



**Washington State Auditor
Brian Sonntag**

INDEPENDENT AUDITOR'S REPORT

June 14, 2006

Board of Commissioners
Thurston County
Olympia, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Thurston County, Washington, as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Thurston County, Washington, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 17 through 38 and budgetary comparison information on pages 95 through 100 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Thurston County, Washington 2005

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying information listed as combining financial statements and supplemental information on pages 101 through 212 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the County. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

MANAGEMENT DISCUSSION AND ANALYSIS

Thurston County's discussion and analysis offers the readers of the annual financial report a narrative overview of the county's financial activities for the fiscal year ending December 31, 2005. We encourage readers of our financial report to use this information in conjunction with our letter of transmittal, financial statements and notes to the financial statements to analyze our financial activities and health.

FINANCIAL HIGHLIGHTS

Entity-Wide Statements

- Thurston County's overall financial position improved in 2005. Governmental and business net assets in 2005 were greater than governmental and business net assets in 2004.
- Governmental net assets increased by \$11.4 million to \$465.2 million at December 31, 2005. This represents a 2.5% increase over net assets of the prior year. This increase is a result of a change in net assets (revenues exceeding expenses) by \$13.5 million which is then offset by a prior period adjustment of \$2.1 million. The change in governmental net assets in 2005 is slightly greater than the change in 2004 after excluding prior period adjustments.
- Business net assets increased by \$1.3 million to \$34.7 million at December 31, 2005. This represents a 4% increase over net assets of the prior year. This increase is a result of a change in net assets (revenues exceeding expenses) by \$1.5 million which is then offset by a prior period loss of \$152 thousand. The change in business net assets in 2005 is significantly greater than the change that occurred in 2004 and is primarily due to the increase in net income realized on solid waste disposal services in 2005.
- The County's governmental fund balance increased by \$20.8 million excluding debt and capital transactions (they are already excluded from the statement of activities). This change is then reduced within the statement of activities by depreciation and losses on assets of \$9.6 million and then offset by a net gain of \$2.3 million for interfund elimination and revenue deferral recognition. This provides the change in governmental net assets of \$13.5 million noted above.
- The County's governmental net assets of \$465.2 million exceed the County's governmental fund balance by \$371.4 million. The additional net assets are a result of recognizing \$380.5 million of net capital assets and another \$38.8 million for internal service balances and receivables that are not reported in governmental funds. These increases are then offset by additional long term debt obligations of \$47.9 million providing the \$371.4 million difference noted above.

Major Funds Statements

- Governmental cash balance increased by \$4.8 million in 2005. The cash balance increase of \$8.8 million in the general, excise tax, roads and medic one funds was offset by a \$4.1 million decrease in cash balance for public health and other governmental funds. Cash balance increases were primarily due to revenues (primarily property, sales and excise taxes) exceeding expenditures. Cash balance decreases were primarily due to expenditures (primarily construction and start up costs) exceeding revenues.

Thurston County, Washington 2005

- Governmental expenditures in 2005 exceeded expenditures in 2004 by \$5.1 million.
- General Fund expenditures increased by \$3.2 million in 2005. Of the total, \$2.9 million of this increase was due to outlays for public safety. Public health expenditures increased by \$5.2 primarily because of the start up and operating costs of the mental health triage evaluation and treatment facility. Expenditures for the Pacific Mountain Job Training Consortium decreased by \$1.5 million because of reductions in grant reimbursements for this service in 2005.
- Capital costs decreased by \$10.2 for mental health, jail and sports complex capital projects in 2005 since these projects were substantially completed in 2004. This was partially offset by a \$5.7 million increase to repair the juvenile detention facility in 2005.
- The County Treasurer was responsible for managing, receipting, investing and disbursing \$376.6 million in cash on December 31, 2005. Of this total, \$236.4 million was managed for outside agencies and organizations; and \$28.8 and \$21.6 million were for enterprise and internal service operations respectively. The remaining \$89.8 million was for the following governmental activities: general fund – \$6.8 million, general government – \$19.4 million, public safety – \$13.5 million, culture and recreation - \$700 thousand, transportation - \$14.8 million, economic environment - \$7.2 million, utilities and environment - \$4 million and health and human services - \$23.4 million.
- The solid waste utility is the dominant business activity since it comprises 85% of the County's business type revenues. The Grand Mound utility is the only business activity operating at a continuing net loss. The County expects future utility hook-ups and new customer service revenues to eventually reduce and then eliminate operating losses in the Grand Mound utility.

Debt Financing

- On May 17, 2005 the Thurston County Board of County Commissioners authorized the issuance of \$26,135,000 in debt. The largest portion, \$23,210,000 was issued to partially refund the 1997 and 1999 limited tax general obligation bonds. The remaining \$2,925,000 in debt was used to fund parks acquisition and other construction projects.

COUNTY GOVERNMENT OVERVIEW

Governmental activities provided by Thurston County include:

General Government Services:

Commissioners, Human Resources, Auditor, Assessor, and the Treasurer.

Culture and Recreation:

Fair, Parks, and Cooperative Extension

Economic Environment:

Planning and Development Services, Office of Program and Budget Development, Pacific Mountain Job Training Consortium and Veterans Services.

Health & Human Services:

Public Health, Social Services, and Medical Aid (Medic One).

Utilities and Environment:

Noxious weeds, Lakes Management Districts for Long, Lawrence and South Pattison lakes.

Public Safety:

Sheriff, Corrections, Juvenile Services, Emergency Services and Communications, Civil Services, Clerk, District Court, Superior Court, Assigned Council, Prosecuting Attorney, and the Coroner's Office.

Transportation:

This section includes Road Construction and Maintenance and Road Improvement Districts.

Business type activities:

Water and Wastewater Utilities (for unincorporated parts of the county including Tamoshan, Grand Mound, Boston Harbor, and Olympic View), Solid Waste, and Storm Drainage.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Comprehensive Annual Financial Report (CAFR) is presented in four sections: introductory, financial, supplementary, 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 management discussion and analysis (MD&A), government-wide financial statements, fund financial statements, governmental major fund budgetary statements and notes. The supplementary section contains required supplemental information and other information on non-major funds and agencies. The statistical section presents a history of selected financial and demographic information over the past ten years.

Government-wide Financial Statements

The first two statements are government-wide financial statements that give the reader a broad overview of Thurston County finances. These statements include both long-term and short-term assets and liabilities for all Thurston County funds combined and they tend to resemble the type of financial report that you would see for a private-sector business. Both of these statements segregate governmental activities from business type activities. Governmental activities are principally supported by taxes and intergovernmental revenues. Business-type activities are functions of government that are intended to recover all or a significant portion of their costs through user fees and charges.

The statement of net assets includes all of Thurston County's assets and liabilities using similar accounting methods as those used in private industry. Over time, increases and decreases in net assets may serve as one way to measure the county's financial health. To assess the overall health of the county you also need to take into consideration some non-financial factors such as the condition of the county's infrastructure (roads, bridges, drainage systems, etc.), property tax base and general economic conditions within the county.

The statement of activities presents the specific services of our government and how they affect the change in net assets. This statement separates program revenues like charges for services, grants and contributions from general revenue such as taxes and other revenue not tied to a specific program. It shows to what extent the services rely on taxes for funding. This statement is prepared using the full accrual basis of accounting, which recognizes revenue and expenses when they are incurred as opposed to when the cash is received or available. Items such as outstanding property taxes receivable and vacation leave that is earned but unused is reported as a revenue and expense respectively regardless of when the cash is received or distributed.

Thurston County has no separately identified component units included in the government-wide financial statements.

Fund Financial Statements:

Fund financial statements present more detailed information about the county's most significant funds. Funds are a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. Thurston County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Thurston County's operations are segregated into three types of funds in this financial report: governmental funds, proprietary funds and fiduciary funds.

Governmental funds are used to account for most of the general government services that are primarily supported by tax dollars. These funds provide the reader with a short-term (within one year) overview of the fund financial health. The information presented in these fund statements excludes long-term assets and obligations. The statements report resources available to spend in the near future on a fund's programs and services.

Proprietary funds are used to account for business type activities where all or part of the cost is financed by fees and charges paid directly by those who benefit from the activities. These funds provide both long-term and short-term financial information.

Fiduciary funds are used to account for resources that are held by the County Treasurer as a trustee or agent for parties outside of the county government. The resources of fiduciary funds cannot be used to support the government's own programs.

Governmental Funds

The Governmental Fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances present separate columns of financial data for the general fund, real estate excise tax, roads, medic one and public health and social services funds. All of these funds are considered to be major funds based on the criteria established by GASB Statement #34. In order to be a major fund, the assets, liabilities, revenue or expenditures must comprise 1) at least 10% of the total dollar amount of the same category within either all governmental or all enterprise funds, as appropriate, and 2) at least 5% of the total dollar amount of all governmental and enterprise funds combined into the same category. However, the general fund is always a major fund. The governmental fund financial statements immediately follow the government-wide financial statements.

It is frequently useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so readers may better understand the long-term impact of the government's short-term financing decisions. This comparison is reported in a reconciliation statement that reconciles the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances to the governmental activities column in the government-wide statements.

The county maintains budgetary control for all governmental and proprietary funds. The 2005 general fund budget was adopted at the department level. All other funds have budgetary controls adopted at the fund level. Personnel dollars are projected using full time equivalents (FTE). Capital projects are approved on a project, group of projects or item basis.

Thurston County has attempted to control expenditure growth by adopting a base budget strategy. The board of county commissioners allow for normal increases in personnel costs and other fixed costs like indirect costs, insurance, records, communications, space use and data processing. Offices and departments are then asked to hold their remaining discretionary expenditures to a base level. A budgetary comparison is provided for the general fund, which is discussed in detail later in this analysis.

Proprietary Funds

There are two types of proprietary funds, enterprise and internal service. Enterprise funds are used to account for functions presented as business-type activities in the government-wide financial statements. Thurston County uses enterprise funds to account for services provided by the solid waste, storm water, clean water, wastewater, utilities planning and development and septic assistance community loan programs. Internal service funds accumulate and allocate costs for services provided to county programs and to other intergovernmental jurisdictions. The County's internal service funds include: risk management, benefits administration, utilities administration, engineering services, central services (facilities, maintenance and information technology support), equipment rental and replacement and emergency communication services. Revenues and expenses of the internal service funds are duplicated in other funds, but are eliminated in the government-wide statements with any remaining balances included in the governmental activities column.

The proprietary funds presented in this report follow the governmental fund statements. They provide the same type of information as the government-wide statements, only in more detail, since both apply the accrual basis of accounting. In comparing the Proprietary Fund Statement of Net Assets to the business-type column on the Government-Wide Statement of Net Assets, you will notice that total net assets agree, except for inter-fund transaction eliminations, and therefore these funds require no additional reconciliation within this financial report.

The proprietary fund financial statements provide separate data for the solid waste and grand mound programs. All other non-major proprietary and internal service funds are aggregated into separate single presentations in the proprietary fund statements.

Fiduciary Funds

Fiduciary Funds account for resources held for the benefit of parties other than the Thurston County government. Fiduciary funds are not included in the government-wide financial statements since resources of those funds are not available to support the county's programs. The accounting method used to account for fiduciary funds is similar to that used for proprietary funds.

Thurston County has three types of fiduciary funds: 1) investment trust funds (which report the county's investment pool), 2) private purpose trust funds (which report trust arrangements where the principal and interest benefit those outside of the primary government), and 3) agency funds (which are clearing accounts for assets held by Thurston County in its role as custodian until the funds are distributed to private parties, organizations, or government agencies to which they belong). The fiduciary fund statements can be found following the proprietary fund financial statements.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

The following table reflects the condensed Government-Wide Statement of Net Assets. Thurston County's net assets as of December 31, 2005 are \$499,897,731. This reflects a net increase of \$12.7 million from fiscal year 2004. Over the last two years the County's net assets have increased by an average of four percent per year, serving as a useful indicator that the financial condition of the County continues to improve.

The most significant change occurs in assets. Assets other than capital increased by \$7.8 million and capital assets increase by another \$5.9 million. The increase in other assets is mainly attributable to the increase in cash and pooled investments accounting for \$4.9 million of the increase. Almost half of this increase can be tied back to the increase in real and personal property tax collections. Total non-depreciable assets like land and construction in progress decreased by \$478 thousand. Total depreciable capital assets, net, like buildings and equipment and capital contributions from private developers increased by \$2.4 million, and we reported investment in joint venture totaling \$4 million.

Overall our total governmental assets increased by \$13.3 million and our corresponding governmental liabilities only increased by \$1.9 million. The biggest increases in governmental activities assets are \$5.9 million in cash and pooled investments and \$5 million in the capital assets.

Changes in Taxes Receivable and Accrued Interest and Penalties show significant variations. In prior years the county reported interest and penalties related to taxes under "Taxes Receivable". In the current year we present these amounts under "Accrued Interest & Penalties". The overall increase in the combined total is approximately \$467 thousand, and this amount is reasonable considering the increases in tax revenues.

Thurston County Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets	\$ 133,195,501	\$ 124,938,537	\$ 37,728,220	\$ 38,218,298	\$ 170,923,721	\$ 163,156,835
Capital Assets	391,980,904	386,943,155	33,538,899	32,637,114	425,519,803	419,580,269
Total Assets	<u>525,176,405</u>	<u>511,881,692</u>	<u>71,267,119</u>	<u>70,855,412</u>	<u>596,443,524</u>	<u>582,737,104</u>
Current Liabilities	9,290,631	6,362,825	1,695,605	1,502,795	10,986,236	7,865,620
Long term Liabilities	50,700,210	51,712,724	34,859,347	35,964,525	85,559,557	87,677,249
Total Liabilities	<u>59,990,841</u>	<u>58,075,549</u>	<u>36,554,952</u>	<u>37,467,320</u>	<u>96,545,793</u>	<u>95,542,869</u>
Net Assets:						
Invested in Capital Assets, net of related debt	351,892,755	352,042,233	19,788,003	12,408,331	371,680,758	364,450,564
Restricted	93,610,956	87,351,122	4,860,017	4,936,086	98,470,973	92,287,208
Unrestricted	19,681,853	14,412,788	10,064,147	16,043,675	29,746,000	30,456,463
Total Net Assets	<u>\$ 465,185,564</u>	<u>\$ 453,806,143</u>	<u>\$ 34,712,167</u>	<u>\$ 33,388,092</u>	<u>\$ 499,897,731</u>	<u>\$ 487,194,235</u>

Thurston County's total assets stand at \$596.4 million as of December 31, 2005. Of this amount \$425.5 million is accounted for by capital assets, including infrastructure and construction in progress.

Of the remaining assets, approximately \$140.2 million or 82% are in cash and pooled investments, \$24.3 million in current receivables and prepayments, and \$6.3 million on other Long-term Assets.

As of December 31, 2005 the county had outstanding liabilities of \$96.5 million. Of that amount only \$11 million was due within the next fiscal year. The majority of the long-term liabilities are outstanding General Obligation Bonds accounting for 53% of total liabilities and 22% are related to the Accumulated Landfill Closure Costs. The notes to the financial statements have additional details on these liabilities.

Of the total net assets, 74% or \$371.7 million is investments in capital assets net of related debt used to acquire those assets. The county's capital assets are used to provide services to the citizens of the county, so these assets are not available for future spending. Although the amount is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided by other sources since capital assets cannot be easily liquidated to cover these liabilities.

Of the remaining \$128.2 million in net assets (excluding capital assets), approximately 77% are subject to external restrictions on how they may be used. External restrictions include those provided in state law or by contractual agreements with parties outside the primary government like federal agencies. The restricted net asset for business-type activities is \$4.9 million.

Thurston County, Washington 2005

The majority of the restricted net assets for business-type activities are attributable to the solid waste reserve for closure fund. When you compare the post closure care liability to what we are reserving in restricted investments there is a deficit of \$1.6 million at the end of this reporting period. The solid waste division reserve for closure fund has \$19.5 million in restricted assets that is designated to cover the accumulated landfill closure costs liability of \$21.1million. It is anticipated that future inflationary cost adjustments as well as the current deficit will be financed from earnings on the restricted reserves.

Eighty seven percent (\$81.4 million) of the total restricted net assets in governmental activities are accounted for in transportation, health & human services, internal service, general government and public safety. The majority of funding for these assets originated from restricted sources. The \$6.2 million dollar increase in restricted assets is mainly attributed to increases in general government, transportation and culture and recreation. The increase in general government restricted assets is mainly attributable to increase in real estate excise tax revenues of over \$1 million dollars and a decrease in expenditures of over \$6 million. The decrease in expenditures is related to a one time operating transfer-out that occurred in 2004. Transportation restricted asset increase is a result of over a \$2 million dollar increase in tax revenue associated predominately with real and personal property tax and motor vehicle fuel taxes. The increase in culture and recreation is attributable to the bond issuance in 2005 where we borrowed approximately \$3 million for park acquisitions.

The remaining balance of \$29.7 million is "Unrestricted Net Assets" that can be used to meet the county's ongoing financial obligations. Of that total 66% is in governmental activities and the remaining 34% is in business-type activities.

Statement of Activities

The following chart presents key elements in the Statement of Activities. The county's net assets increased by \$12.7 million in 2005. Total county revenues are at \$169.7 million in 2005, an increase of \$8.7 million from 2004. Governmental activities provided \$151 million in revenues (89%), while business-type activities provided \$18.7 million (11%). The 2005 ratio between governmental and business-type is consistent with 2004.

The largest two sources of revenue within the governmental activities section are taxes accounting for \$88.7 million or 59%, and operating grants and contributions of \$35.9 million making up 24% of total governmental activities revenues. The remaining 17% of the revenues are related to charges for services, interest earnings and other general revenues. Compared to 2004, our largest increase in governmental revenues occurred in Taxes (\$6.4 million), Interest and Investment Earnings (\$1.5 million), and Capital Grants & Contributions (\$500 thousand).

Business-type activities main source of revenue is Charges for Services accounting for 84% of total business-type revenues. Revenues for the solid waste utility increased over \$1.5 million in 2005. A rate increase of 2.25% along with the increased tonnage of solid waste collected account for all of this increase. The remaining revenues are in Other General Revenues (6%) and Interest (7%) respectively.

