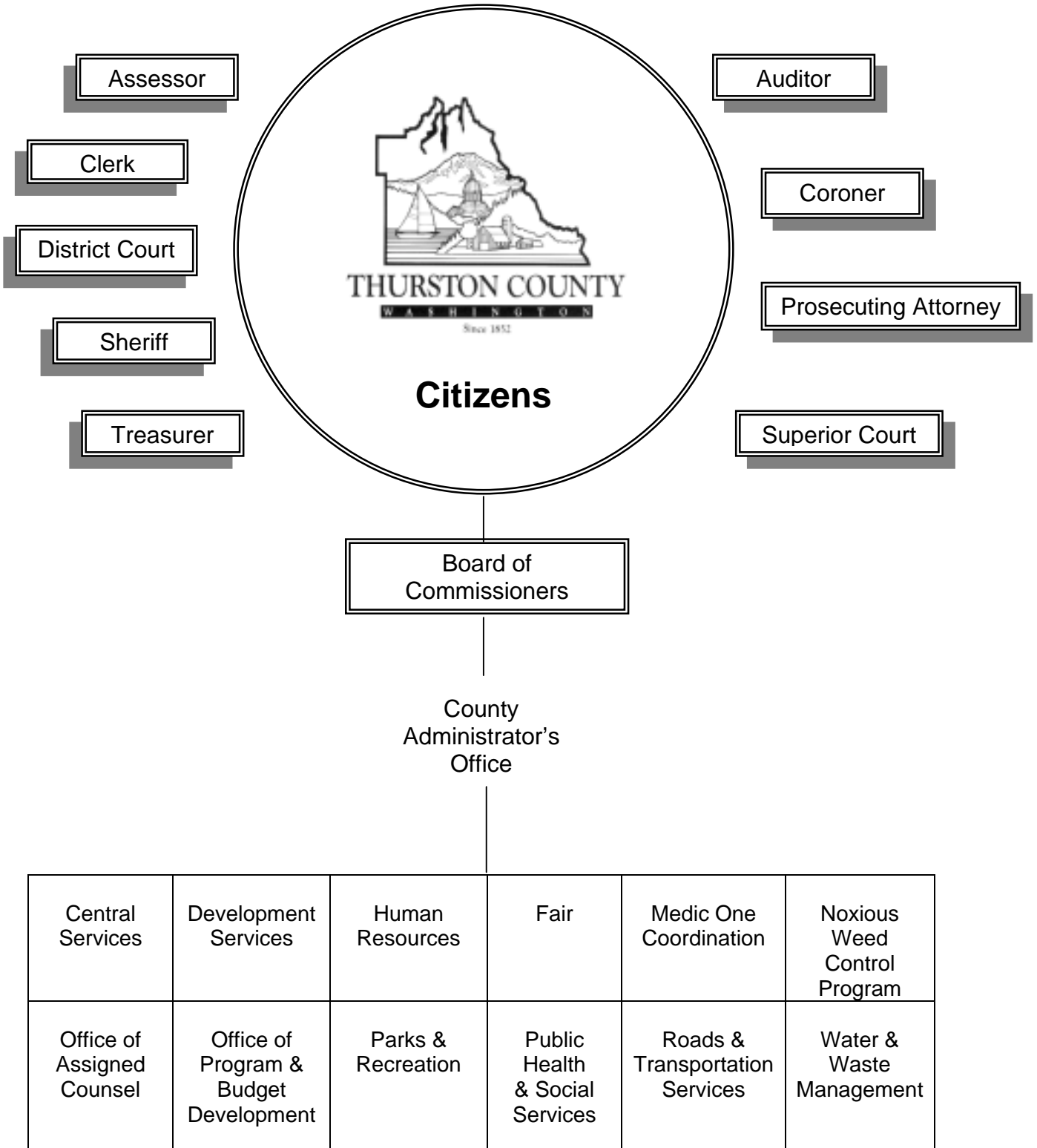
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

THURSTON COUNTY ORGANIZATION CHART



Elected Officials

December 31, 2002

Thurston County Board of Commissioners

Honorable Cathy Wolfe, **District One**
Honorable Diane Oberquell, **District Two**
Honorable Kevin J. O'Sullivan, **District Three**

Honorable Patricia Costello, **Assessor**

Honorable Kim Wyman, **Auditor**

Honorable Betty J. Gould, **Clerk**

Honorable Judy Arnold, **Coroner**

Honorable Edward G. Holm, **Prosecuting Attorney**

Honorable Gary Edwards, **Sheriff**

Honorable Robin Hunt, **Treasurer**

District Court Judges

Honorable Susan A. Dubuisson
Honorable Clifford L. Stiliz, Jr.

Superior Court Judges

Honorable Daniel J. Berschauer
Honorable Paula Casey
Honorable Richard A. Strophy
Honorable Wm. Thomas McPhee
Honorable Richard D. Hicks
Honorable Christine A. Pomeroy
Honorable Gary R. Tabor