



KIM WYMAN
AUDITOR

TO THE CITIZENS OF THURSTON COUNTY

September 2004

I am pleased to present the 2003 Annual Financial Report (AFR) of the Thurston County government for your review. The AFR 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, 2003. The major objective of the AFR is to describe the County's financial condition and the financial results of its operations. As such, it is designed to provide financial status information to our county commission, legislative bodies, creditors, investors, bond counsels, students of public finance, political scientists, and the public we serve.

This is the second 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 AFR 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 AFR 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, Washington 2003

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 AFR 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, including (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. The economy took a downturn in 2001 and 2002, fueled first by the cutbacks in Boeing and then by the aftermath of the tragic events of September 11, 2001. This was somewhat mitigated by the opening of two large retail stores and two large warehouse distribution centers. In 2003, an emphasis was placed on business retention and the creation of quality jobs in technology-based businesses, light manufacturing, and distribution centers. The statistics and information that follows highlight the changes in the County's economic conditions for 2002 and 2003.

Population and Demographic Trends

The population of Thurston County has grown from 181,700 in 1994 to 214,800 in 2003. This is an increase of 33,100 residents and an average growth rate of 2.0 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 2003 the County's population increased slightly from 212,300 to 214,800. This reflected a much slower growth rate of approximately 1.2 percent. This is the result of 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 19 percent. This is a trend that will place increased pressures on our public health care services and retirement facilities.

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 CY 2003, approximately 56 percent of our population lives in unincorporated areas and 44 percent in incorporated jurisdictions.

The growth within our municipal cities has not been constant however. During the past decade, the city of Yelm has been the fastest growing area, with an annual rate of over 5 percent. Growth in other cities, including Tumwater, Olympia, and Lacey, ranged from .67 to 1.79 percent. Excluding Yelm, the average rate of growth was at or very near the statewide average of 1.1 percent. Much of the growth in Yelm took place through annexation.

Employment and Housing

Between 1990 and 2000, 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. In 2001 (the latest statistical year) the number of full-time and part-time jobs in Thurston County was 112,929. For the period 2000 to 2001, the Financial, Insurance, and Real Estate sector showed the greatest rate of growth in covered employment, increasing from 2,906 jobs to 3,131 jobs or 7.7 percent. The second largest rate of growth was in the Government sector. The number of new jobs provided by the Government sector was 1,065, a 3.2 percent increase. Within the Government sector, local government had the largest increase at 666 jobs, or 6.7 percent. Employment in Thurston County government was on the other hand very stable, decreasing by 14 positions. The only other sectors to show increased employment growth in 2001 were the Transportation and Public Utilities Sector, which grew 0.7 percent from 2,216 jobs to 2,232 jobs, and the Retail sector, which grew by 85 jobs or 0.6 percent in the same time period.

While the Service industry was the fastest growing job sector in Thurston County in the 1990's, it joined Manufacturing, Construction, Mining, Agriculture, and Wholesale Trade as net job losers in 2001. The Manufacturing sector was hardest hit in 2001 with a net loss of 308 jobs or a negative growth rate of 7.6 percent in Thurston County. This trend will continue with the closure of Miller Brewing Company in 2003, and a reduction of another 400 jobs. Service industry employment was only slightly down in 2001, but was beginning to experience the pressures of rising health care and liability costs.

Over the past decade, new housing starts in Thurston County have reduced steadily. There were 2,789 residential housing permits in 1990, 2,029 in 1995, and 1,666 in 2002. Forty percent of these permits were located within Thurston County cities, 24 percent in the urban growth boundaries, and 36 percent in the unincorporated areas of the county. The average sales price for a home in 1990 was \$91,568. In 2002, the average sales price was \$171,360.

Housing affordability overall was relatively good for Thurston County with an index of 154.1 vs. 145.1 statewide. The higher the index is, the more affordable the housing. An index of 100.0 is considered a good balance between monthly income and housing costs. For first time homebuyers, the index was 92.7, slightly above the previous year.

Household and Per Capita Income

In 2001, the estimated median household income for Thurston County was \$47,998, down slightly from \$48,388 in 2000. Projections for 2002 show a rise to \$48,959, or slightly higher than 2000 levels. In comparison with adjacent counties, Thurston County continues to experience a higher median household income than adjacent Lewis, Mason, Pierce and Grays Harbor counties, but is projected to be almost a thousand dollars lower than the overall average for Washington State.