Thurston County's Statement of Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues:						
Charges for Services	\$ 18,640,578	\$ 18,719,420	\$ 15,612,269	\$ 13,843,777	\$ 34,252,847	\$ 32,563,197
Operating Grants & Contrib.	35,888,390	36,780,251	272,826	186,400	36,161,216	36,966,651
Capital Grants & Contrib.	4,327,526	3,828,515	326,469	7,606	4,653,995	3,836,121
General Revenues:						
Taxes	88,684,559	82,263,513	-	-	88,684,559	82,263,513
Interest and Invest. Earnings	4,283,846	2,815,924	1,343,590	1,396,780	5,627,436	4,212,704
Other General Revenues	108,440	58,859	1,036,262	1,218,642	1,144,702	1,277,501
Special Items	(932,536)	(123,084)	71,500	-	(861,036)	(123,084)
Total Revenues	151,000,803	144,343,398	18,662,916	16,653,205	169,663,719	160,996,603
Program Expenses: (Net)						
General Government	9,110,756	9,012,729	-	-	9,110,756	9,012,729
Culture and Recreation	2,764,226	2,415,435	-	-	2,764,226	2,415,435
Economic Environment	12,209,087	14,645,370	-	-	12,209,087	14,645,370
Health and Human Services	38,095,014	32,846,130	-	-	38,095,014	32,846,130
Utilities and Environment	1,328,754	1,550,457	-	-	1,328,754	1,550,457
Public Safety	51,031,012	49,584,500	-	-	51,031,012	49,584,500
Transportation	21,187,304	20,166,417	-	-	21,187,304	20,166,417
Interest	1,895,531	1,546,419	-	-	1,895,531	1,546,419
Solid Waste	-	-	13,822,220	13,343,861	13,822,220	13,343,861
Grand Mound	-	-	1,243,500	1,242,287	1,243,500	1,242,287
Other Business-Type Exp.	-	-	2,014,244	2,043,037	2,014,244	2,043,037
Total Expenses	137,621,684	131,767,457	17,079,964	16,629,185	154,701,648	148,396,642
Excess (Deficiency) of Revenues over (under) Expenses before						
Transfers	13,379,119	12,575,941	1,582,952	24,020	14,962,071	12,599,961
Transfers	107,086	52,271	(107,086)	(81,659)	-	(29,388)
Change in Net Assets	13,486,205	12,628,212	1,475,866	(57,639)	14,962,071	12,570,573
Ending Net Assets January 1	453,806,143	432,991,742	33,388,092	33,080,731	487,194,235	466,072,473
Prior Period Adjustment	(2,106,784)	8,186,189	(151,791)	365,000	(2,258,575)	8,551,189
Restated Net Assets January 1	451,699,359	441,177,931	33,236,301	33,445,731	484,935,660	474,623,662
Ending Net Assets	\$ 465,185,564	\$ 453,806,143	\$ 34,712,167	\$ 33,388,092	\$ 499,897,731	\$ 487,194,235

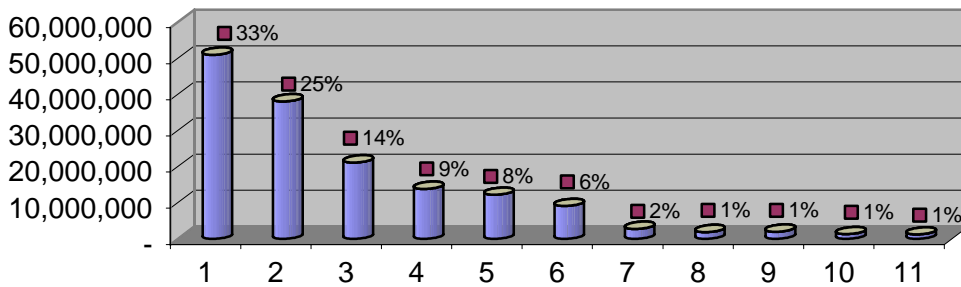
Total county expenses for the year totaled \$154.7 million, an increase of approximately \$6.3 million over 2004 totals. As in 2004 the distribution of expenses over Governmental and Business-Type Activities closely resemble revenues, with Governmental Activities accounting for \$137.6 million (89%) and Business-Type Activities of \$17 million (11%). Public safety, health and human services, transportation, and economic environment programs account for 89% of the governmental activities and 79% of the total activity expenses. Health and human services expenditures increased by \$5.2 million, public safety expenditures increased by \$1.4 million, and transportation increased by \$1 million. Economic environment expenditures decreased by \$2.4 million. The majority of the decrease is attributable to a state-wide decrease in grant revenues and expenditures associated with the Workforce Investment Act. The largest part of the prior period adjustment of \$2.1 in governmental activities reflects the City of Lacey's equity interest in the Regional Athletic Complex (RAC). In prior years the County recorded the city contributions as intergovernmental revenues as opposed to a reduction in the capital asset value related to our joint venture in the RAC.

Thurston County, Washington 2005

Of the \$17 million in business-type expenses, 88% are associated with Solid Waste and Grand Mound utilities. Solid Waste accounts for all of the \$450 thousand increases in expenses from 2004. The amount of municipal solid waste collected at the waste and recovery center increased by 8,390 tons in 2005. This increase in tonnage results in an increase in both revenues and expenditures for the utility. The utility contracts with Lemay to provide long-hall services and the rate is based on tonnage.

The following graph illustrates the distribution of expenses by program for both governmental and business type activities.

Program Expenses - Government Wide



Legend:

- | | | | |
|-------------------------|-------------------|-------------------------|----------------------|
| 1. Public Safety | 4. Solid Waste | 7. Culture & Recreation | 10. Utilities & Env. |
| 2. Health & Human Serv. | 5. Economic Env | 8. Interest | 11. Grand Mound |
| 3. Transportation | 6. Gen Government | 9. Other Business Type | |

FINANCIAL ANALYSIS OF THE COUNTY'S MAJOR FUNDS

As noted earlier, Thurston County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Following is an analysis of the county's governmental and proprietary funds.

Governmental Funds Balance Sheet Analysis

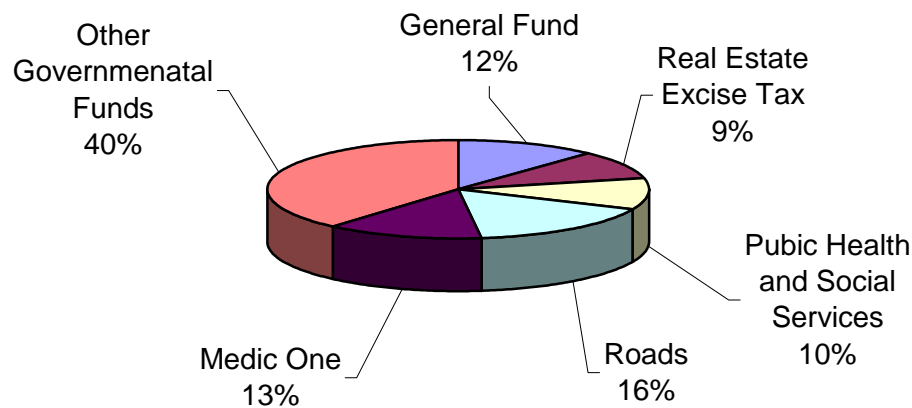
The general fund, real estate excise tax, public health and social services, roads fund and medic one are the county's major governmental funds. Together these major funds account for 61% of total governmental fund assets and 59% of the total governmental fund balance.

Thurston County's governmental funds provide information on the short-term inflows, outflows and balances of expendable resources as stated in the Major Governmental Funds Balance Sheet. Unreserved fund balance is often a useful measurement of a fund's net resources available for spending at the end of the fiscal year. Of the total \$93.7 million in fund balance almost all of it is unreserved. Although classified as an unreserved fund balance, the county creates specific special revenue funds to account for restricted money; hence the restricted resources in these funds are already in essence reserved.

The General Fund is the chief operating fund of Thurston County. At year-end the unreserved fund balance remaining in the general fund was \$9 million, amounting to 9.6% of the total governmental funds unreserved fund balance. Likewise the general fund total assets of \$12.5 million are 12% of the total governmental funds assets. The increase in unreserved fund balance represents a \$981 thousand dollar increase from last years ending fund balance. Although general fund revenues exceeded expenditures by \$2 million dollars, other financing sources and uses reduced this excess by \$1 million.

The following chart shows the distribution of total assets for all major governmental funds:

Total Assets - Governmental Funds



The Real Estate Excise Tax (REET) fund had a \$3.4 million dollar increase in cash and investments related to an increase in revenues and a reduction in expenditures. This special revenue fund accounts for revenue collected from real estate transactions. Each real estate transaction is charged ½ a percent of the value of the property. These moneys are restricted for various capital expenditures as defined by the Revised Code of Washington (state law). The fund balance increased by \$3.5 million ending 2005 with a balance of \$9.6 million. This fund represents 10% of the total governmental fund balance.

Roads total assets increased by \$2.3 million in 2005, the majority of the increase is in cash and pooled investments. The increase is directly related to increased tax revenues specifically in: real and personal property taxes, as well as motor vehicle fuel tax. Roads also sold land to the Solid Waste fund in the amount of \$357 thousand. The Roads fund balance correspondingly has an increase in 2005 of \$2.3 million.

Thurston County, Washington 2005

Public Health and Social Services fund total assets decreased by \$1.6 million with a corresponding increase on the liability side of \$109 thousand. During 2005 the new Evaluation and Triage Center for mental health was placed into operation, incurring one time start up costs. Public Health and Social Services fund balance amounts to 9.5% of the total governmental fund balance.

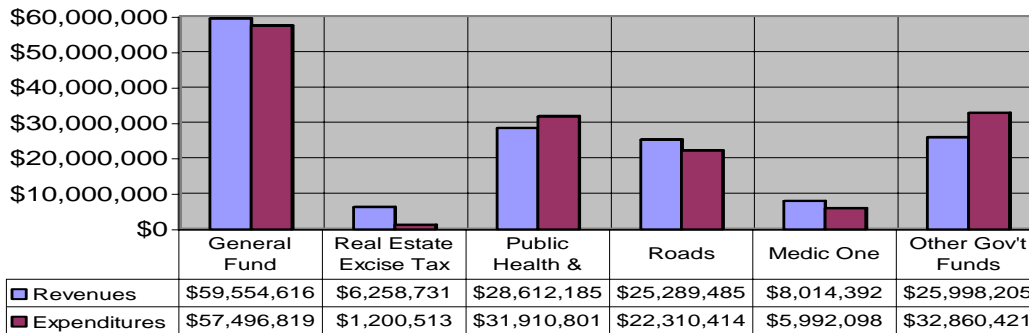
Medic one total assets account for approximately 13% of the total assets in the governmental funds. Liabilities and fund balance account for 12% and 13% of total governmental funds respectively.

Governmental Funds Revenue/Expenditure Analysis

The following chart shows the revenue and expenditure amounts for the five major governmental funds and for all other governmental funds (excludes other financing sources and uses).

The revenues and expenditures listed below do not include other financing sources (uses) or transfers. The general fund and the public health and social services fund account for 57% of the total revenues and 59% of the total expenditures. The real estate excise tax fund and medic one fund fall into the category of major funds by the merits of their total assets.

Governmental Fund Revenues and Expenditures



Total governmental funds overall had a \$5.8 million increase in fund balance and a \$6.9 million increase in tax revenues. The County issued \$26 million in GO bonds during 2005, but the majority of these bonds were related to refunding the 1997 and 1999 issuances. Only \$3 million of the issuance is “new money” that will be utilized to finance park acquisitions and other capital improvements.

As shown above, general fund revenues exceeded expenditures by over \$2 million. Including other financing sources, the net change in fund balance for the general fund in 2005 was an increase of \$981 thousand. This change in general fund balance is largely attributable to the increase in tax revenues (\$3.1 million) and a corresponding increase in public safety expenditures (\$2.9 million).

Real estate excise tax (REET) revenues increased in 2005 by \$896 thousand or 17%, while expenditures increased by \$543 thousand or 83%. Revenues are directly tied to the active real-estate market. The median price of a home in Thurston County increased by 11% from 2003 to 2004 and this trend has continued through 2005. The increase in expenditures is the result of additional capital outlay expenditures. When we include the changes in other financing sources and uses from 2004 there was a net reduction of outflows amounting to \$7.1 million resulting in an increase to fund balance of \$3.5 million. Operating transfers out are normally the main expenditures in this fund since resources are transferred out to capital project funds or debt service funds that finance capital construction. Another reason for the decrease is a result of a large operating transfer out done in 2004 related to excess general fund resources that used to be accounted for in this fund. See the 2004 annual financial report for additional information on this topic.

The roads fund as presented in these statements includes the county road fund and the roads construction in progress fund. There was a \$2.3 million or 10% increase in revenues for roads and a \$620 thousand or 3% increase in expenditures between 2004 and 2005. The increase in transportation expenditures was offset by the decrease in capital outlays during 2005. Actual expenditures were 24% under budgeted expenditures for 2005. This reduction was spread between capital outlays, transportation and public safety expenditures budgeted in these funds. Roads still completed \$5.9 million in capital outlays the largest being the Reservation Road project (\$1.5 million) and the Lily road widening project (\$887 thousand). Actual public safety expenditures in the roads fund increase \$1.1 million over 2004 totals. This largest portion of this increase was a result of Homeland Security grant expenditures. The increase in Homeland Security revenues is offset by a decrease in the Department of Transportation revenues. The Roads department had a slow year in capital construction items, reducing their capital outlays by over 1 million dollars.

Public health and social services fund includes the health and social services programs administered by the county. The 5% increase in revenues was more than offset by a 19% increase in expenditures over 2004 levels. The major increase in revenues was mainly attributable to intergovernmental sources increasing by \$1.3 million. Intergovernmental revenues are predominantly tied to federal and state grants for specific services or functions provided through the health department. The new Evaluation and Treatment facility was placed into operation in early 2005. The start up costs including supplies, equipment, and personnel to begin treatment programs account for \$3.5 million dollars of the increase in expenditures. Public Health also transferred out \$725,000 to the Regional Support Network – Thurston County fund to help with funding of mental health inpatient utilization. The chemical dependency division also increased their treatment programs and plans to intensively manage case loads and outpatient programs in the next couple of years. This represents over \$400 thousand of the increase in expenditures.

Medic one fund accounts for the programs involved with the overall coordination of basic and advanced life support services in conjunction with police and fire services. Most of the programs are funded through voter-approved property taxes. In 2005, revenues increased by 8.5% and expenditures increased by 9% in the medic one fund.

Enterprise Funds Net Assets Analysis

The solid waste and grand mound utilities are the only major enterprise funds, but they account for 79% of the total assets and 92% of the total liabilities. The solid waste fund contains the financial activities for the ongoing operations of the Solid Waste and Recovery Center built in 1999. This fund also accounts for the post closure of the landfill located in the Hawks Prairie area within the City of Lacey. The following table reflects the Enterprise Fund Statement of Net Assets for the year ending December 31, 2005.

Thurston County, Washington 2005

As of December 31, 2005 the county's enterprise funds reported combined net assets of \$33.7 million, of which 64% are being contributed by the major funds. Of the \$33.7 million in net assets, 59% or \$19.8 million are accounted for in capital assets net of related debt. Total current assets decreased by \$887 thousand due to their use in the funding of \$2.5 million in capital assets during 2005. Some of the major capital projects completed during 2005 include remodel of the Rochester drop box facility and improvements to the hazardous waste and tipping areas at the main waste and recovery center. The Solid Waste utility also purchased land from the roads fund where the Rochester drop box is located. The other water and wastewater utilities also had various improvements to their capital assets.

The enterprise net assets that are not restricted for a specific purpose are \$9 million. There was a slight reduction of \$1.1 million in the unrestricted net assets between 2004 and 2005.

**Thurston County
Enterprise Net Assets**

Assets	Solid Waste	Grand Mound	Other Enterprise Funds	Total Enterprise Funds
Cash & Pooled Investments	\$ 6,008,495	\$ 129,773	\$ 2,022,563	\$ 8,160,831
Other Current Assets	2,188,477	253,756	269,194	2,711,427
Restricted Assets:				
Cash and Pooled Investments	18,921,681	275,210	1,496,672	20,693,563
Total Current Assets	<u>27,118,653</u>	<u>658,739</u>	<u>3,788,429</u>	<u>31,565,821</u>
Long-Term Assets:				
Receivables and Deff Chrgs.	30,000	4,252,296	1,565,562	5,847,858
Capital Assets	31,840,891	13,914,075	14,188,002	59,942,968
Less Accumulated Depreciation	(20,140,905)	(1,701,968)	(4,561,196)	(26,404,069)
Total Long Term Assets	<u>11,729,986</u>	<u>16,464,403</u>	<u>11,192,368</u>	<u>39,386,757</u>
Total Assets	<u>38,848,639</u>	<u>17,123,142</u>	<u>14,980,797</u>	<u>70,952,578</u>
Liabilities				
Current Liabilities:				
Accounts Payable/ Due To's	1,682,447	23,374	337,271	2,043,092
Lim.Tax G.O.Bond-Current	-	250,000	105,000	355,000
Total Current Liabilities	<u>1,682,447</u>	<u>273,374</u>	<u>442,271</u>	<u>2,398,092</u>
Long-Term Liabilities:				
Limited G.O. Bonds Payable	-	11,046,751	512,402	11,559,153
Compensated Absences Payable	-	-	-	-
Intergov. Loans & Contracts Payable	-	28,019	2,084,824	2,112,843
Advances From Other Funds	-	30,000	-	30,000
Accumulated Landfill Closure Costs	21,157,351	-	-	21,157,351
Total Long Term Liabilities	<u>21,157,351</u>	<u>11,104,770</u>	<u>2,597,226</u>	<u>34,859,347</u>
Total Liabilities	<u>22,839,798</u>	<u>11,378,144</u>	<u>3,039,497</u>	<u>37,257,439</u>
Net Assets				
Invested in Capital Assets, net rel. debt	11,699,986	887,337	7,200,680	19,788,003
Restricted For:				
Postclosure, Net Of Related Liability	4,308,855	-	-	4,308,855
Debt Service	-	-	551,162	551,162
Unrestricted (Deficit)	-	4,857,661	4,189,458	9,047,119
Total Net Assets	<u>\$ 16,008,841</u>	<u>\$ 5,744,998</u>	<u>\$ 11,941,300</u>	<u>\$ 33,695,139</u>

Enterprise Funds Revenue/Expense Analysis

Total operating revenues for enterprise funds equated to \$15.7 million, covering all but 9% of the operating expenses. Total operating revenues increase by \$1.6 million compared to 2004. Operating revenues and expenditures are presented in the body of the financial statements and not segregated out on the chart below.

Revenues from the Solid Waste fund contributed 85% of the total enterprise fund revenues in 2005. The following table provides a condensed look at revenues, expenses, and net change in retained earnings for the enterprise funds. The majority of the non-operating revenues are attributable to storm water assessments (other enterprise funds). The solid waste utility earned 65% of the total interest earnings for all enterprise funds. This is mainly due to the large amount of required cash reserves for post closure costs.

**Thurston County Washington
Enterprise Funds Revenues and Expenses**

	Solid Waste	Grand Mound	Other Enterprise Funds	Total Enterprise Funds
Revenues:				
Charges for Services	\$ 14,959,601	\$ 255,728	\$ 396,588	\$ 15,611,917
Miscellaneous	19,262	7,910	43,400	70,572
Interest Revenue	872,172	296,000	175,418	1,343,590
Other Nonoperating Revenue	-	-	1,532,793	1,532,793
Total Revenues	15,851,035	559,638	2,148,199	18,558,872
Expenses:				
Salaries and Benefits	1,544,750	221,021	956,435	2,722,206
Other Supplies and Expenses	167,380	15,901	81,996	265,277
Contractual Services	1,496,891	50,074	167,020	1,713,985
Longhaul Contract	10,006,781	-	-	10,006,781
Interfund Services and Charges	688,016	36,164	207,209	931,389
Depreciation/Amortization	645,483	339,773	559,153	1,544,409
Misc. Nonoperating Expenses	177,357	573,239	118,999	869,595
Total Expenses	14,726,658	1,236,172	2,090,812	18,053,642
Income (Loss) before contrib. and trans.	1,124,377	(676,534)	57,387	505,230
Capital Contributions	-	326,469	-	326,469
Transfers In (Out)	(148,458)	-	41,372	(107,086)
Change in Net Assets	975,919	(350,065)	98,759	724,613
Net Assets as of January 1	15,032,922	6,095,063	11,994,332	33,122,317
Prior Period Adjustments	-	-	(151,791)	(151,791)
Net Assets as of January 1-Restated	15,032,922	6,095,063	11,842,541	32,970,526
Net Assets as of December 31	\$ 16,008,841	\$ 5,744,998	\$ 11,941,300	\$ 33,695,139

Thurston County, Washington 2005

Interest revenues comprised 53% of total revenues for the grand mound utility in 2005 compared to 56% in 2004. Total revenues for grand mound increased by 5.5% in 2005 due to the increase in development within the grand mound service area. During 2005 there were a number of new connections to the utilities. Most of these were commercial connections. The \$275 thousand dollars in restricted investments is related to proceeds from the GO Bonds issued in 1999 for the construction of the utility. This is the main source of interest earnings. Development within the grand mound area is starting to increase. This will generate capital from hook-up fees as well as continued operating revenue related to monthly usage. Capital contributions increased by \$318 thousand over 2004 due to the new connections occurring in 2005. Operating expenditures exceeded operating income by \$59 thousand in 2005 as opposed to \$83 thousand in 2004; excluding annual depreciation charges. The change in net assets is only a loss of \$10.3 thousand dollars when you exclude depreciation.

General Fund Budgetary Highlights

Thurston County adopts an annual budget in December of the preceding year. Adjustments are made to the budget throughout the year with a major review process taking place in June. The following table shows the changes between the original and the final budget as of December 31, 2005. If final budgeted revenues exceed the original budget it is a positive variance, but if final budgeted expenditures exceed the original budget it is a negative variance.

Thurston County General Fund Changes in Budget

	Original Budget	Final Budget	Variance Positive (Neg)
Revenues:			
Taxes	\$ 41,413,178	\$ 41,413,178	\$ -
Licenses & Permits	48,733	48,733	-
Intergovernmental	6,699,988	6,987,999	288,011
Charges for Services	6,419,954	6,424,654	4,700
Fines & Forfeitures	1,577,600	1,577,600	-
Miscellaneous	1,368,742	1,384,242	15,500
Total Revenues	57,528,195	57,836,406	308,211
Expenditures:			
General Government	11,384,436	11,077,422	307,014
Public Safety	44,834,174	46,339,587	(1,505,413)
Utilities & Environment	451,491	451,491	-
Transportation	994	994	-
Economic Environment	291,090	261,090	30,000
Health & Human Services	15,000	15,000	-
Culture & Recreation	559,810	570,410	(10,600)
Capital Outlay	709,095	508,354	200,741
Debt Service-Principal	9,002	11,764	(2,762)
Debt Service-Interest	2,028	5,129	(3,101)
Total Expenditures	58,257,120	59,241,241	(984,121)
Excess (Deficiency) of Revenues			
Over Expenditures	(728,925)	(1,404,835)	(675,910)
Sale of Capital Assets	400	400	-
Transfers In	1,737,800	1,482,183	(255,617)
Transfer Out	(2,436,561)	(2,511,661)	(75,100)
Excess (Deficiency) of Revenues & Other Sources over Expenditures	(1,427,286)	(2,433,913)	(1,006,627)
Fund Balance as of January 1	5,941,475	6,893,132	951,657
Fund Balance as of December 31	\$ 4,514,189	\$ 4,459,219	\$ (54,970)

Overall differences from the original general fund budget to the final adopted budget for 2005 were minimal with a .5% increase in total revenues and a 2% increase in budgeted expenditures.

The largest dollar value change in the revenue budget was intergovernmental revenues, increasing by 4% or \$288 thousand. In previous years the revenue increases between the original and final budget were significant. In the last two years, it appears the steady increase in sales tax revenues and fines and forfeitures have hit their peaks or we are getting better at predicting the amount of revenues collected. Total budgeted revenues for the general fund increased by 7% over 2004 budgeted revenues.

The most significant dollar value change in expenditures was in public safety, with a variance of \$1.5 million or 3% greater than the original budget. This is mainly attributable to the sheriff's office and the prosecuting attorney offices for personnel and benefit budget extensions.

General Fund Budget to Actual

The final results for 2005 showed actual revenues coming in 3% higher than budget and actual expenditures 3% less than budgeted. The combined effect including other financing sources and uses, including transfers, resulted in a \$4.6 million positive variance to the projected general fund ending fund balance.

When compared to the previous year, actual general fund revenues increased by 8% and expenditures grew by 6%. This resulted in a net increase in available funds of \$2 million before adjustments for other financing sources. These funds were increased slightly by the capital lease financing (\$11 thousand) and then reduced by the net adjustment for interfund transfers. The result was an actual increase of \$981 thousand dollars to the general fund balance, bringing the 2005 total ending fund balance to \$9 million.

An analysis of general fund expenditures shows an increase of \$3.1 million over 2004 actual totals. The largest increases occurred in Public Safety (\$2.9 million). Together the Sheriff's Office and the Prosecuting Attorney's Office expenditure increases totaled \$1.7 million over 2004 totals. Both of these offices had significant increases in salaries and benefits. In addition to the 2.5% cost of living increase the prosecuting attorney's office also had a market analysis performed on their employees with the result being significant increases to bring them to market levels.

Thurston County
General Fund Revenues, Expenditures, and
Changes in Fund Balance - Budget (GAAP Basis) and Actual
as of December 31, 2005

	Final 2005 Budget	2005 Actuals	Variance Positive (Negative)
Revenues:			
Taxes	\$ 41,413,178	\$ 42,949,405	\$ 1,536,227
Licenses & Permits	48,733	40,159	(8,574)
Intergovernmental	6,987,999	6,778,542	(209,457)
Charges for Services	6,424,654	6,221,662	(202,992)
Fines & Forfeitures	1,577,600	1,675,682	98,082
Miscellaneous	1,384,242	1,889,166	504,924
Total Revenues	57,836,406	59,554,616	1,718,210
Expenditures:			
General Government	11,077,422	9,938,200	1,139,222
Public Safety	46,339,587	45,807,175	532,412
Utilities & Environment	451,491	451,491	-
Transportation	994	682	312
Economic Environment	261,090	256,142	4,948
Health & Human Services	15,000	39,083	(24,083)
Culture & Recreation	570,410	552,790	17,620
Capital Outlay	508,354	414,581	93,773
Debt Service-Principal	11,764	27,939	(16,175)
Debt Service-Interest	5,129	8,736	(3,607)
Total Expenditures	59,241,241	57,496,819	1,744,422
Excess (Deficiency) of Revenues			
Over Expenditures	(1,404,835)	2,057,797	3,462,632
Capital Lease Financing	-	11,098	11,098
Sale of Capital Assets	400	355	(45)
Transfers In	1,482,183	1,423,483	(58,700)
Transfer Out	(2,511,661)	(2,511,661)	-
Excess (Deficiency) of Revenues & Other Sources over Expenditures	(2,433,913)	981,072	3,414,985
Fund Balance as of January 1	6,893,132	8,054,672	1,161,540
Prior Period Adjustments	-	-	-
Fund Balance as of January 1 -Restated	6,893,132	8,054,672	1,161,540
Fund Balance as of December 31	\$ 4,459,219	\$ 9,035,744	\$ 4,576,525

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Thurston County's total investment in capital assets amounts to \$427.9 million net of related depreciation. This represents all of the capital assets in both governmental and business-type activities. Capital assets include land, construction in progress, buildings, improvements, machinery and equipment and infrastructure. Capital assets amount to 71% of total assets. Of the \$427.9 million in net capital assets, 66% or \$284.1 million are non-depreciable assets and 34% or \$143.8 million are depreciated. A breakdown of the activity associated with capital assets is included in note VI of the financial statement section.

Major capital asset events that occurred during the current year:

During 2005 the county purchased the Twin County Credit Union building for \$2.3 million dollars. The Commissioners plan on using this office space to replace leased office space currently used by some of the county offices and departments. The building is located within the general area of the courthouse complex.

Roads and transportation completed the construction of a traffic building located at the roads and transportation shop on Tilley road. Total cost of the building was \$1.8 million, but they only incurred \$97 thousand of expenditures during 2005. This asset was transferred out of construction in process to buildings and is currently being depreciated. This building houses the staff and equipment for the traffic division of the road crew. In addition to traffic employees this building houses personnel related to homeland security, noxious weeds, and some administration. The building also has bays for the striper and material inventory related to the traffic division.

The County is currently in the process of fixing the Juvenile Detention and Family Court complex. This is a relatively new building (1998) that houses the juvenile detention facility and courts. Problems in the construction of the building have surfaced and forced the county to seek remediation through the contractor, designers and the independent construction project/manager that manage the construction of the building. During 2005 the county spent \$3.2 million to correct the problems with the building. The county has reached settlement with the project designer and has collected \$16,144 during 2005 to reimburse the county for some of these costs.

The solid waste utility purchased land from the roads and transportation fund. This land was the location of the Rochester drop box location. The cost of the land was \$352 thousand. The utility also remodeled this facility spending close to \$700 thousand. Additional improvements to the Hazardous Waste Center and the tipping area at the Transfer Station located within the City of Lacey accounted for additional capital improvements totaling \$378 thousand.

The Boston Harbor Utility completed the replacement of a water tower that was damaged as a result of the earthquake. Construction costs totaled \$597 thousand, but only \$97 thousand was incurred during 2005. We expect the cost of replacement will be fully reimbursed by the Federal Emergency Management Authority (FEMA).

The county roads and transportation department spent approximately \$4.3 million on road construction projects during 2005. Major road construction projects include the structural overlay of various county roads (\$1.4 million), Reservation Road South project (\$1.4 million), Lilly Road widening project (\$887 thousand), Yelm Highway design (\$302 thousand), Rails to Trails – Yelm to Tenino (\$310 thousand), Old 99 and 23rd street (\$225 thousand), and Dotterow Street improvements (\$275 thousands).

Long-Term Debt

As of December 31, 2005, Thurston County had total general obligation debt outstanding of \$54.3 million (\$42.4 million in governmental activities and \$11.9 million in Business-type activities). Loans, contracts and leases stand at \$3.8 million.

The county issued \$26,135,000 in general obligation debt in 2005. The breakdown of the issuance includes \$15.7 million bonds issued for a partial advance refunding of the \$16.175 million of 1997 bonds and \$7.51 million issued for an advance refunding of \$7.5 million of outstanding 1999 bonds. The remaining \$2.925 million issued will be used to finance the acquisition of parks and other capital improvements. These advance refunds created savings for the 1997 Bond of \$867,803 and the 1999 Bond of \$440,635.

The county is far from exceeding its limitation of indebtedness having the legal ability to issue debt without a vote in the amount of \$298 million. Currently the excess of debt liabilities over assets is \$41.3 million, leaving \$257.6 million of additional indebtedness available under the 1.5% limit of taxable property value.

See financial statement note VII for more information on the various debt issuances outstanding and the original reason for their issuance.

Economic Factors

The average growth rate of the Thurston County's population over the past decade was 2% per year. In 2005 the county's population increased 2.5% to 224,100 residents. This is a little faster growth rate than the average and is the start of an economic growth and recovery period for the county.

Senior citizens continue to be one of the fastest growing segments of Thurston County's population. Thurston County ranks fifth in the state for in-migration of people 55 or older. Senior citizens constitute 12% of our total population. Continued increases in this sector of the population will place increased pressure on our public health care services and retirement communities.

With the increases in population comes the increase in housing starts and prices. The average sales price for a home in 2004 was \$209,165 which is an 11% increase over the previous year. Thurston County continues to have affordable housing, especially when compared to the state averages.

Thurston County's economic vitality has traditionally come from being the capital of the state. State and local government is one of the major employers of our county. The county has experienced stabilization in this employment sector, but other sectors like regional retail and service sectors have seen positive growth trends. Recent construction of large warehouses for Target and Home Depot continue to fuel this sectors growth.

County administration recognizes that there are still unpredictable times ahead, especially with potential new initiatives on the horizon. Both elected officials and appointed department heads work together to ensure core services are provided and that the overall county maintains fiscal stability and sustainability. The board of county commissioners has begun a process to gather citizen input on the essential services provided by the county in order to direct where limited discretionary dollars are directed. There is additional detail on economic factors affecting Thurston County included in the Letter of Transmittal located in the introductory section of this report.

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Government Wide Financial Statements

Statement of Net Assets
December 31, 2005
Page 1 of 2

ASSETS	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Current Assets:			
Cash & Pooled Investments	\$ 111,407,011	\$ 8,160,831	\$ 119,567,842
<i>Receivables:</i>			
Taxes Receivable	1,719,176	-	1,719,176
Special Assessment Receivables	61,041	278,061	339,102
Accrued Interest & Penalties	2,493,680	227,971	2,721,651
Customer Account Receivables	10,056,968	1,402,396	11,459,364
Internal Balances	(716,654)	716,654	-
Due from Other Government Units	6,844,364	400,886	7,245,250
Inventory	715,023	-	715,023
Prepayments	104,821	-	104,821
<i>Restricted Assets:</i>			
Cash & Pooled Investments	-	19,499,564	19,499,564
Investments at Cost	-	1,193,999	1,193,999
Long-Term Assets:			
Deferred Charges	177,351	223,975	401,326
Community Loans Receivable	-	148,328	148,328
Special Assessment Receivables	332,720	5,445,555	5,778,275
Advances to Other Funds	-	30,000	30,000
<i>Capital Assets:</i>			
Non-Depreciable	277,489,287	4,059,220	281,548,507
Depreciable, Net	110,446,299	29,479,679	139,925,978
Investment in Joint Ventures	4,045,318	-	4,045,318
Total Assets	525,176,405	71,267,119	596,443,524

See accompanying notes to the financial statements

Statement of Net Assets
December 31, 2005
Page 2 of 2

LIABILITIES	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Current Liabilities:			
Accounts Payable	4,575,787	1,136,390	5,712,177
Due to Other Funds	-	-	-
Notes Payable	249,842	204,215	454,057
Due to Other Government Units	1,324,739	-	1,324,739
Limited G.O. Bonds Payable	2,460,854	355,000	2,815,854
Deferred Revenues	679,409	-	679,409
Long-Term Liabilities:			
Limited G.O. Bonds Payable	39,953,672	11,559,153	51,512,825
Compensated Absences Payable	5,976,706	-	5,976,706
Claims & Judgments Payable	3,505,000	-	3,505,000
Intergovernmental Loans & Contracts Payable	1,264,832	2,112,843	3,377,675
Advances from Other Funds	-	30,000	30,000
Accumulated Landfill Closure Costs	-	21,157,351	21,157,351
Total Liabilities	59,990,841	36,554,952	96,545,793
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	351,892,755	19,788,003	371,680,758
Restricted Net Assets:			
Culture & Recreation	2,709,000	-	2,709,000
Economic Environment	5,861,000	-	5,861,000
General Government	11,343,600	-	11,343,600
Health and Human Services	20,928,700	-	20,928,700
Internal Service	17,066,456	-	17,066,456
Public Safety	16,830,900	-	16,830,900
Physical Environment	3,580,200	-	3,580,200
Transportation	15,291,100	-	15,291,100
Debt Service	-	551,162	551,162
Landfill Postclosure	-	4,308,855	4,308,855
Unrestricted (Deficit)	19,681,853	10,064,147	29,746,000
Total Net Assets	\$ 465,185,564	\$ 34,712,167	\$ 499,897,731

See accompanying notes to the financial statements

Statement of Activities
For the Year Ended December 31, 2005
Page 1 of 2

Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenues		
			Charges for Services	Operating Grants And Contributions	Capital Grants & Contributions
PRIMARY GOVERNMENT					
<i>Governmental Activities:</i>					
General Government	\$ 12,640,753	\$ (3,529,997)	\$ 2,672,466	\$ 29,419	\$ 468,261
Culture & Recreation	2,750,668	13,558	771,723	94,940	-
Economic Environment	11,741,564	467,523	6,409,085	6,878,136	1,049,577
Health & Human Services	37,215,300	879,714	799,739	25,596,623	-
Public Safety	49,905,899	1,125,113	6,935,860	3,183,200	-
Transportation	20,429,106	758,198	558,677	59,619	2,809,688
Utilities & Environment	1,302,584	26,170	493,028	46,453	-
Interest and Fiscal Charges	1,895,531	-	-	-	-
Total Governmental Activities	<u>137,881,405</u>	<u>(259,721)</u>	<u>18,640,578</u>	<u>35,888,390</u>	<u>4,327,526</u>
<i>Business-Type Activities:</i>					
Solid Waste	13,738,550	83,670	14,959,601	135,519	-
Grand Mound	1,227,618	15,882	255,728	-	326,469
Other	1,854,075	160,169	398,940	137,307	-
Total Business-Type Activities	<u>16,820,243</u>	<u>259,721</u>	<u>15,614,269</u>	<u>272,826</u>	<u>326,469</u>
Total Primary Government	<u>\$ 154,701,648</u>	<u>\$ -</u>	<u>\$ 34,254,847</u>	<u>\$ 36,161,216</u>	<u>\$ 4,653,995</u>