Thurston County, Washington 2003

Real personal income for Thurston County, which is measured by dividing total personal income by population and adjusted for inflation, has increased slightly from \$23,733 in 1990 to \$26,989 in 2000. This is a real per capita increase of \$3,256. During the same time period, Washington State's real personal income increased from \$25,564 to \$31,855, an increase of \$6,291. In 2001 (the latest statistical year), Thurston County's per capita income increased to \$28,266. This is an increase of \$1,277 and compares with an overall statewide increase of only \$121.

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, between 2001 and 2002, the County experienced a 10 percent increase in taxable retail sales. This is double the growth in taxable retail sales from 2000 to 2001. The "taxable retail sales" for the County has increased by an average of 6.5 percent annually from 1990 to 2002. The unincorporated sector of the County increased by 5.1 percent during this same time period, while the city of Yelm increased by almost 10 percent. From 2001 to 2002, the rate of growth in taxable retail sales increased significantly to 10 percent, possibly due to low interest rate loans on large consumer items such as cars and trucks.

Communities such as Tenino and Lacey actually experienced a jump of 24 percent and 17 percent respectively. All city jurisdictions and the unincorporated county rebounded from the down years of 2000 and 2001, with the exception of Bucoda. After doubling taxable retail sales over the past decade, Bucoda experienced a decrease of \$148,149 in 2002 or 11 percent.

Future Economic Outlook

Thurston Regional Planning predicts that the population in the year 2025 will be over 334,000, an increase of 56 percent over this twenty-two year period. The Thurston Regional Planning Council also has projected an increase in employment for Thurston County from 112,900 persons in 2001 to 160,900 by the year 2025. This is an increase of 43 percent over the twenty-four 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 hold state government employment growth down in the Thurston County area in the immediate future.

With a curtailment in state government growth, Thurston County is working to solidify its role as a regional retail and services center. 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 and home-based 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 is in the midst of completing a major expansion project. On the other hand, rising medical malpractice liability insurance 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 recent Initiatives and potential for new voter-approved Initiatives has placed tight limits on revenue increases from traditional sources such as property taxes. Coupled with the elimination of state grant funds from Motor Vehicle Excise Taxes, many local cities and the county will continue to experience employment reductions that began in 2001 and 2002. Thurston County governments' strong reserve base will be a significant factor in offsetting future reductions in state and federal support, at least in the short run. The long-term outlook will depend on a combination of the strength in local economic recovery and the availability of dedicated revenue sources to support new and ongoing program growth opportunities.

MAJOR ACCOMPLISHMENTS AND SERVICE EFFORTS

Like the previous year, calendar year 2003 brought with it many challenges. The biggest challenge was the increased emphasis on public safety, combined with limited resources and a need for budgetary restraint. Even while resources were limited and caution was an undertone to most decisions, Thurston County experienced several significant accomplishments and ventures worthy of note.

Given the continued pressure on the State and local economy, the Board of County Commissioners worked with both elected and non-elected offices and departments to trim the 2003 General Fund budget by \$3.6 million, a reduction of approximately 3 percent from 2002. Seventeen General Fund-supported positions were slated for elimination in the approved budget. Two Deputy Sheriff positions were subsequently restored when the citizens of Thurston County successfully passed a sales tax increase to support the County's enhanced 911- communication system. Passage of this measure freed up General Fund dollars that were then redirected to the Sheriff's Office to support the continued operation of these two positions and seven correctional officer positions that were earmarked for reduction in the preliminary budget.

One of the most significant accomplishments in 2003 was the implementation and associated training of a new financial system, MUNIS Corporation, for Thurston County. This involved hundreds of people and the installation of software on over 150 local personal computers. This was a true team effort, involving many hours of coordinating planning and implementation from the selected vendor, Central Services, Human Resources, the County Treasurer, the County Auditor, and department accountants. The contract was negotiated within budget and signed in early 2003. The new system went live on January 4, 2004.

The Pacific Mountain Workforce Consortium (PMWC) is Thurston County's administrative entity for federal employment and training programs within Grays Harbor, Lewis, Mason, Pacific, and Thurston counties. In 2003, PMWC received several grants and awards for their leadership in training and providing opportunities for people to find jobs. These included:

- \$229,000 for meeting all the federal performance standards in the Workforce Investment Act
- \$835,000 from a Medical Capacity Building grant to help double the capacity of nursing programs at local community colleges;
- \$125,000 for a Targeted Industry Partnership grant with local hospitals; and
- \$50,000 for a Corrections Clearinghouse grant to assist state and county offenders re-enter the work force.