See accompanying notes to the financial statements

Statement of Activities
For the Year Ended December 31, 2005
Page 2 of 2

Functions/Programs	Net (Expense) Revenue and Changes In Net Assets		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT			
<i>Governmental Activities:</i>			
General Government	\$ (5,940,610)	\$ -	\$ (5,940,610)
Culture & Recreation	(1,897,563)	-	(1,897,563)
Economic Environment	2,127,711	-	2,127,711
Health & Human Services	(11,698,652)	-	(11,698,652)
Public Safety	(40,911,952)	-	(40,911,952)
Transportation	(17,759,320)	-	(17,759,320)
Utilities & Environment	(789,273)	-	(789,273)
Interest and Fiscal Charges	(1,895,531)	-	(1,895,531)
Total Governmental Activities	<u>(78,765,190)</u>	<u>-</u>	<u>(78,765,190)</u>
<i>Business-Type Activities:</i>			
Solid Waste	-	1,272,900	1,272,900
Grand Mound	-	(661,303)	(661,303)
Other	-	(1,479,997)	(1,479,997)
Total Business-Type Activities	<u>-</u>	<u>(868,400)</u>	<u>(868,400)</u>
Total Primary Government	<u>\$ (78,765,190)</u>	<u>\$ (868,400)</u>	<u>\$ (79,633,590)</u>
General Revenues:			
<i>Taxes:</i>			
Property Taxes, Levied for Specific Purposes	23,604,983	-	23,604,983
Franchise and Public Serv. Taxes, Assessed for Specific Purposes	21,775,207	-	21,775,207
Property Taxes, Levied for General Purposes	28,640,600	-	28,640,600
Franchise and Public Serv. Taxes, Assessed for General Purposes	14,663,769	-	14,663,769
<i>Other General Revenues:</i>			
Interest & Investment Earnings	4,283,846	1,343,590	5,627,436
Other Non/Operating Revenues/(Expenses)	-	1,003,542	1,003,542
Miscellaneous	108,440	32,720	141,160
<i>Special Items:</i>			
Gain/(Loss) on Sale of Capital Assets	(982,095)	71,500	(910,595)
Insurance/Settlement Recoveries/(Losses)	49,559	-	49,559
<i>Net Transfers In/(Out)</i>	107,086	(107,086)	-
Total General Revenues, Special Items and Transfers	<u>92,251,395</u>	<u>2,344,266</u>	<u>94,595,661</u>
Change in Net Assets	<u>13,486,205</u>	<u>1,475,866</u>	<u>14,962,071</u>
Net Assets as of January 1	453,806,143	33,388,092	487,194,235
Prior Period Adjustment	(2,106,784)	(151,791)	(2,258,575)
Net Assets as of January 1 - Restated	451,699,359	33,236,301	484,935,660
Net Assets as of December 31	<u>\$ 465,185,564</u>	<u>\$ 34,712,167</u>	<u>\$ 499,897,731</u>

See accompanying notes to the financial statements

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**Balance Sheet
Governmental Funds
December 31, 2005**

ASSETS	General Fund	Real Estate Excise Tax	Roads	Medic One	Public Health & Social Services	Other Governmental Funds	Total Governmental Funds
Current Assets:							
Cash & Pooled Investments	\$ 6,794,584	\$9,484,958	\$14,615,482	\$13,389,420	\$ 7,331,357	\$ 38,228,621	\$ 89,844,422
<i>Receivables:</i>							
Taxes Receivable	876,397	-	562,981	232,433	11,652	35,713	1,719,176
Special Assessment Receivables	-	-	-	-	-	61,041	61,041
Accrued Interest & Penalties	1,761,987	48,785	31,129	65,877	72,341	410,984	2,391,103
Customer Account Receivables	1,696,060	-	-	-	2,164	53,593	1,751,817
Due from Other Funds	130,956	57,702	7,029	-	205,494	313,722	714,903
Due from Other Government Units	1,223,552	29,800	1,281,833	2,000	3,193,049	1,111,713	6,841,947
Inventory	-	-	544,038	-	-	1,309	545,347
Prepayments	4,704	-	-	-	-	-	4,704
Total Assets	\$12,488,240	\$9,621,245	\$17,042,492	\$13,689,730	\$10,816,057	\$ 40,216,696	\$ 103,874,460
LIABILITIES							
Current Liabilities:							
Accounts Payable	864,931	3,920	251,344	265,481	1,357,573	1,336,465	4,079,714
Due to Other Funds	15,339	700	21,175	3,228	23,685	467,739	531,866
Due to Other Government Units	5,344	-	19,812	682,762	486,235	130,586	1,324,739
Deferred Revenues	2,566,882	-	1,223,952	232,433	11,652	144,020	4,178,939
Total Liabilities	3,452,496	4,620	1,516,283	1,183,904	1,879,145	2,078,810	10,115,258
FUND BALANCES							
Reserved For:							
Debt Service	-	-	-	-	-	36,995	36,995
Unreserved-Designated, Reported In:							
Petty Cash	23,350	-	300	100	2,850	28,425	55,025
Inventories	-	-	544,038	-	-	1,309	545,347
Unreserved-Undesignated, Reported In:							
General Fund	9,012,394	-	-	-	-	-	9,012,394
Special Revenue Funds	-	9,616,625	14,981,871	12,505,726	8,934,062	30,058,940	76,097,224
Capital Projects Funds	-	-	-	-	-	8,012,217	8,012,217
Total Fund Balance	9,035,744	9,616,625	15,526,209	12,505,826	8,936,912	38,137,886	93,759,202
Total Liabilities & Fund Balances	\$12,488,240	\$9,621,245	\$17,042,492	\$13,689,730	\$10,816,057	\$ 40,216,696	\$ 103,874,460

See accompanying notes to the financial statements

**Reconciliation of The Balance Sheet of Governmental Funds
To The Statement of Net Assets
December 31, 2005**

	<u>Governmental Funds</u>
Fund balance as shown in the Governmental Funds Balance Sheet	\$ 93,759,202
The cost of capital assets, which is expended in governmental funds, is deferred to future periods in the statement of net assets	380,500,694
Long term debt, which is not reported in governmental funds, is reported in the statement of net assets	(42,649,290)
Assets, liabilities and resulting net assets of internal service funds, which are separately reported in proprietary fund statements, are included and combined with governmental balances in the statement of net assets	27,490,282
Long term special assessment receivables and unamortized debt discount on long term debt, which is not reported in governmental funds, is reported in the statement of net assets	510,071
Long term (non-available) receivables, which are deferred in governmental funds, are recognized and accrued as revenues in the statement of net assets	11,704,819
Compensated absences, which are not reported in governmental funds, are reported as an accrued liability in the statement of net assets	(5,113,186)
Interfund balances, which are reported in governmental and proprietary funds, are eliminated in the statement of net assets (except for a residual amount outstanding between governmental and enterprise activities)	<u>(1,017,028)</u>
Net assets for governmental funds as shown in Statement of Net Assets	<u>\$ 465,185,564</u>

See accompanying notes to the financial statements

**Statement of Revenues, Expenditures and Changes In Fund Balances
Governmental Funds
For The Year Ended December 31, 2005**

	General Fund	Real Estate Excise Tax	Roads	Medic One	Public Health & Social Services	Other Governmental Funds	Total Governmental Funds
Revenues:							
Taxes	\$42,949,405	\$ 5,953,370	\$ 16,424,136	\$ 7,471,553	\$ 476,060	\$ 6,681,486	\$ 79,956,010
Licenses & Permits	40,159	-	-	-	188,166	3,177,222	3,405,547
Intergovernmental	6,778,542	-	8,357,728	153,290	26,231,438	8,699,623	50,220,621
Charges for Services	6,221,662	15,925	351,565	65	1,344,875	5,167,795	13,101,887
Fines & Forfeits	1,675,682	-	-	-	-	10,113	1,685,795
Miscellaneous Revenue	1,889,166	289,436	156,056	389,484	371,646	2,261,966	5,357,754
Total Revenues	59,554,616	6,258,731	25,289,485	8,014,392	28,612,185	25,998,205	153,727,614
Expenditures:							
General Government	9,938,200	240,696	-	-	-	908,173	11,087,069
Culture & Recreation	552,790	5,405	-	-	-	1,876,308	2,434,503
Economic Environment	256,142	-	-	-	-	11,958,743	12,214,885
Health & Human Services	39,083	2,632	-	5,969,815	31,901,351	15,606	37,928,487
Public Safety	45,807,175	76,237	1,960,746	-	-	2,538,279	50,382,437
Transportation	682	-	14,411,901	-	-	1,517,063	15,929,646
Utilities & Environment	451,491	73,910	-	-	-	1,158,527	1,683,928
Capital Outlay	414,581	801,633	5,937,767	16,573	9,450	8,786,877	15,966,881
Debt Service:							
Principal	27,939	-	-	3,107	-	1,999,641	2,030,687
Interest & Fiscal Charges	8,736	-	-	2,603	-	2,101,204	2,112,543
Total Expenditures	57,496,819	1,200,513	22,310,414	5,992,098	31,910,801	32,860,421	151,771,066
Excess (Deficiency) of Revenues Over Expenditures	2,057,797	5,058,218	2,979,071	2,022,294	(3,298,616)	(6,862,216)	1,956,548
Other Financing Sources (Uses)							
Capital Lease Financing	11,098	-	-	-	-	45,485	56,583
Sale of Capital Assets	355	-	526,917	-	-	7,066	534,338
Bond Proceeds on New Debt Issue	-	-	-	-	-	2,925,000	2,925,000
Bond Proceeds on Bond Refunding	-	-	-	-	-	15,700,000	15,700,000
Bond Premium on Bond Refunding	-	-	-	-	-	1,434,652	1,434,652
Payment on Bond Refunding	-	-	-	-	-	(16,175,000)	(16,175,000)
Loss on Bond Refunding	-	-	-	-	-	(688,552)	(688,552)
Transfers In	1,423,483	224,087	-	6,169	2,320,674	15,582,026	19,556,439
Transfers Out	(2,511,661)	(1,774,992)	(1,216,365)	(6,169)	(782,780)	(13,168,396)	(19,460,363)
Total Other Financing Sources (Uses)	(1,076,725)	(1,550,905)	(689,448)	-	1,537,894	5,662,281	3,883,097
Net Changes In Fund Balances	981,072	3,507,313	2,289,623	2,022,294	(1,760,722)	(1,199,935)	5,839,645
Fund Balances as of January 1	8,054,672	6,109,312	13,236,586	10,483,532	10,697,634	39,337,821	87,919,557
Fund Balances as of December 31	\$ 9,035,744	\$ 9,616,625	\$ 15,526,209	\$12,505,826	\$ 8,936,912	\$ 38,137,886	\$ 93,759,202

See accompanying notes to the financial statements

**Reconciliation Of The Statement Of Revenues, Expenditures And
Changes in Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Year Ended December 31, 2005**

		<u>Governmental Funds</u>
Change in fund balance as shown in the Governmental Funds		
Statement of Revenues, Expenditures and Changes in Fund Balances	\$	5,839,645
Capital Assets:		
Capital outlays, which are reported as expenditures in governmental funds, are capitalized and deferred to future periods and therefore not reported in the statement of activities	15,966,881	
Depreciation (asset usage), which is not reported in governmental funds, is recognized and reported in the statement of activities	(8,111,405)	
Gain (Loss) on the sale and disposition of governmental capital assets, which is not reported in governmental funds, is reported in the statement of activities	<u>(1,516,433)</u>	6,339,043
Long-Term Debt:		
Bond principal payments, which are reported as expenditures in governmental funds, are not reported as expenditures in the statement of activities (however, it is reported as a reduction in the amount owed in the statement of net assets)	18,894,239	
Debt issues costs, and other similar costs on debt issues, which are reported as expenditures in governmental funds, are deferred in the statement of net assets and then expensed over the life of the bond issue in the statement of activities	217,012	
Long-term financing proceeds, which is reported as an "other financing source" of funds in governmental funds, is not recognized or reported in the statement of activities (however, it is reported as an increase in the amount owed in the statement of net assets)	<u>(20,116,235)</u>	(1,004,984)
Interfund Transactions:		
Profit or (loss) from internal service funds, which is reported separately in proprietary fund statements, is credited or charged to governmental expenses in the statement of activities	2,537,752	
Other interfund transactions, which are reported in governmental funds, are eliminated in the statement of activities, except for a residual amount outstanding between governmental and business activities	(1,010,974)	
Unbilled internal service costs from the County's cost allocation plan, which is not allocated to service users in governmental fund statements, is allocated to service users in the statement of activities, resulting in a residual amount outstanding between governmental and business activities	<u>259,721</u>	1,786,499
Other:		
Long term (non-available) revenues, which are deferred in governmental funds, are reported as revenues (or as a debit adjustment) in the statement of activities	927,539	
Compensated absences, which is not reported in governmental funds, is reported as an expense (or as a credit adjustment) in the statement of activities	<u>(401,537)</u>	<u>526,002</u>
Change in net assets for governmental funds as shown in the Statement of Activities		<u><u>\$ 13,486,205</u></u>

See accompanying notes to the financial statements

Statement of Net Assets
Proprietary Funds
December 31, 2005
1 of 2

ASSETS	Enterprise Funds				Internal Service Funds
	Solid	Grand	Other	Total	
	Waste	Mound	Enterprise Funds	Enterprise Funds	
Current Assets:					
Cash & Pooled Investments	\$ 6,008,495	\$ 129,773	\$ 2,022,563	\$ 8,160,831	\$ 21,562,589
<i>Receivables:</i>					
Special Assessment Receivables	-	200,000	78,061	278,061	-
Accrued Interest & Penalties	183,128	4,162	40,681	227,971	102,577
Customer Account Receivables	1,326,949	40,638	34,809	1,402,396	99,862
Due From Other Funds	400,499	-	1,614	402,113	170,358
Due From Other Government Units	277,901	8,956	114,029	400,886	2,417
Inventory	-	-	-	-	169,676
Prepayments	-	-	-	-	100,117
<i>Restricted Assets:</i>					
Cash and Pooled Investments	18,921,681	275,210	302,673	19,499,564	-
Investments at Cost	-	-	1,193,999	1,193,999	-
Long-Term Assets:					
Deferred Charges	-	220,562	3,413	223,975	-
Community Loans Receivable	-	-	148,328	148,328	-
Special Assessment Receivables	-	4,031,734	1,413,821	5,445,555	-
Advances to Other Funds	30,000	-	-	30,000	-
Capital Assets	31,840,891	13,914,075	14,188,002	59,942,968	28,160,889
Accumulated Depreciation	(20,140,905)	(1,701,968)	(4,561,196)	(26,404,069)	(16,680,679)
Total Assets	38,848,639	17,123,142	14,980,797	70,952,578	33,687,806

See accompanying notes to the financial statements

**Statement of Net Assets
Proprietary Funds
December 31, 2005
2 of 2**

LIABILITIES	Solid Waste	Grand Mound	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Current Liabilities:					
Accounts Payable	1,045,004	11,376	80,010	1,136,390	496,073
Notes Payable	-	-	204,215	204,215	223,526
Due To Other Funds	637,443	11,998	53,046	702,487	53,021
Lim.Tax G.O.Bond-Current Portion	-	250,000	105,000	355,000	182,997
Long-Term Liabilities:					
Limited G.O. Bonds Payable	-	11,046,751	512,402	11,559,153	132,914
Compensated Absences Payable	-	-	-	-	863,520
Claims and Judgments Payable	-	-	-	-	3,505,000
Intergovernmental Loans & Contracts Payable	-	28,019	2,084,824	2,112,843	740,473
Advances From Other Funds	-	30,000	-	30,000	-
Accumulated Landfill Closure Costs	21,157,351	-	-	21,157,351	-
Total Liabilities	22,839,798	11,378,144	3,039,497	37,257,439	6,197,524
NET ASSETS					
Invested in Capital Assets, Net Of Related Debt	11,699,986	887,337	7,200,680	19,788,003	10,423,826
Restricted For:					
Postclosure	4,308,855	-	-	4,308,855	-
Debt Service	-	-	551,162	551,162	-
Unrestricted (Deficit)	-	4,857,661	4,189,458	9,047,119	17,066,456
Total Net Assets	\$ 16,008,841	\$ 5,744,998	\$ 11,941,300	\$ 33,695,139	\$ 27,490,282

See accompanying notes to the financial statements

**Reconciliation of The Statement of
Net Assets of Proprietary Funds
To The Statement of Net Assets
*December 31, 2005***

	Business Type Funds
	<hr/>
Enterprise net assets as shown in the Proprietary Funds Statement of Net Assets	\$ 33,695,139
 Internal balances for additional amounts owed between governmental and business units have not been included in governmental fund statements.	 <hr/> 1,017,028
 Net assets for business-type funds as shown in Statement of Net Assets	 <hr/> <hr/> \$ 34,712,167

See accompanying notes to the financial statements

**Statement of Revenues, Expenses and Changes In Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005**

	Enterprise Funds				Internal Service Funds
	Solid Waste	Grand Mound	Other	Total	
			Enterprise Funds	Enterprise Funds	
Operating Revenues:					
Charges for Services	\$ 14,959,601	\$ 255,728	\$ 396,588	\$ 15,611,917	\$ 212,679
Equipment Rental	-	-	-	-	4,455,162
Interfund Contributions	-	-	37,852	37,852	14,694,321
Miscellaneous	19,262	7,910	5,548	32,720	36,314
Total Operating Revenues	14,978,863	263,638	439,988	15,682,489	19,398,476
Operating Expenses:					
Salaries and Benefits	1,544,750	221,021	956,435	2,722,206	12,217,128
Other Supplies and Expenses	167,380	15,901	81,996	265,277	2,244,554
Contractual Services	1,496,891	50,074	167,020	1,713,985	4,400,780
Longhaul Contract	10,006,781	-	-	10,006,781	-
Interfund Services and Charges	688,016	36,164	207,209	931,389	1,320,674
Depreciation/Amortization	645,483	339,773	559,153	1,544,409	2,603,570
Claims Payments	-	-	-	-	1,159,849
Total Operating Expenses	14,549,301	662,933	1,971,813	17,184,047	23,946,555
Operating Income (Loss)	429,562	(399,295)	(1,531,825)	(1,501,558)	(4,548,079)
Nonoperating Revenue (Expenses):					
Interest Revenue	872,172	296,000	175,418	1,343,590	545,494
Other Nonoperating Revenue (Expense)	(177,357)	(7,568)	1,532,793	1,347,868	5,716,217
Interest Expense & Fiscal Charges	-	(565,671)	(118,999)	(684,670)	(74,102)
Total Nonoperating Revenue (Expense)	694,815	(277,239)	1,589,212	2,006,788	6,187,609
Income Before Contributions and Transfers:	1,124,377	(676,534)	57,387	505,230	1,639,530
Capital Contributions	-	326,469	-	326,469	887,212
Transfers In (Out)	(148,458)	-	41,372	(107,086)	11,010
Change in Net Assets	975,919	(350,065)	98,759	724,613	2,537,752
Net Assets as of January 1	15,032,922	6,095,063	11,994,332	33,122,317	24,952,530
Prior Period Adjustments	-	-	(151,791)	(151,791)	-
Net Assets as of January 1 - Restated	15,032,922	6,095,063	11,842,541	32,970,526	24,952,530
Net Assets as of December 31	\$ 16,008,841	\$ 5,744,998	\$ 11,941,300	\$ 33,695,139	\$ 27,490,282

See accompanying notes to the financial statements

**Reconciliation of The Statement of Revenues, Expenses and
Changes in Fund Net Assets of Proprietary Funds
To The Statement of Activities
For the Year Ended December 31, 2005**

	<u>Business-Type Funds</u>
Change in enterprise net assets as shown in the Statement of Revenues, Expenses and Changes in Fund Net Assets	\$ 724,613
Internal services, provided primarily by internal service funds, also occurs between other County funds. The net effect of the elimination of these services is reflected in the statement of activities:	
Other interfund transactions	1,010,974
Allocated direct and indirect costs from the County's cost plan	<u>(259,721)</u>
Change in net assets for business-type funds as shown in the Statement of Net Assets	<u><u>\$ 1,475,866</u></u>

See accompanying notes to the financial statements

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005
Page 1 of 2

	<u>Enterprise Funds</u>				<u>Internal Service Funds</u>
	<u>Solid</u>	<u>Grand</u>	<u>Other</u>	<u>Total</u>	
	<u>Waste</u>	<u>Mound</u>	<u>Enterprise</u>	<u>Enterprise</u>	
		<u>Funds</u>	<u>Funds</u>		
Cash Flows from Operating Activities:					
Cash Received from Customers	\$ 14,890,912	\$ 238,588	\$ 438,135	\$ 15,567,635	\$ 19,807,159
Cash Paid for Goods & Services	(12,832,121)	(98,700)	(653,393)	(13,584,214)	(9,428,511)
Cash Paid to Employees	(1,544,750)	(221,021)	(956,435)	(2,722,206)	(12,145,023)
Net Cash Provided (Used) by Operating Activities	<u>514,041</u>	<u>(81,133)</u>	<u>(1,171,693)</u>	<u>(738,785)</u>	<u>(1,766,375)</u>
Cash Flows from Noncapital Financing Activities:					
Operating Transfers In	398,220	-	591,372	989,592	86,442
Operating Transfers Out	(546,678)	-	(550,000)	(1,096,678)	(75,432)
Grant Proceeds	135,486	-	79,114	214,600	-
Tax and Assessment Receipts	-	-	1,424,753	1,424,753	5,294,982
Receipts On Community Loans	-	-	33,750	33,750	-
Payments On Community Loans	-	-	(12,422)	(12,422)	-
Tax Payments	(385,276)	(7,568)	(29,252)	(422,096)	(8,611)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(398,248)</u>	<u>(7,568)</u>	<u>1,537,315</u>	<u>1,131,499</u>	<u>5,297,381</u>
Cash Flows from Capital & Related Financing Activities:					
Sales/Dispositions Of Capital Assets	-	-	-	-	136,972
Capital Asset Acquisitions	(1,466,219)	(15,578)	(663,340)	(2,145,137)	(3,069,736)
Bond/Loan Payments	-	(145,230)	(271,883)	(417,113)	(399,583)
Grant Proceeds	-	-	-	-	307,537
Contributed Capital	-	138,469	(100,108)	38,361	200,505
Assessment Receipts	-	410,669	198,369	609,038	-
Interest Payments	-	(499,813)	(119,853)	(619,666)	(74,102)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(1,466,219)</u>	<u>(111,483)</u>	<u>(956,815)</u>	<u>(2,534,517)</u>	<u>(2,898,407)</u>
Cash Flows from Investing Activities:					
Interest Receipts	770,809	13,250	134,775	918,834	487,470
Net Cash Provided (Used) by Investing Activities	<u>770,809</u>	<u>13,250</u>	<u>134,775</u>	<u>918,834</u>	<u>487,470</u>
Net Increase (Decrease) in Cash & Cash Equivalents	(579,617)	(186,934)	(356,310)	(1,122,861)	1,120,069
Cash & Cash Equivalents 1-1-05	25,509,793	591,917	3,875,545	29,977,255	20,442,520
Cash & Cash Equivalents 12-31-05	<u>\$ 24,930,176</u>	<u>\$ 404,983</u>	<u>\$ 3,519,235</u>	<u>\$ 28,854,394</u>	<u>\$ 21,562,589</u>

See accompanying notes to the financial statements

Statement Of Cash Flows
Proprietary Funds
For The Year Ended December 31, 2005
Page 2 of 2

	Enterprise Funds				Internal Service Funds
	Solid	Grand	Other	Total	
	Waste	Mound	Enterprise Funds	Enterprise Funds	
Reconciliation of Operating Income To Net Cash Provided (Used) by Operating Income:					
Operating Income	429,562	(399,295)	(1,531,825)	(1,501,558)	(4,548,079)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	645,483	339,773	559,153	1,544,409	2,603,570
(Increase) Decrease in:					
Customer Account Receivables	(96,036)	(25,050)	(1,853)	(122,939)	(78,563)
Due from Other Funds	8,085	-	(1,614)	6,471	399,107
Due from Other Government Units	-	-	-	-	88,139
Inventories	-	-	-	-	(36,754)
Prepaid Expense	-	-	-	-	(15,340)
Increase (Decrease) in:					
Accounts Payable	83,015	8,007	(105,887)	(14,865)	(116,017)
Due to Other Funds	(88,100)	(4,568)	(89,667)	(182,335)	(156,370)
Due to Other Government Units	(1,540)	-	-	(1,540)	-
Claims and Judgments	-	-	-	-	21,827
Compensated Absences Payable	-	-	-	-	72,105
Accumulated Landfill Closure	(466,428)	-	-	(466,428)	-
Total Adjustments	84,479	318,162	360,132	762,773	2,781,704
Net Cash Provided (Used) by Operating Activities	\$ 514,041	\$ (81,133)	\$ (1,171,693)	\$ (738,785)	\$ (1,766,375)
Noncash Investing, Capital, and Financing Activities:					
Gain on Purchase/Sale Of Fixed Assets	\$ 71,500	\$ -	\$ -	\$ 71,500	\$ 208,939
Loss on Purchase/Sale of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ (89,725)
Prior Period Assessment Receivable Adjustment	\$ -	\$ -	\$ (151,791)	\$ (151,791)	\$ -
Contribution of Capital Assets	\$ -	\$ 188,000	\$ -	\$ 188,000	\$ 887,212

See accompanying notes to the financial statements

Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2005

ASSETS	Investment Trust Funds	Private Purpose Trust Funds	Agency Funds
Assets:			
Cash & Pooled Investments	\$ 219,217,783	\$ 1,891,170	\$ 19,581,490
Cash and Investments in Trust	-	-	446,014
Cash and Deposits with Fiscal Agent	-	-	110,064
Receivables:			
Accrued Interest Receivables	-	-	15,215
Investments at Fair Value:			
US Treasury State and Local Government	(4,860,307)	-	-
Total Assets	214,357,476	1,891,170	20,152,783
LIABILITIES			
Liabilities:			
Warrant Payable	-	-	13,345,320
Accounts Payable	-	-	332,528
Deferred Revenue	-	-	1,738,420
GO Bonds Payable - Current	-	-	845,021
Due to Other Governments	-	-	3,891,494
Total Liabilities	-	-	20,152,783
NET ASSETS			
Investments Held in Trust for Pool Participants	214,357,476	-	-
Investments Held in Trust for Other Purposes	-	1,891,170	-
Total Net Assets	\$ 214,357,476	\$ 1,891,170	\$ -

See accompanying notes to the financial statements

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2005

	<u>Investment Trust Funds</u>	<u>Private Purpose Trust Funds</u>
Additions:		
Contributions:		
Additions By Participants	\$ 366,758,541	\$ 8,404,583
Trust Revenues	193,050	-
Total Contributions	<u>366,951,591</u>	<u>8,404,583</u>
Investment Income:		
Net Decrease In Fair Value Of Investments	(4,860,307)	-
Interest, Dividends and Other	-	17,323
Total Investment Income	<u>(4,860,307)</u>	<u>17,323</u>
Total Additions	<u>362,091,284</u>	<u>8,421,906</u>
Deductions:		
Distributions to Participants	346,709,236	8,312,127
Trust Administrative Costs	193,050	-
Total Deductions	<u>346,902,286</u>	<u>8,312,127</u>
Change in Net Assets Held for Individuals, Organizations and Other Governments	15,188,998	109,779
Net Assets as of January 1	<u>199,168,478</u>	<u>1,781,391</u>
Net Assets as of December 31	<u>\$ 214,357,476</u>	<u>\$ 1,891,170</u>

See accompanying notes to the financial statements

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NOTES TO THE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2005

Note I - Summary of Significant Accounting Policies

The financial statements of Thurston County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. REPORTING ENTITY

The financial statements present Thurston County as the primary government as required by generally accepted accounting principles.

Component Unit

The Comprehensive Annual Financial Report (CAFR) of Thurston County does not include any component units for which the County is financially accountable.

B. COMPREHENSIVE ANNUAL FINANCIAL REPORT

This report is segregated into introductory, financial, supplementary information and statistical sections. The introductory section complements the other two sections and may include information (for example - prospective and economic information) that would normally be excluded from the financial section of this report. The statistical section includes supporting statistical tables to the financial section.

The financial section includes all statements required by GASB for the year end financial report. The financial section includes the following statements: independent auditor's opinion, management discussion and analysis, government-wide financial statements, fund financial statements, notes to the financial statements, and major fund budget to actual statements. The auditor's opinion provides an independent opinion by the Washington State Auditor's Office on the overall accuracy of this report. The management discussion and analysis provides our analysis of the financial condition and activities of Thurston County based on supporting facts and decisions by the County.

The supplementary information section includes all the combining statements required for a CAFR by the Government Finance Officers Association. The supplementary information section includes the following statements: non-major governmental and enterprise fund statements, internal service fund statements and fiduciary fund statements. Grant schedules are also included within this section that detail federal, state and local grants and awards.

Government wide financial statements, fund financial statements and the notes to the financial statements comprise the basic financial statements within the financial section of this report. Balances and activities in the government wide financial statements are reported differently than balances and activities reported in the fund financial statements, each using a different measurement focus and basis of accounting, as explained in more detail in note I.C. below.

Government wide financial statements provide an overview of the financial condition and activity of the entire governmental unit. This overview is reported in the statement of net assets and the statement of activities. The statement of net assets reports assets, liabilities and net assets or equity of the entire governmental unit. Likewise, the statement of activities reports revenues, expenses and resulting change in net assets of the entire governmental unit. Governmental balances and activities are segregated from business-type balances and activities in both statements (governmental activities are primarily supported by taxes and intergovernmental revenues whereas business type activities are primarily supported by user fees and charges).

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. These statements are reported on a cost of services basis. All assets and liabilities (whether current or non-current) are reported in the balance sheet. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net total assets. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Revenues, expenses, gains, losses, assets and liabilities are recognized when the exchange takes place. All revenues and service costs are reported each year regardless whether they were received or paid in the current year or soon thereafter.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed in both government wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business type activities and enterprise funds, subject to the same limitations. The County has elected not to apply subsequent private sector guidance.

1. Government-Wide Financial Statements

Internal service balances are summarized with governmental balances in the statement of net assets since most internal services are provided to governmental functions. However, the doubling effect of internal service activities has been removed from the statement of activities.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Purchased capital assets are capitalized in the statement of net assets and not immediately expensed in the statement of activities. Capital assets include governmental infrastructure (primarily road) assets (See Note VI). However, the use of these assets over time is recognized as a depreciation expense in the statement of activities (See Note VI for depreciation expenses reported in the statement of activities).

Long-term debt proceeds are reported as liabilities in the statement of net assets and therefore not reported as general revenues in the statement of activities. Amounts paid to reduce long-term indebtedness are reported as a reduction in the related liability in the statement of net assets and therefore not reported as an expense in the statement of activities.

Program revenues include:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges
- Fines & forfeitures
- Special assessments
- Grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment

Taxes, entitlements, unrestricted grants, interest and other special and extraordinary items are non-exchange revenues reported as general revenues in the statement of activities. Non-exchange revenues occur when the County gives (or receives) value without directly receiving (or giving) equal value in exchange.

Taxes and entitlements are reported as either property taxes or franchise and public service taxes and then segregated as either unrestricted for general use or restricted for specific purposes. Franchise and public service taxes in the statement of activities include the following general tax revenues and service fees: cable TV, document preservation, forest board, government land lease, harvest, leasehold excise, liquor excise, motel/hotel, motor vehicle license/excise, pull tabs, punch board, real estate, retail sales, and timber sales.

Property tax revenues are recognized in the fiscal year for which the taxes are levied. Grant, entitlement, and donation revenues are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The County's cost allocation plan allocates unbilled indirect and direct service costs to individual functions. The full allocation of these costs has been included, and separately reported, as program expenses for each reported activity.

The effect of interfund activity has been eliminated, as a general rule, from the government wide financial statements. Exceptions to this general rule include internal charges for normal and recurring services provided by one fund or department to another fund or department (provided primarily by the government's utility programs).

2. Governmental Fund Financial Statements

All governmental funds are accounted on a current financial resources or "financial flow" measurement focus. This means only current assets and current liabilities are included in the balance sheet. Likewise, governmental fund operating statements focus on measuring changes in current financial position. They report increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

These funds are also reported using the modified accrual basis of accounting. Revenues are recognized when measurable and available. Consequently, fund balance measures "available spendable resources." Revenues are considered to be available when they are collectible within the current period or soon thereafter to pay liabilities of the current period. For this purpose, the County considers all revenues (including property, sales and franchise taxes, licenses and interest) to be available if they are collected within sixty days after year-end.

Expenditures are generally recorded when the related fund liability is incurred. However, the measurement focus and basis of accounting differs from full accrual in the following ways:

- Purchases of capital assets are expenditures
- Redemptions of long-term debt are expenditures when due
- Revenues that are measurable but not available are recorded as a receivable and offset by deferred revenues
- Interest on long-term debt is not accrued but is recorded as an expenditure when due
- Accumulated unpaid vacation and sick leave are considered expenditures when paid

Thurston County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It is used to account for all activities of the general government not accounted for in another fund.
- The County Road Fund accounts for the design, construction, and maintenance of County roads.
- The Public Health and Social Services Fund accounts for the following services: mental health, developmental disabilities, substance abuse treatment, prevention, children and family, environmental, and personal health.
- The Medic One Fund accounts for countywide delivery of advanced life support response and transport services.
- The Real Estate Excise Tax Fund accounts for proceeds dedicated to capital projects from the permanent one-half percent tax on real property sales in unincorporated Thurston County.

3. Proprietary Fund Financial Statements

Proprietary funds are reported using the economic resources measurement focus and accrual basis of accounting as noted above. However, only proprietary funds disclose cash flows in a separate statement that reports their investing and financing activities. Proprietary funds also distinguish operating from non-operating revenues and expenses in their operating statements. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of personnel and contractual services, other supplies and expenses and depreciation on capital assets. All revenues and expenses not meeting this definition, including capital and non-capital financing and investing activities and non-exchange and exchange like transactions, are reported as non-operating revenues and expenses.

The County reports the following major proprietary funds:

- The Solid Waste Fund accounts for all solid waste activity including the maintenance and operation of the County's waste and recovery center.
- The Grand Mound Water and Wastewater Fund accounts for maintenance and operations of the Grand Mound water & wastewater systems.

Proprietary funds provide fee based services to external customers as enterprise funds and internally as internal service funds to the County's internal customers which include other County funds and governmental units. The County's internal service funds are reported in total in the major fund proprietary statements. However, these funds are included within the governmental activities in the statement of net assets and activities as noted above. The County's internal service funds include the following intergovernmental services: benefits administration, county-wide emergency communication services, data processing, enterprise administration/engineering, equipment repair/replacement, facilities upkeep/maintenance, insurance risk and unemployment compensation.

4. Fiduciary Fund Financial Statements

Fiduciary funds are also reported using the economic resources measurement focus and accrual basis of accounting as noted above. Fiduciary funds are used to account for resources held for the benefit of parties other than Thurston County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Thurston County's programs.

Thurston County has three types of fiduciary funds:

- Investment Trust funds report pooled investments held on behalf of external pool participants in the County's investment program.
- Private Purpose Trust funds report trust arrangements where the principal and interest benefit those outside of the primary government.
- Agency Funds account for assets and liabilities the County holds for others in an agency capacity. These funds are custodial in nature and do not present results of operations or have a measurement focus. These funds primarily comprise clearing accounts for assets and liabilities held by the County in its role as custodian until the funds are allocated to private parties, organizations, or government agencies to which they belong.

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

1. Deposits and Investments

The County follows the practice of pooling cash and investments of all funds with the County Treasurer except when otherwise requested in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. A segment, function or fund's portion of total cash and pooled investments is summarized in the government-wide and major fund financial statements under the classification of cash and pooled investments. Balances in cash and pooled investments are available on a demand basis to each of the funds. Earnings on cash and pooled investments are allocated to participating funds on an average daily balance basis. For purposes of the statement of cash flows, unrestricted and restricted cash and pooled investments are treated as cash and cash equivalents since balances are available as demand deposits.

Amounts reported as cash and pooled investments also include compensatory balances maintained with certain banks. These balances are in addition to payments made for banking services rendered. The book value of deposits does not differ materially from the bank balances of deposits. The average compensatory balance maintained during 2005 was approximately \$2,456,000.

2. Receivables from External Sources

Taxes receivable consist of current and delinquent property taxes and are partially offset by deferred revenue in the governmental funds balance sheet. Accrued interest receivable includes interest and penalties on property taxes (See Note V), interest on investments (See Note III) and on special assessments at year end.

Special Assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments. Deferred assessments are unbilled special assessments, including any related interest, that are liens against the property benefited.

Customer account receivables consist of amounts owed from private individuals or organizations for goods and services, including fines and forfeitures for court receivables, and amounts owed for which billings have not been prepared. Receivables have been recorded net of estimated uncollectible amounts. Because property taxes, special assessments and utility billings are considered liens on property, no estimates of uncollectible amounts are established.

Deferred revenues are revenues that have been deferred, and therefore not recognized as income, until received or earned. Deferred revenues consist of tax and assessment revenue deferrals and amounts received by not earned.

3. Receivables From and Payables to Internal Sources or Other Governmental Units

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Interfund loans receivable/payable" or "advances to/from other funds". All other outstanding balances between funds are reported as "due to/from other funds" in the governmental funds balance sheet and proprietary funds statement of net assets.

Interfund balances and transactions, except for interfund loans and advances and any other residual "internal balances" between governmental and business-type activities, are excluded from the government-wide statements of net assets and activities. See Note VII for a balanced summary schedule of interfund balances by major fund and by non-major fund category.

Due to and due from other funds is reported as a cash flow change impacting operating activities in the statement of cash flows. However, due to and due from other governmental units is reported as a cash flow change impacting non-operating activities within this statement.

4. Inventories and Prepaid Items

Inventories are assets held for internal consumption or for resale. Any material inventory remaining at year-end is included in the balance sheet of the appropriate fund.

The purchase method, where the cost is recorded as an expenditure when the item is purchased, is used in governmental funds, except for the Roads Special Revenue Fund. The perpetual inventory method is used in the Roads Special Revenue Fund and proprietary funds. The perpetual inventory method capitalizes the cost when inventory is purchased and then records an expenditure or expense when the item is consumed. Inventories recorded in the Roads Special Revenue fund and proprietary funds are stated at cost on a moving weighted average basis.

Prepayments are payments in advance of the receipt of goods and services in an exchange transaction and are recorded as an expenditure or expense only when consumed. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government wide and fund financial statements. These items primarily include prepaid rents for computer software.

5. Long-Term Liabilities

Revenue and general obligation bonds and intergovernmental loans and contracts directly related to and financed from enterprise funds are accounted for in the respective enterprise funds. All other long-term debt is reported in the governmental column of the government-wide statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, gain/loss, and issuance costs during the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, is reported as debt service expenditures.