In 2003, Thurston County continued its successful participation in the grant program entitled "Weed and Seed". The grant is a partnership with the Sheriff's Office, local law enforcement entities, local community volunteer groups and the Rochester School District. The County Prosecuting Attorney's Office (PAO) is the major lead in administering the grant. Another significant PAO grant is \$470,000 from the Prevention of Violence Against Women Office in the Department of Justice to coordinate domestic violence, sexual assault, and stalking services. The PAO and Sheriff's Office were involved in 2003 with several successful partnerships including the Thurston County Methamphetamine Coalition and a domestic violence prevention summit.

Thurston County, Washington 2003

Law and Justice activities were at the forefront in 2003. Planning for a new Regional Justice Center moved into high gear. The proposed project underwent a citizen review. Three independent studies were conducted to analyze compliance with SEPA requirements, projected operating costs, and the impact on the overall criminal justice system. The Oversight Committee agreed on a scope for a new 640-bed jail with four courts and some backfill renovation at a total cost of \$103 million. The County sought voter approval in May 2004 for an \$88 million bond issue backed by property taxes to construct the new jail facility. The bond issue did not pass. The inter-governmental partnership is continuing to work toward a long-term solution.

With caseloads continuing to increase, the District Court initiated the use of a drop box for after-hour payment of fines, placed a public access terminal in the lobby of Building Three of the Courthouse, and established a program of holding mitigation hearings on a portion of contested traffic infractions via email. The Sheriff's Office's special enforcement division was able to reduce methamphetamine lab incidents by 28 percent, and the jail improved their accounts receivables by sending over \$700,000 to collections. Both the Clerk's Office and District Court established new public on-line computer sites to provide self-help assistance to individuals wanting to know more about upcoming court dates, obtain forms, or actually conduct hearings.

Thurston County's Communication Center received voter support of a dedicated sales tax increase for an enhanced 911 system, and voters overwhelmingly showed their support for the ongoing operation of the Medic One program. As part of an improved response system, Yelm paramedics moved into the Yelm Fire Station. This saved the county \$7,000 in annual operating costs. With emphasis being placed on efficiency and cost containment, all interlocal agreements for paramedic services included a cap of 8% on overtime. The County also implemented an expired drug return credit program that saved an additional \$6,000 annually.

Public Health and Social Services started a new home visitation program in 2003 to help families work with young children. They also implemented a new, automated client tracking system known as KIPHS, which improved client scheduling and billing functions. One of their most significant accomplishments was an increase of 10 new developmentally disabled individuals who were placed in contracted employment or community access programs.

General Government offices and departments, while receiving level or reduced staffing, were able to continue to provide quality service to their customers. The Assessor's Office expanded their online system making it easier for county departments to access property records from their office workstations. The Auditor's Office responded to a 30 percent increase in recording volume while keeping on schedule.

In addition to a very aggressive public works program, Thurston County also began work on a new 15-bed mental health triage center scheduled to open in the fall of 2004. Other significant capital projects included partnerships with the State of Washington and local cities on seven miles of the Chehalis-Western Trail linking Yelm to Tenino and the beginning of a new 67-acre sports complex in Lacey. The latter to be paid through sales tax credits received from formation of a Public Facilities District. Many smaller projects were undertaken with County labor crews, saving taxpayers over \$500,000 annually.

Water and Waste Management (W&WM) worked with local community volunteers to successfully rear and release 20,000 rainbow trout into Lawrence Lake. W&WM also diverted more than 300 tons of waste materials from County streams, including 13 tons of drug-related materials.

The County's Internal Auditor was able to work successfully with office and department accountants and the State Auditor's Office team to help save over \$22,000 in state audit fees and ensure that Thurston County received an unqualified opinion.

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 judgment 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 2003 Thurston County budget is \$316.4 million in all funds and \$53.6 million in General Funds (excluding the fund balance and residual equity transfers). This is a slight reduction of \$8.4 million in total funds from the 2002 budget, and \$1.4 million more in General Funds. A combination of higher than expected revenues from sales taxes and fines, and expenditure savings, has resulted in an increase of \$2.4 million in available reserves. These additional reserves will be useful in meeting future budget challenges, as projected revenues continue to lag expenditure needs. Budgets are prepared and maintained by establishing detailed line items. Office and department heads have the authority to move budget authorizations between objects within their funds, but the Chief Administrative Officer is the only position authorized to transfer appropriation units between offices and departments within a fund.

On-line reports are available monthly for all department managers, comparing current budget appropriation levels to actual expenditures by detailed line item. 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 Board 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, and between the current and prior year. Financial summary information is grouped into categories entitled: General Government Functions, Proprietary Operations, Fiduciary Operations, and Debt Administration. Entity wide statements are shown for the second 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 the cash investments held by the County are in US Agency and Instrumentality Securities. All investments at year-end 2003 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.