Amounts reserved, as stipulated in bond covenants or agreements, for the current portion of long-term liabilities is shown as a reservation of fund balance in the fund financial statements and a restriction of fund balance in the statement of net assets. Specific debt service requirements are described in Note VII – Long-Term and Other Significant Debt.

6. Capital Assets and Depreciation

Capital assets include land, improvements to land, easements, buildings, building improvements, machinery and equipment, construction in progress, infrastructure, and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Thurston County defines capital assets as assets (including capital leases) valued at \$5,000 or more (including ancillary costs) with an estimated useful life in excess of one year.

Infrastructure assets are long-lived assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure include roads, bridges, drainage systems, sidewalks, trails and paths, and water and sewer systems. Infrastructure assets acquired after July 1, 1980 are reported in the statement of net assets. Some infrastructure assets are reported at historical costs using County Road Administration Board and Washington State Department of Transportation annual reports. Other infrastructure assets are reported at estimated historical costs on a discounted current replacement value basis. Infrastructure acquired prior to June 30, 1980, except for Right of Ways and easements, is not reported.

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no records exist. Donated capital assets are valued at their estimated fair market value, if estimable, or donor's net book value on the date received.

Improvements to capital assets that materially add to the value or extend the life of the asset are capitalized. The cost of normal maintenance and repairs that do not significantly add to the value of the asset or materially extend the assets' life is expensed in the year incurred.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Machinery & Equipment	3-20 years
Improvements	10-40 years
Buildings	10-40 years
Infrastructure	20-40 years

Interest expense was not capitalized during asset construction since interest costs were offset by interest earnings on the investments of funds for these projects.

7. Rebatable Arbitrage

Thurston County has chosen to treat any rebatable arbitrage as a reduction of revenue.

8. Net Assets and Fund Balance

Restrictions, commitments and other limitations significantly affecting the availability of net assets and fund balances are reflected in their classifications in the statement of net assets and fund financial statements. Net assets is reported as (a) an investment in capital assets, net of related debt, (b) restricted or (c) unrestricted. Fund balance is reported as (a) reserved, (b) unreserved–designated or (c) unreserved–undesignated.

Fees and charges for services (except for the general fund), as reported in the statement of net assets, are usually considered to be restricted since they have been charged or levied for a specific purpose or use. When both restricted and unrestricted resources are available for use, it is the County's policy to use these resources proportionately based on their overall contribution to the total resources of that fund, function or program.

Net assets is restricted in proprietary fund statements and fund equity is reserved in governmental fund statements if "outside" restrictions have been placed on the use of these funds (see Note I.D.5. above for debt service restrictions and reservations). Solid waste cash and investments is restricted to fund a 30 year landfill postclosure care period (see Note XIII – Closure and Post Closure Care Costs). Solid waste net assets restricted for this purpose comprise the remainder of the net asset balance.

Note II - Reconciliation of Government Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

Account balances in the governmental fund balance sheet are reconciled to balances in the government-wide statement of net assets within the accompanying "Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets" statement. Three line items in this reconciliation are described and explained in more detail below.

Thurston County, Washington 2005

The first line item adjustment, as detailed below, was for \$380,500,694 because the “cost of capital assets, which is expended in governmental funds, is deferred to future periods in the statement of net assets”:

Governmental Net Book Value - 12/31/04	\$	376,601,155
Gains (Losses) on Dispositions of Capital Assets		(1,516,433)
Prior Period Adjustment-Regional Athletic Complex (See Note XIV.A.-Prior Period Adjustments)		(2,439,504)
Governmental Capital Outlays		15,966,882
Governmental Depreciation Expense		<u>(8,111,406)</u>
Governmental Net Book Value - 12/31/05	\$	<u><u>380,500,694</u></u>

The second line item adjustment, as detailed below, was for \$42,649,290 because “long-term debt, which is not reported in governmental funds, is reported in the statement of net assets”:

Governmental Debt - 12/31/04	\$41,466,955
Debt Principal Payments	(18,933,900)
Lease Financing Proceeds	56,583
Bond Proceeds	<u>20,059,652</u>
Computed Governmental Debt - 12/31/05	<u><u>\$42,649,290</u></u>

The third line item adjustment, as detailed below, was for \$27,490,282 because “assets, liabilities and resulting net assets of internal service funds, which are separately reported in proprietary fund statements, are included and combined with governmental balances in the statement of net assets”:

Capital Assets	\$ 11,480,210
Interfund Receivables	170,358
Other Assets	22,037,238
Interfund Payables	(53,021)
Debt	(2,143,430)
Other Liabilities	<u>(4,001,073)</u>
Net Assets - 12/31/04	24,952,530
Net Profit	<u>2,537,752</u>
Net Assets - 12/31/05	<u><u>\$ 27,490,282</u></u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

Account balances in the governmental income statement (statement of revenues, expenditures and changes in fund balances) are reconciled to balances in the government-wide statement of activities within the accompanying "Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities" statement. These line item reconciliations are available and reported in detail within this statement.

Note III - Stewardship, Compliance and Accountability

A. BUDGETS AND BUDGETARY ACCOUNTING

The County prepares its budgets in accordance with state law. In November 2004, the County Administrator submitted to the Board of County Commissioners a proposed operating budget for 2005. The operating budget includes proposed expenditures and the means of financing them. Public hearings were conducted at the County Courthouse to obtain taxpayer comments. On December 20, 2004 the budget was legally enacted through passage of a resolution.

For 2005, appropriations were authorized by department in the General Fund and by fund only for all other funds. These are the legal levels of budgetary control. The Board of County Commissioners must approve any revisions that increase the total appropriation of any fund/department or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment. Changes in the total appropriated in any fund/department must be approved by resolution by a majority of the Board of County Commissioners after holding a public hearing.

Administrative control is maintained through the establishment of detailed line-item budgets and formal budgetary integration is employed as a management control device during the year for all budgeted funds. Budgets for all County funds are adopted on a modified accrual basis, as required by statute. Budgets are recorded in the financial system for management use for some Non-County agency funds. However, the Board of County Commissioners does not adopt Non-County agency budgets and there are no legal limits on these expenditures. The Governmental Accounting Standards Board does not require, and the financial statements do not present, budgetary comparisons for proprietary fund types.

Budgeted amounts reflect the budget adopted on December 20, 2004 and various amendments made throughout the year. All appropriations lapse each year.

Thurston County's expenditures did not exceed budgeted appropriations. There were no material violations of finance-related legal or contractual provisions.

The GO Bonds 2004 governmental fund had a deficit fund balance of (\$225) at December 31, 2005. The timing of revenues and expenditures should produce a positive fund balance in 2006.

The following proprietary funds had deficit net assets at December 31, 2005: Solid Waste Reserve for Post Closure (\$1,652,145), Olympic View Debt Service (\$4,736), Grand Mound Debt Service (\$6,565,632) and Insurance Risk Management (\$120,113). These funds have contributed capital and generally utilize multiple funds within the same functional group. They have been segregated to more clearly account for interest revenues and bond covenants. These groups, when combined, have a positive fund equity. Additionally, the timing of revenues and expenditures should produce a positive fund balance for the Insurance Risk Management fund in 2006.

Note IV - Deposits and Investments

The Thurston County Treasurer, acting in their legal capacity as treasurer for the County and other taxing districts, receipts, disburses and invests all cash.

A. DEPOSITS

All receipts received by the Treasurer are deposited into qualified bank depositories as specified by the Washington Public Deposit Protection Commission (PDPC). All deposits, including money markets and certificates of deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington PDPC. The PDPC is a statutory authority established under Chapter 39.58 of the Revised Code of Washington. PDPC coverage is of the nature of insurance pursuant to the Governmental Accounting Standards Board Statement No. 3. All deposits held at December 31, 2005, and throughout the year were classified as category 1, insured or collateralized with securities held by the County Treasurer or by their agent in the County Treasurer's name. Total cash deposits at December 31, 2005 were \$2,180,488.

B. INVESTMENTS

Investments are governed by State statute and county investment policy. All investment instruments are those allowed by statute, which include U.S. Treasury Notes, Federal Agencies, bankers' acceptances, short-term commercial paper, and the State Treasurer's Local Government Investment Pool.

The investment policy dictates that all investment instruments be transacted on the delivery vs. payment basis. Union Bank of California acts as safekeeping agent for the Thurston County Treasurer. During 2005 we did not buy or own any securities earning interest at a rate which varied depending on an underlying rate or index.

As of December 31, 2005, the County's investment values and maturities for pool and individual fund investments are as follows:

<u>Investment Type</u>	<u>Book Value</u>	<u>Weighted Average Maturity (Years)</u>
Pool Investments:		
State Treasurer's LGIP	\$ 24,100,000	0.0
U.S. Agencies	<u>352,050,833</u>	2.4
Total Pool Investments	<u>\$ 376,150,833</u>	2.2
Investments:		
Municipal Bonds	\$ 1,081,901	1.5
U.S. Agencies	<u>99,521</u>	0.5
Total Investments	<u>\$ 1,181,422</u>	1.4

Thurston County, Washington 2005

The interest rate, credit and concentration risks are described below:

Interest Rate Risk - The adopted investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State law and the adopted investment policy limit investment in securities that have one of the three highest ratings of a national rating agency at the time of investment. All investments have a rating by Standard & Poor's of either AAA or AA at the time of purchase.

Concentration of Credit Risk - The adopted investment policy requires that no more than 25% of the investments will be in a single security type, with the exception of U.S. treasury and agency securities and the State Local Government Investment Pool. The investments held are in compliance with this requirement.

A reconciliation of pool investments, investments, cash and cash deposits to the fund and entity wide statements is as follows:

**Reconciliation of Deposits and Investments
December 31, 2005**

	<u>Total</u>	<u>Cash & Pool Investments</u>	<u>Investments</u>
Pool Investments:			
State Treasurer's Local Govt. Investment Pool (LGIP)	\$ 24,100,000	\$ 24,100,000	\$ -
U.S. Agency & Instrumentality Securities	352,150,833	352,050,833	100,000
Investments:			
Municipal Bonds	<u>1,081,422</u>	<u>-</u>	<u>1,081,422</u>
Total Investments	<u>377,332,255</u>	<u>376,150,833</u>	<u>1,181,422</u>
Cash and Cash Deposits:			
Cash with Fiscal Agent and Deposits With Financial Institutions	2,180,488 *	2,180,488	-
Petty Cash, Change, Revolving, and Advance Travel Funds	91,436	91,436	-
Clerk's Trust Funds	<u>1,891,170</u>	<u>1,891,170</u>	<u>-</u>
Total Cash & Investments	<u>381,495,349</u>	<u>380,313,927</u>	<u>1,181,422</u>
Net Increase			
(Decrease) in the Fair Value of Investments	<u>(4,847,730)</u>	<u>(4,860,307)</u>	<u>12,577</u>
Total Reported Cash & Investments	<u>\$ 376,647,619</u>	<u>\$ 375,453,620</u>	<u>\$ 1,193,999</u>
Statement of Net Assets:			
Cash & Pooled Investments - Unrestricted	\$ 119,567,842		
Cash & Pooled Investments - Restricted	19,499,564		
Investments at Cost	1,193,999		
Statement of Fiduciary Net Assets:			
Investment Trust Funds	219,217,783		
Private Purpose Trust Funds	1,891,170		
Agency Funds	19,581,490		
Cash and Investments in Trust	446,014		
Cash and Deposits with Fiscal Agent	110,064		
Fair Value Adjustment	<u>(4,860,307)</u>		
Total Reported Cash & Investments	<u>\$ 376,647,619</u>		

* Amount excludes \$96,260 in fiscal agent cash deposits maintained by Communications outside the Treasurer's Office.

Thurston County, Washington 2005

A summary of current and restricted assets for pooled investments and investments at December 31, 2005 is as follows:

**Current and Restricted Assets
December 31, 2005**

	Total	Current Assets	Restricted Assets
Pooled Investments	\$ 376,150,833	\$ 356,651,270	\$ 19,499,563
Investments	1,181,422	-	1,181,422
Total	<u>\$ 377,332,255</u>	<u>\$ 356,651,270</u>	<u>\$ 20,680,985</u>

C. THURSTON COUNTY INVESTMENT POOL (TCIP)

The Thurston County Investment Pool (TCIP) operates on an amortized cost-book value basis. The County Treasurer, the County Auditor and the Chairman of the Board of County Commissioners, as the statutory County Finance Committee, perform oversight of the pool's performance. There are no legally binding guarantees for TCIP. Authorized investments for the TCIP are the same as investments held outside of the pool. These are defined in statute and discussed in this note IV (B). TCIP also has holdings in the State Treasurer's Local Government Investment Pool (LGIP). The LGIP operates in a manner consistent with SEC Rule 2a7. As a 2a7-like pool, investments in the LGIP are reported at amortized cost.

All funds deposited in the TCIP are available to the participant at full face value without regard to current market values of the investment pool. Earnings distributions, including any realized transactions in the pool, are distributed monthly, calculated on the average daily balance of the participant's cash balances. The Thurston County Treasurer, by law, is the treasurer of most governments within the county, including schools, fire and library districts. These districts do not have a legal option to have their cash handled by other than the County Treasurer.

The TCIP did experience a net decrease in the fair value of the investments during 2005, as market interest rates increased. At 12/31/2005, the market value of investments was \$4,847,730 less than the amortized cost. These unrealized losses will not be recognized in the various funds as management intends to hold these investments to maturity. During 2005, TCIP did not realize any gains or losses from early sale of investments.

The County Treasurer, on an ad hoc basis, and once a month the County Finance Committee, review fair value of the TCIP. Fair value is determined using information from our safekeeping agent, Union Bank of California and using "Bloomberg", an on-line financial services system.

There is no involuntary participation in the TCIP. Districts do have the option to participate in the TCIP or they can have the treasurer manage some portion of their cash in investments outside of TCIP by requesting specific investment amounts and maturity dates.

Thurston County, Washington 2005

A condensed statement of net assets and statement of changes in net assets for the TCIP, including the external and internal portions of the pool, at December 31, 2005 is as follows:

	<u>Total</u>
Assets	
Cash, Cash Equivalents and Pooled Investments	\$ 376,150,833
Total Assets	<u>376,150,833</u>
Liabilities	
Accrued Interest Payable	-
Total Liabilities	<u>-</u>
Net Assets Held in Trust for Pool Participants	<u>\$ 376,150,833</u>

Condensed Statement of Changes in Net Assets
December 31, 2005

Changes in Net Assets Resulting from Operations	\$ 12,865,829
Distribution to Participants	(12,865,829)
Changes in Net Assets Resulting from Cash Transactions	<u>24,057,563</u>
Net Assets Available	24,057,563
Net Assets - 1/1/05	<u>352,093,270</u>
Net Assets - 12/31/05	<u>\$ 376,150,833</u>
Internal Investment Pool - 12/31/05	\$ 139,008,247
External Investment Pool - 12/31/05	<u>237,142,586</u>
Thurston County Investment Pool - 12/31/05	<u>\$ 376,150,833</u>

Note V – Property Taxes

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities.

Property Tax Calendar

- January 1 Taxes are levied and become an enforceable lien against the properties.
- February 15 First day tax payments can be made.
- April 30 First of two equal installment payments is due.
- October 31 Second installment is due.

Thurston County, Washington 2005

Property taxes are recorded as receivables when levied, but revenue is not recognized until collected. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. An enforceable lien attaches at the point of levy. Interest accrues on delinquent taxes at a rate of 12% per annum. Penalties of 3% are assessed in June and 8% in December, in the first year of delinquency.

The County is permitted by law to levy up to a combined amount of \$4.05 per \$1,000 of assessed valuation. A maximum of \$1.80 per \$1,000 of assessed valuation may be levied on all property in the County for general government services. A maximum of \$2.25 per \$1,000 of assessed valuation may be levied on property in unincorporated Thurston County for the County Road Fund for road construction and maintenance. However a county is authorized to increase its levy from \$1.80 to a rate not to exceed \$2.475 per \$1,000 of assessed value for general county purposes if the total levies for both the county and the county road district do not exceed \$4.05 per \$1,000 of assessed value, and no other taxing district has its levy reduced as a result of the increased county levy. These levies may be reduced as noted below.

The Washington State Constitution limits total regular property taxes to 1 percent of true and fair market valuation. This would equate to a regular levy rate of \$10 per \$1,000 of value if the property were assessed at its true and fair value. If taxes of regular districts (excluding the Port & PUD) exceed this amount, the junior taxing districts taxes are reduced first and then the other entities are proportionately reduced until the total is at the 1 percent limit. This does not apply to special levies approved by voters.

Most taxing districts are authorized by state law to levy a certain rate each year without approval by the voters; these are commonly referred to as regular levies. The aggregate levies of junior taxing districts and senior taxing districts, other than the state, shall not exceed five dollars and ninety cents per thousand dollars of assessed valuations (RCW 84.52.043). At the county level this limitation does not apply to the Conservation Futures or Medic One levies.

RCW 84.55.010 limits all regular taxing districts to a limit factor not to exceed 101 percent of the highest lawful levy since 1985, plus additional levy capacity generated through new construction and state assessed utility increases.

The County may voluntarily levy taxes below the legal limit.

Special levies approved by the voters are not subject to the above limitations.

The following identifies the tax rates levied in 2004 for collection in 2005:

	Levy In Dollars Per Thousand	Assessed Value	Total Levy
County	\$ 1.4783	\$ 17,304,943,898	\$ 25,581,095
Roads	1.6914	\$ 9,318,156,534	15,760,627
	<u>\$ 3.1696</u>		<u>\$ 41,341,722</u>

Note VI - Capital Assets

Capital assets activity for the year ended December 31, 2005 was as follows:

GOVERNMENTAL TYPE ACTIVITIES	Beginning Balance 01/01/05	Increases	Decreases	Ending Balance 12/31/05
Capital Assets, not being depreciated:				
Land	\$ 250,323,982	\$ 6,088,982	\$ 4,822,952	\$ 251,590,012
Construction in Progress	24,042,054	9,266,826	7,409,605	25,899,275
Investment in Joint Ventures	2,584,756	939	1,291,882	1,293,813
Capital Assets, not depreciated	<u>276,950,792</u>	<u>15,356,747</u>	<u>13,524,439</u>	<u>278,783,100</u>
Capital Assets being depreciated:				
Buildings	56,387,401	11,663,548	7,647,856	60,403,093
Improvements other than buildings	3,714,669	1,407,309	50,751	5,071,227
Machinery & Equipment	36,549,479	7,473,650	5,106,616	38,916,513
Infrastructure	95,838,104	4,142,131	2,080,694	97,899,541
Investment in Joint Ventures	3,748,626	678,757	1,167,074	3,260,309
Capital Assets, depreciated	<u>196,238,279</u>	<u>25,365,395</u>	<u>16,052,991</u>	<u>205,550,683</u>
Less Accumulated Depreciation for:				
Buildings	13,817,418	2,207,603	944,826	15,080,195
Improvements other than buildings	1,283,460	177,172	20,110	1,440,522
Machinery & Equipment	25,324,402	3,849,351	3,836,008	25,337,745
Infrastructure	45,422,520	5,183,989	620,896	49,985,613
Investment in Joint Ventures	398,116	110,688	-	508,804
Accumulated Depreciation	<u>86,245,916</u>	<u>11,528,803</u>	<u>5,421,840</u>	<u>92,352,879</u>
Capital Assets - depreciated, net	109,992,363	13,836,593	10,631,151	113,197,804
Governmental Capital Assets, net	<u>\$ 386,943,155</u>	<u>\$ 29,193,339</u>	<u>\$ 24,155,589</u>	<u>\$ 391,980,904</u>

Depreciation Expense was charged to functions as follows:

General Government	\$ 1,815,702
Public Safety	397,661
Utilities and Environment	1,092
Transportation	5,402,778
Economic Environment	95,231
Health and Human Services	42,394
Culture and Recreation	356,547
	<u>8,111,405</u>

In addition, depreciation on capital assets held by the County's internal service funds is charged to the various functions based upon their usage of the assets.

Total Governmental Activities Depreciation Expense	<u>\$ 10,714,976</u>
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Thurston County, Washington 2005

Business Type Activities for the year ended December 31, 2005 was as follows:

BUSINESS TYPE ACTIVITIES	Beginning Balance 01/01/05	Increases	Decreases	Ending Balance 12/31/05
Capital Assets, not being depreciated:				
Land	\$ 1,249,412	\$ 368,370	\$ 10,810	\$ 1,606,972
Construction In Progress	3,825,888	1,823,055	3,196,695	2,452,248
Total Capital Assets, not being depreciated	<u>5,075,300</u>	<u>2,191,425</u>	<u>3,207,505</u>	<u>4,059,220</u>
Capital Assets, being depreciated:				
Buildings	21,162,145	962,268	166,812	21,957,601
Improvements other than buildings	27,270,279	2,634,430	-	29,904,709
Machinery & Equipment	3,943,580	89,223	11,366	4,021,437
Total Capital Assets, being depreciated	<u>52,376,004</u>	<u>3,685,921</u>	<u>178,178</u>	<u>55,883,747</u>
Less Accumulated Depreciation For:				
Buildings	3,022,683	622,380	-	3,645,063
Improvements other than buildings	19,936,427	724,128	-	20,660,555
Machinery & Equipment	1,855,080	254,736	11,366	2,098,450
Total Accumulated Depreciation	<u>24,814,190</u>	<u>1,601,244</u>	<u>11,366</u>	<u>26,404,068</u>
Total Capital Assets being depreciated, net	<u>27,561,814</u>	<u>2,084,677</u>	<u>166,812</u>	<u>29,479,679</u>
Business Type Activities Capital Assets, net	<u>\$ 32,637,114</u>	<u>\$ 4,276,102</u>	<u>\$ 3,374,317</u>	<u>\$ 33,538,899</u>

Depreciation expense was charged to functions as follows:

Solid Waste	\$ 645,483
Grand Mound	339,773
Other Enterprise Funds	<u>559,153</u>
Total	<u>\$ 1,544,409</u>

Note VII - Long-Term and Other Significant Debt

A. DISCLOSURES ABOUT EACH SIGNIFICANT DEBT INCURRED

1. General Obligation Bonded Indebtedness

The County issues general obligation bonds to provide funds for the acquisition, construction, and improvement of capital facilities, and major equipment purchases. General obligation bonds have been issued for both general government and proprietary activities. The proprietary portion of general obligation debt is reported in proprietary funds because repayments will come from proprietary fund revenues. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Payments on these bonds are funded from voter approved levies, real estate excise tax fees and proprietary revenues.

Thurston County, Washington 2005

1997 General Obligation Bonds of \$26,415,000 (refunding and new issue) and 1997 Advance Refunding Bonds of \$4,660,000 were issued in annual principal installments of \$1,020,000 to \$2,260,000. There was only \$3,060,000 of the G. O. Bond portion of the issue left outstanding at December 31, 2005 after the issuance of 2005 Partial Advance Refunding General Obligation Bonds in 2005. The G. O. bond portion of the issue was used for new construction and to currently refund the 1995 (\$8,200,000) and 1996 (\$9,900,000) G. O. Bonds. The G. O. bond portion of this issue was used to finance various capital projects including: a juvenile detention center and family court facility, an emergency service center, an information technology tax appraisal/assessment system, jail facilities/improvements, other capital equipment and Road Improvement District #2 construction. The G. O. bond portion is serviced by the 1997 General Obligation Bond Redemption Fund (Debt Service Fund). \$16,175,000 was refunded with 2005 Advanced Refunding Bonds. The remaining outstanding balance as of December 31, 2005 was \$3,060,000. The advance refunding bond portion of this issue was used for a partial advance refunding of \$1,075,000 of 1990 bonds and an advance refunding of \$3,470,000 of 1991 bonds. The advanced refunding bond portion is serviced by the Boston Harbor Water/Sewer Debt Redemption Fund (Enterprise Fund) and has \$645,000 in bonds outstanding at December 31, 2005. The bonds of the entire issue bear an interest rate of 4.75% to 5.0%.

1998 General Obligation Bonds of \$3,170,000 were issued in 1998 and bear an interest rate of 50% of a bank reference rate. \$1,700,000 was issued for the acquisition of farmland development rights in annual principal installments of \$242,858. This issue portion is serviced by the 1998 General Obligation Bond Redemption Fund (Debt Service Fund) and has \$485,713 in bonds outstanding at December 31, 2005. The other \$1,470,000 was issued in annual principal installments of \$67,145 to \$98,015. These proceeds were used to construct and equip a regional emergency dispatch center. This issue portion is serviced by the Communications Fund (Internal Service Fund) and has \$315,911 in bonds outstanding at December 31, 2005.

1999 Grand Mound General Obligation Bonds of \$11,720,000 were issued in annual principal installments of \$250,000 to \$1,300,000 beginning in 2004 and running through 2019. The issue is serviced by the Grand Mound Debt Service Redemption Fund. Proceeds were used for constructing and equipping Grand Mound water and wastewater facilities. The bonds bear an interest rate of 5.0% to 5.6%. \$7,500,000 was refunded with 2005 Advanced Refunding Bonds. The remaining outstanding balance as of December 31, 2005 was \$3,720,000.

2002 Limited General Obligation Bonds of \$10,635,000 were issued in annual principal installments of \$320,000 to \$790,000 beginning in 2002 and running through 2022. Proceeds were used to payoff the 2000 General Obligation Bonds and for improvements to various county facilities. The bonds bear an interest rate of 4.0% to 5.13% with \$9,120,000 outstanding as of December 31, 2005.

2004 Limited General Obligation Bonds of \$11,000,000 were issued in 2004. The proceeds were used to acquire property and for improvements to various county facilities including: a) acquiring land to construct a jail facility, b) expanding the county/regional park system, c) acquiring a building adjacent to the courthouse to ease overcrowding and relieve existing space problems and d) replacing the County's 20-year old central phone system. The bonds bear an interest rate of 2.5% to 4.50% semi annually with principal repayments from \$400,000 to \$800,000 a year. The term of the bonds is for 20 years with the final payment due in 2024. The balance at December 31, 2005 was \$10,725,000

2005 General Obligation Bonds of \$26,135,000 were issued in 2005. The bonds were used as follows: \$15,700,000 was used for a partial advance refunding of \$16,175,000 of outstanding 1997 bonds and \$7,510,000 was used for an advance refunding of \$7,500,000 of outstanding 1999 bonds. The other portion of the issue amounting to \$2,925,000 will be utilized to finance park acquisitions and other capital improvements. The bonds bear an interest rate of 3.0% to 5.0% semi annually with principal repayments ranging from \$100,000 to \$3,000,000 a year. The term of the bonds is for 20 years with the final payment due in 2025.

2. Loans and Contracts Payable

The County has entered into an agreement with the Department of Community Development, State of Washington, for six loans from the State of Washington, Public Works Trust Fund. The loans are to finance in part the construction of the Boston Harbor water and sewer infrastructure, the Tamoshan water system upgrade, the Olympic View drain field, and the Sunrise Beach Landslide Mitigation Project (also known as Road Improvement District #2). The County has agreed to repay the Public Works Trust Fund loans from water and sewer utility revenues, homeowner assessments in the improvement district, and other available County monies.

The Boston Harbor Water/Sewer Debt Redemption Fund (Enterprise Fund) has the first of two Public Works Trust Fund loans which total \$297,437 at December 31, 2005. The first loan is not to exceed \$808,000 with an interest rate of 1.0% per annum. Yearly loan payments are due on July 1 and are equal to 1/19th of the loan's principal balance plus interest on the unpaid balance of the loan. The term of the loan is for twenty years due in 2008 with a balance at December 31, 2005 of \$129,351. The second loan is not to exceed \$798,407 with an interest rate of 1% per annum. Yearly loan payments are due on July 1 and are equal to 1/19th of the loan balance plus interest on the unpaid balance of the loan. The term of the loan is for 20 years due in 2009, and the balance at December 31, 2005 is \$168,086.

Tamoshan Debt Redemption Fund (Enterprise Fund) has the third Public Works Trust Fund loan, which is not to exceed \$173,166 with an interest rate of 1.0% per annum. Yearly loan payments are due on July 1 and are equal to 1/19th of the loan's principal balance plus interest on the unpaid balance of the loan. The term of the loan is for twenty years. The loan is due in 2009 and has a balance at December 31, 2005 of \$38,165.

Olympic View Debt Redemption Fund (Enterprise Fund) has the fourth Public Works Trust Fund loan, which is not to exceed \$110,000 with an interest rate of 5% per annum. Yearly loan payments are due on July 1 and are equal to 1/19th of the principal balance plus interest on the unpaid balance of the loan. The term of the loan is for twenty years. The loan is due in 2016 and has a balance at December 31, 2005 of \$64,038.

Road Improvement District #2 Fund (Debt Service Fund) has the fifth Public Works Trust Fund loan that is not to exceed \$500,000 with an interest rate of 4% per annum. Yearly loan payments are due on July 1 and are equal to 1/19th of the principal balance plus interest on the unpaid balance of the loan. The term of the loan is for twenty years. The loan is due in 2020 and has a balance at December 31, 2005 of \$394,737.

Grand Mound-water has the sixth Public Works Trust Fund loan that is not to exceed \$37,358 with an interest rate of 2% per annum. Yearly loan payments are due on July 1 and are equal to 1/4th of the principal balance plus interest on the unpaid balance of the loan in 2007. The term of the loan is for five years. The balance at December 31, 2005 is \$28,019.

Thurston County, Washington 2005

The Community Loan Repayment Funds (Enterprise Funds) entered into six state revolving fund (SRF) loan agreements with the State of Washington Department of Ecology to create a community loan program to provide low interest loans for the repair of failing on-site septic systems. The loan programs are 80% federal from the Environmental Protection Agency, and 20% State from the Department of Ecology. The first loan is not to exceed \$300,000 with an interest rate of 5% per annum. Repayment began in 1996. The term of the loan is for twenty years. The balance at December 31, 2005 is \$145,539. The second loan is not to exceed \$200,000 with an interest rate of 0%. The term of the loan is for twenty years. The balance at December 31, 2005 is \$69,553. The third loan is not to exceed \$200,000 with an interest rate of 4.3%. Repayment began in 2003. The term of the loan is for twenty years. The balance at December 31, 2005 is \$131,664. A fourth loan began in 2000 and is not to exceed \$100,000 with an interest rate of 0%. Repayments began in 2003. The balance at December 31, 2005 is \$19,199. During 2002 a fifth loan began with a not to exceed value of \$150,000 and an interest rate of 1.5%. Repayment began after project completion on December 31, 2005. The balance as of December 31, 2005 is \$100,164. The sixth loan is not to exceed \$200,000 with an interest rate of 1.5%. Repayment will begin in December 2007. The term of the loan is for twenty years and the balance at December 31, 2005 was \$14,195 (the first installment).

Water and Waste Management entered into a state revolving fund (SRF) loan agreement with the State of Washington Department of Ecology to create a new Utility Local Improvement District for Tamoshan/Beverly Beach Wastewater Plant Improvements in 2002. Repayments began in 2004 and the loan balance at December 31, 2005 was \$1,409,083. The interest rate of the loan is 0% with a 20-year repayment term.

Communications entered into an agreement with Government Capital Corporation to fund a new computer aided dispatch system during 2003. Principal payments began in 2003 and the note will be complete in 2009 with principal payments varying from \$142,611 to \$259,611. The total financed is \$1,522,000 with an effective interest rate of 4.94%. The amount outstanding at December 31, 2005 is \$963,998.

3. Leases

Capital Leases

The County has entered into the transactions that are recorded as a capital lease purchases. These long-term contracts incorporate some or all of the benefits and risks of ownership. These lease agreements qualify as capital leases and recorded at the present value of future minimum lease payments as of the inception date. Leases payable totaled \$155,938 at December 31, 2005.

The future minimum lease obligations and net present value of minimum lease payments for assets acquired through capital leases as of December 31, 2005 were as follows:

	Governmental Activities	Business-Type Activities
Machinery & Equipment	\$ 285,878	\$ -
Less: Accumulated Depreciation	(129,939)	-
Present value of minimum lease payments	155,939	-
Plus amount representing interest	32,524	-
Total minimum lease payments	<u>\$ 188,463</u>	<u>\$ -</u>

Thurston County, Washington 2005

Operating Leases

The County has lease commitments for leases of buildings and office space that are cancelable operating leases. Operating lease expenditures for the year ended December 31, 2005 were \$ 883,052. The future minimum lease payments for these leases are:

<u>Year</u>	<u>Amount</u>
2006	\$ 784,866
2007	\$ 514,540
2008	\$ 186,407
2009	\$ 117,810
2010	\$ -

4. Long-term Compensated Absences

Thurston County has traditional and alternative leave plans. Thurston County employees who chose the traditional leave plan earn 12 days of sick leave and 12-22 days of vacation leave per year depending upon the employee's length of service. A maximum of 140 days of sick leave may be accrued and a maximum of 45 days of vacation may be accrued. Thurston County employees who were hired after May 31, 1996, or who chose the alternative leave plan, earn 18-28 days of annual leave (a combination of sick leave and vacation leave) per year depending upon the employee's length of service. A maximum of 185 days of annual leave may be accrued. Accumulated unpaid vacation/annual leave is recorded as earned by employees. Terminating employees are entitled to be paid for unused vacation up to a maximum of 240 hours (280 hours for annual leave) and, if retiring, half of unused sick leave to a maximum of 360 hours.

The County has reported a long-term liability of \$5,113,186 at December 31, 2005 for that portion of unpaid accumulated vacation and personal leave payable in governmental funds. Leave costs are paid from governmental funds that fund the personnel costs for those employees. The County has also reported a long-term liability of \$863,520 at December 31, 2005 for that portion of unpaid accumulated vacation and personal leave payable in internal service funds. Payroll, benefits and associated administrative services for enterprise funds are billed to the enterprise funds by two internal service funds. Consequently balances for compensated absences in enterprise funds is rolled up into internal service funds which is in turn included within governmental activities in the following table in the statement of net assets. Vested sick leave is not considered material and is not accrued.

B. CHANGES IN LONG-TERM AND OTHER SIGNIFICANT DEBT

The following is a summary of long-term and other significant debt transactions of the County:

**Schedule Of Changes In Long-term And Other Significant Debt
For The Period Ended December 31, 2005**

	General Obligation Bonded Debt	Leases Payable	Loans & Contracts Payable	Compensated Absences	Totals
Governmental Activities:					
Balance at Jan 1, 2005	\$ 41,401,263	\$ 147,333	\$ 1,597,851	\$ 5,503,064	\$ 48,649,511
New Issues	18,625,000	70,262	-	473,642	19,168,904
Reductions & Adj.	(18,339,639)	(61,656)	(239,116)	-	(18,640,411)
Balance at Dec 31, 2005	<u>41,686,624</u>	<u>155,939</u>	<u>1,358,735</u>	<u>5,976,706</u>	<u>49,178,004</u>
Business-Type Activities:					
Balance at Jan 1, 2005	12,215,000	-	2,480,245	-	14,695,245
New Issues	7,510,000	-	43,414	-	7,553,414
Reductions	(7,850,000)	-	(206,601)	-	(8,056,601)
Balance at Dec 31, 2005	<u>11,875,000</u>	<u>-</u>	<u>2,317,058</u>	<u>-</u>	<u>14,192,058</u>
Long-term Debt	<u>\$ 53,561,624</u>	<u>\$ 155,939</u>	<u>\$ 3,675,793</u>	<u>\$ 5,976,706</u>	<u>63,370,062</u>
Deferred and Unamortized Balances:					
Deferred Amount of Refunding:					
Governmental					(671,758)
Business-Type					(527,363)
Unamortized Premium:					
Governmental					1,399,660
Business-Type					566,516
Total Long-term Debt					<u>\$ 64,137,117</u>
Statement of Net Assets:					
Notes Payable:					
Current					\$ 454,057
Long-Term					3,377,675
G.O. Bonds Payable:					
Current					2,815,854
Long-Term					51,512,825
Compensated Absences					5,976,706
Total Long-term Debt					<u>\$ 64,137,117</u>

Enterprise segment information is not disclosed since revenue streams are not pledged to support proprietary long-term debt.

Thurston County, Washington 2005

C. DEBT SERVICE REQUIREMENTS

Annual debt requirements for all outstanding bonded and contractual debt is as follows:

**Schedule Of Annual Requirements
For Debt Payments
As of December 31, 2005**

	General Obligation Bonded Debt		Leases Payable		Loans/Contracts/Notes Payable		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2006	\$ 2,865,855	\$ 2,468,446	\$ 47,260	\$ 14,645	\$ 454,059	\$ 83,180	\$ 5,933,445
2007	3,050,769	2,345,576	42,269	9,948	483,225	71,722	6,003,509
2008	2,710,000	2,210,718	34,319	5,642	500,222	56,377	5,517,278
2009	3,010,000	2,106,830	22,664	1,994	461,353	40,328	5,643,169
2010	3,355,000	1,985,595	9,427	295	144,322	24,176	5,518,815
2011- 2015	17,905,000	7,520,115	-	-	732,293	82,150	26,239,558
2016- 2020	15,100,000	3,068,997	-	-	634,340	26,642	18,829,979
2021- 2025	5,565,000	592,905	-	-	265,979	927	6,424,811
Total	\$ 53,561,624	\$ 22,299,182	\$ 155,939	\$ 32,524	\$ 3,675,793	\$ 385,502	\$ 80,110,564

D. ASSETS AVAILABLE FOR DEBT SERVICE

The County is meeting debt service requirements. The County has sufficient assets in variety of different funds, including the General Fund, Real Estate Excise Tax Fund, debt holding funds and proprietary funds to meet current and future debt service payments. At December 31, 2005, the County had an additional \$36,608 available in reserve in the Debt Service Funds to service general obligation debt.