ACKNOWLEDGMENTS

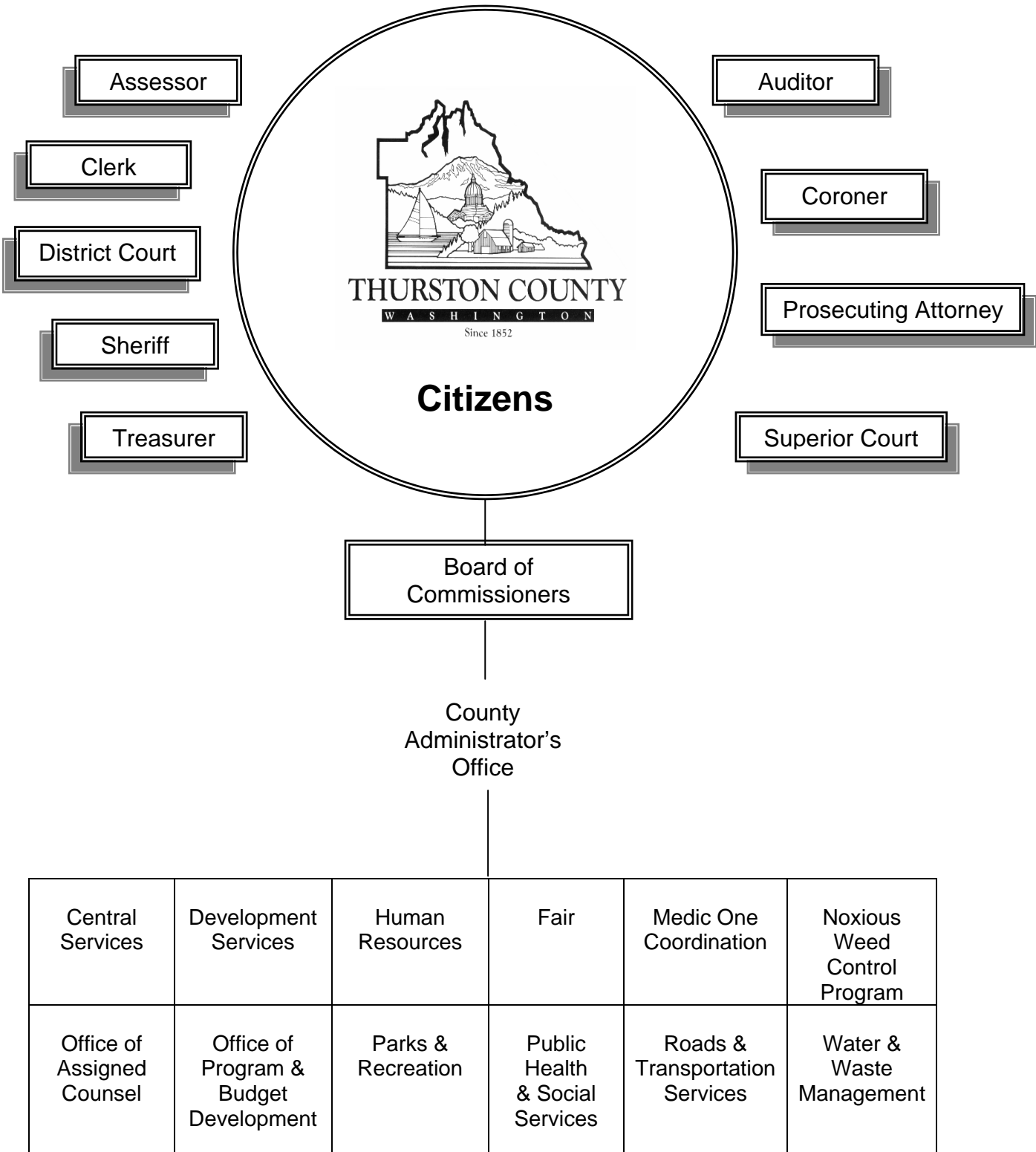
The professional and dedicated staff of the Financial Services Division of the County Auditor's Office and the County Treasurer's Office jointly prepared this report. In addition, the report could not be accomplished without the valuable assistance of accounting personnel of other County departments. I appreciate their efforts, and appreciate also the sound and progressive approach of the Board of Commissioners, in their conduct of the financial affairs of the County.

Respectfully Submitted,



Kim Wyman
County Auditor, Chairman

THURSTON COUNTY ORGANIZATION CHART



Elected Officials

December 31, 2003

Thurston County Board of Commissioners

Honorable Cathy Wolfe, **District One**
Honorable Diane Oberquell, **District Two**
Honorable Robert N. Macleod, **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