E. LEGAL DEBT MARGIN

State law sets Thurston County's limitation on external long-term debt as follows:

Purpose of Indebtedness	Total Capacity	Remaining Capacity
General Government (No vote required)	\$ 298,962,008	\$ 257,613,059
General Government (With 3/5-majority vote)	\$ 498,270,014	\$ 456,921,065

F. CONTINGENT LIABILITY FOR REFUNDED AND DEFEASED DEBT

In prior years, the County issued general obligation refunding (new) bonds to provide resources to purchase U.S. government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on the refunded (old) debt. As a result, the refunded bonds are considered to be defeased and the liability for the defeased bonds is not included in the County's financial statements. Currently the County has two outstanding refunded issues.

Schedule Of Refunded And Defeased Bonds, Assets, And Liabilities
As of December 31, 2005

Assets	
Cash & Investments With Treasurer	\$ 2,059,492
Cash With Fiscal Agent	-
Cash With Trustee	-
Investments With Trustee	-
Total Assets	<u>\$ 2,059,492</u>
Total Liabilities	<u>\$ 95,000</u>

Refunded & Defeased Bonds Outstanding	<u>01/01/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/05</u>
	\$ 560,000	\$ 16,175,000	\$ 465,000	\$ 16,270,000

General Obligation Bonds of \$26,135,000 were issued in 2005 of which \$15,700,000 were used for a partial advance refunding of \$16,175,000 of outstanding 1997 governmental bonds and \$7,510,000 were used for an advance refunding of \$7,500,000 of outstanding 1999 enterprise bonds. The advance refunding of the 1997 bonds resulted in an economic gain of \$867,803 with a \$861,415 reduction in debt service payments over the next 12 years. The advance refunding of the 1999 bonds resulted in an economic gain of \$440,635 with a \$567,825 reduction in debt service payments over the next 14 years.

Note VIII - Interfund Transactions

A. INTERFUND RECEIVABLES AND PAYABLES

Revenues, expenditures and expenses between County funds are reported as if they were from external organizations in the fund financial statements. These balances and transactions were, for the most part, eliminated in the government-wide financial statements (see Notes I.C.1. and I.D.3. above). Interfund transactions usually involve the exchange of goods and services in a normal business relationship. The composition of interfund receivables and payables in the fund financial statements as of December 31, 2005 is shown in the following table.

Thurston County, Washington 2005

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 130,956	\$ 15,339
Real Estate Excise Tax	57,702	700
Roads	7,029	21,175
Medic One	-	3,228
Public Health & Social Services	205,494	23,685
Non-Major Governmental Funds	313,722	467,739
Internal Service Funds	170,358	53,021
TOTAL GOVERNMENTAL & INTERNAL SERVICE FUNDS	<u>885,261</u>	<u>584,887</u>
Enterprise Funds		
Solid Waste	400,499	637,443
Grand Mound	-	11,998
Non-Major Enterprise Funds	1,614	53,046
TOTAL ENTERPRISE FUNDS	<u>402,113</u>	<u>702,487</u>
TOTAL COUNTY FUNDS	<u>1,287,374</u>	<u>1,287,374</u>
TOTAL	<u>\$ 1,287,374</u>	<u>\$ 1,287,374</u>

B. ADVANCES TO AND FROM OTHER FUNDS

Advances of funds are interest bearing inter-fund loans that will be repaid in a future years. Solid Waste Fund advanced \$30,000 to the Grand Mound Wastewater Operating Fund in 2004. The advance will be repaid over 5 years. The advance bears an annual interest rate of 3%. Interest only will be repaid during the first two years with equal interest and principal payments occurring during the last three years of the advance repayment period.

C. INTERFUND TRANSFERS

Interfund transfers are subsidies or contributions provided by one fund to another fund with no corresponding promise for repayment. These amounts, which are reported in the fund financial statements, were eliminated in the government-wide statements. General fund transfers are usually made to subsidize other operating activities and capital projects. Proprietary and non-major governmental fund transfers are usually made to fund debt service and associated capital projects. Transfers may also include transfers of residual fund balances to an active fund, usually preparatory to closure of the transferring fund.

Thurston County, Washington 2005

Interfund transfers occurring between major funds, non-major governmental funds, non-major enterprise funds and internal service funds of the county during the year ended December 31, 2005 are summarized below:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,423,483	\$ 2,511,661
Real Estate Excise Tax	224,087	1,774,992
Roads	-	1,216,365
Medic One	6,169	6,169
Public Health & Social Services	2,320,674	782,780
Non-Major Governmental Funds	15,582,026	13,168,396
Internal Service Funds	86,442	75,432
TOTAL GOVERNMENTAL & INTERNAL SERVICE FUNDS	<u>19,642,881</u>	<u>19,535,795</u>
Enterprise Funds		
Solid Waste	398,220	546,678
Grand Mound	-	-
Non-Major Enterprise Funds	591,372	550,000
TOTAL ENTERPRISE FUNDS	<u>989,592</u>	<u>1,096,678</u>
TOTAL COUNTY FUNDS	<u>\$ 20,632,473</u>	<u>\$ 20,632,473</u>

Note IX - Pension Plans

Substantially all county full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Department of Retirement Systems, under cost-sharing multiple-employer defined benefit public employee retirement systems.

Historical trend and other information regarding each plan are presented in the State Department of Retirement Systems 2005 Consolidated Annual Financial Report. A copy of this report may be obtained at:

Department of Retirement Systems
 Administrative Services Division
 PO Box 48380
 Olympia, WA 98504-8380

A. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

PERS is a cost-sharing multiple-employer defined benefit pension plan. Membership in the plan includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges); employees of legislative committees; colleges and university employees not in national higher education retirement programs; judges of district and municipal courts; non-certified employees of school districts; and employees of local government.

Thurston County, Washington 2005

The PERS system includes 3 plans. Participants who joined the system by September 30, 1977 are Plan 1 members. Those joining thereafter are enrolled in Plan 2. As of September 1, 2002 employees had an option of switching from PERS 2 to a new retirement plan, PERS 3. The window for the switch closed May 31, 2003 but new employees may enroll in either PERS 2 or PERS 3. Retirement benefits in all PERS plans are financed from employee and employer contributions and investment earnings.

Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with 5 years of service, or at the age of 55 with 25 years of service. The monthly pension is 2 percent of the final average compensation per year of service, capped at 60 percent. If qualified, after reaching age 66, a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 members may retire at age 65 with 5 years of service, or at 55 with 20 years of service actuarially reduced for each year under age 65, or age 55 with 30 years of service, benefit reduced 3% for each year under age 65. The monthly benefit is 2% of average final compensation per year of service. There is no cap on years of service and a cost of living allowance is granted to a maximum of 3% per year.

Plan 3 members may retire at age 65 with at least 10 service credit years; or 5 service credit years, including 12 service credit months that were earned after age 54; or 5 service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members may retire at age 55 with at least 10 years of service actuarially reduced for each year under age 65, or with 30 years of service, benefit reduced by 3% for each year under age 65. PERS Plan 3 has a dual benefit structure. Member contributions finance a defined contribution component, and employer contributions finance a defined benefit component. The monthly benefit for the defined portion is 1% of average final compensation per year of service. There is no cap on years of service and cost of living allowance is granted to a maximum of 3% per year.

Each biennium the state Pension Funding Council adopts Plan 1 employer contribution rates needed to fully amortize the total costs of the plan. Employee contribution rates for Plan 1 are established by statute at 6 percent and do not vary from year to year. The Pension Funding Council establishes the employer and employee contribution rates for Plan 2. All employers are required to contribute at the level established by state law. The methods used to determine the contribution rates are established under state statute in accordance with Chapters 41.40 and 41.45 RCW. The Pension Funding Council sets the employer contribution for Plan 3. The employee contribution rates are chosen by the employee upon switching to the plan and cannot change unless you terminate from employment, or change employers and re-enter PERS covered employment.

Thurston County, Washington 2005

Thurston County's and employee's contribution rates expressed as a percentage of covered payroll for the prior years ending December 31, were:

PLAN	2003		2004		2005	
	Employer	Employee	Employer	Employee	Employer	Employee
PERS 1:						
1/1-6/30	1.32%	6.00%			1.38%	6.00%
7/1-12/31	1.40%	6.00%			2.44%	6.00%
1/1-8/31			1.40%	1.18%		
9/1-12/31			1.38%	1.18%		
PERS 2:						
1/1-6/30	1.32%	0.65%	1.40%	1.18%	1.38%	1.18%
7/1-12/31	1.40%	1.18%	1.38%	1.18%	2.44%	2.25%
PERS 3:						
1/1-6/30	1.32%	5%-15%	1.40%	5%-15%	1.38%	5%-15% *
7/1-12/31	1.40%	5%-15%	1.38%	5%-15%	2.44%	5%-15% *

* (Employee rate is selected by employee)

Both Thurston County and the employees made the required contributions. The County's required contribution for the years ended December 31, were:

	PERS 1	PERS 2	Pers 3
2003	\$ 88,952	\$ 560,411	\$ 20,830
2004	\$ 84,672	\$ 592,788	\$ 32,380
2005	\$ 114,466	\$ 857,198	\$ 58,489

B. LAW ENFORCEMENT OFFICERS AND FIRE FIGHTERS (LEOFF)

LEOFF is a cost-sharing multiple-employer defined benefit pension plan. Membership includes all full time, fully compensated, local law enforcement officers and fire fighters. Retirement benefits are financed from employee and employer contributions, investment earnings and state contribution. LEOFF is comprised solely of non-state employees.

LEOFF system includes 2 plans. Participants who joined the system by September 30, 1977 are Plan 1 members. Those joining thereafter are enrolled in Plan 2. Retirement benefits in both Plan 1 and 2 are vested after completion of 5 years of eligible service.

Thurston County, Washington 2005

Plan 1 members are eligible to retire with 5 years of service at age 50. The benefit per year of service is as follows, with a cost-of-living allowance granted, capped at three percent annually:

<u>Term of Service</u>	<u>Percent of Final Average</u>
20+	2.0%
10-19	1.5%
5-9	1.0%

Plan 2 participants are eligible to retire at age 50 with 20 years of service, or at 55 with 5 years of service. Retirement benefits prior to age 55 are actuarially reduced. The benefit is 2 percent of average salary per year of service. The average salary is based on the highest 5-year period. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at 3 percent annually.

Plan 1 employer and employee contribution rates are established by statute at 6 percent. State contribution rates for Plan 1 are set by the Pension Funding Council to fully amortize the total costs of the plan. The Pension Funding Council also sets employer, employee, and state contribution rates for Plan 2. All employers are required to contribute at the level required by state law. The methods used to determine the contribution rates are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of covered payroll, as of December 31, were:

<u>PLAN</u>	<u>2003</u>		<u>2004</u>		<u>2005</u>	
	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>
<u>LEOFF 1</u>						
1/1-6/30	0.22%	0.00%			0.19%	0.00%
7/1-12/31	0.22%	0.00%			0.19%	0.00%
1/1-8/31			0.22%	0.00%		
9/1-12/31			0.19%	0.00%		
<u>LEOFF 2</u>						
1/1-6/30	2.86%	4.39%			3.25%	5.09%
7/1-12/31	3.25%	5.05%				
7/1-8/31					4.24%	6.75%
9/1-12/31					4.39%	6.99%
1/1-1/31			3.25%	5.05%		
2/1-8/31			3.26%	5.07%		
9/1-12/31			3.25%	5.09%	1.18%	2.25%

Both County and the employees made the required contributions. The County's required contributions for the years ended December 31, were:

	<u>LEOFF 1</u>	<u>LEOFF 2</u>
2003	\$ 1,157	\$ 160,134
2004	\$ 1,131	\$ 178,066
2005	\$ 894	\$ 230,863

Note X - Risk Management

A. RISK POOL AND GENERAL LIABILITY INSURANCE

Thurston County is a member of the Washington Counties Risk Pool (pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the extent that they may individually purchase insurance, self insure, or hire or contract for risk management or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on August 18, 1988 when counties in the State of Washington joined together by signing an Interlocal Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Twenty-eight Washington counties have joined the WCRP.

The pool allows members to establish a plan of self-insurance, jointly purchase excess or reinsurance and provide related services. All pool joint self-insurance liability coverage, including public officials' errors and omissions, are on an "occurrence" basis. The pool also provides property and special events/concessionaires optional group purchase insurance coverage for its members.

Members make an annual contribution to fund the pool. The pool acquires reinsurance from unrelated underwriters that are subject to a pool per-occurrence self-insured retention of \$100,000. Members may elect deductible amounts ranging from \$10,000 per occurrence to \$500,000. Thurston County's elected self insured deductible loss is \$250,000 per occurrence. Members are responsible for the first deductible amounts of each covered claim while the pool is responsible for the remaining difference up to the pool's \$100,000 to the maximum limits of each policy. The reinsurance and excess insurance carriers cover losses exceeding the greater of the Pool's retention or the member county's deductible to maximum limits of their policies, presently either \$20 million or \$25 million depending upon member selection.

Since the pool is a cooperative program, there is joint liability among the participating members. A retro-active premium assessment was approved in 2004 for \$2.1 million for applicable policy year(s) for uncollected reinsurance and legal expenses. Thurston County's share of this assessment was \$195,790. The collection of the assessment was discontinued upon the 2005 annual reevaluations by resolution of the pool's governing board.

Members contract to remain in the pool for a minimum of five years, and must give notice one year before terminating participation. Thurston County rejoined the pool on October 1, 2000, after a one-year absence. The contract with the pool is renewed automatically each year until terminated. Each member is responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period(s) during which it was a signatory to the interlocal agreement, even after termination of the contractual relationship.

The pool is fully funded by its member participants. Claims are filed by members with the pool. The pool is governed by a board of directors that is comprised of one designated representative from each participating member. An executive committee is elected at the annual meeting, and is responsible for conducting the business affairs of the pool.

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The County has recorded in its financial statements all material liabilities. This includes estimates for expense, defense and/or payment of pending claims and claims incurred but not reported. In the opinion of management, the County's insurance policies are adequate to pay all known or pending claims as they come due with the County's participation in the Washington Counties Risk Pool and our funded retention requirements. The County's settlements have not exceeded the County's insurance coverage in each of the past three years. The five top loss categories for amount paid and reserved from 1988 through 2005 were: employee liability – 53%, road design and maintenance – 20%, automobile – 14%, law enforcement – 11% and land use – 2%. Additional information on the County's risks and losses are available in the 2005 Risk Management Annual Report from the County's Human Resources department.

The County paid general claims costs of \$423,557 during 2005. The County's suggested minimum claim reserves, and therefore the County's potential liability for claims and costs not covered by the risk pool, were estimated by the pool's actuary on December 31, 2005 as \$3,505,000. The suggested reserve includes reserves for open claims plus an estimate of incurred but not reported (IBNR) claims. It should be recognized that portions of the estimated additional liability incurred are projections. As estimates, these values are subject to inherent variability and may or may not become payable over the course of several years.

Schedule of Claims and Judgments Payable

	<u>2005</u>	<u>2004</u>
Beginning claims liability	\$ 3,483,173	\$ 2,949,272
Claims incurred during the year (including IBNRs)*	445,384	1,029,478
Claims payments	<u>(423,557)</u>	<u>(495,577)</u>
Ending claims liability	<u>\$ 3,505,000</u>	<u>\$ 3,483,173</u>

*Includes total provision for events of the current fiscal year and any changes in the provision for events for prior fiscal years.

B. OTHER

The County is not self insured for other types of risks and losses except as described above under "Risk Pool and General Liability Insurance". The County reimburses Washington State Employment Security for unemployment compensation claims. These claims are funded through employee related fund transfers into the County's Unemployment Compensation fund. The County also pays Washington State Labor and Industries a stipulated amount per employee per payroll period for a state mandated industrial insurance program for worker compensation claims. As discussed in Note VI.F., the County also has a contingent financial liability for the payment of refunded debt.

Note XI - Postretirement Health Care Benefits

In addition to the pension benefits described in Note IX, and in accordance with the Washington Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) Act (RCW 41.26), the County pays health insurance and medical costs not covered by insurance for retired full time, fully compensated, law enforcement officers who established membership in the LEOFF 1 retirement system on or before September 30, 1977. Substantially all of the County's law enforcement officers who established membership in the LEOFF 1 retirement system may become eligible for those benefits when they reach normal retirement age. Thurston County reimburses retired LEOFF 1 police officers for reasonable medical charges as described in the LEOFF act. In 2005, 21 retirees received benefits under this act. As of December 31, 2005, there were 5 active officers who may become eligible for those benefits when they reach normal retirement age.

The cost of retiree health care benefits is recognized as an expenditure in the General Fund as claims are paid. For 2005, these costs total \$69,961.89 with an average cost per retiree of \$3,331. Thurston County used the Long Term Care Special Revenue Fund to purchase additional long-term care insurance for LEOFF 1 in 2005.

Note XII - Joint Ventures/Jointly Governed Organizations

Thurston County participates in inter-local agreements with five other Thurston County governmental units or agencies. The County participates inter-locally with Animal Control Services, the Inter-local Drug Control Unit, Olympia Region Clean Air Agency (ORCAA), the Thurston Regional Planning Council (TRPC) and the Regional Athletic Complex.

Animal Control Services is a joint venture governed by a six-member board of which Thurston County is a member. Thurston County had an equity interest of \$1,468,102 in Animal Control Services as of December 31, 2005. This interest was capitalized as a general government asset of the County. The County contributed \$678,616 as its share of operations in 2005. Each member's contribution is based on a formula factoring population and basic service components. The 2005 contribution was 56.40% of Animal Control Services' total budget. The 2005 contribution includes Thurston County's portion to pay off their balance of the loan for the Animal Shelter facility. This is in addition to the yearly amount paid for the operational cost to run the facility. Complete financial statements for Animal Control can be obtained from its administrative office at the City of Lacey, Post Office Box 3400, Lacey, Washington 98509-3400.

The Interlocal Drug Control Unit is a joint venture governed by a five member executive committee of which Thurston County is a member. Thurston County did not have a computable equity interest in the Interlocal Drug Control Unit in 2004. The Interlocal Drug Control Unit is funded by grants and seizures of drug funds. Financial information on the Interlocal Drug Control Unit can be obtained from its administrative office at the City of Lacey, Post Office Box 3400, Lacey, Washington 98509-3400.

Olympic Region Clean Air Agency is a jointly governed organization governed by a nine-member board of which Thurston County is a member. Thurston County contributed \$44,827 as its share of operations in 2005. The assessment was based on population and violation fees collected. Thurston County did not have an equity interest in ORCAA in 2005. Complete financial statements for ORCAA can be obtained from its administrative office at 2940 B Limited Lane NW, Olympia, Washington 98502.

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Thurston Regional Planning Council is a jointly governed organization governed by a fifteen-member council of which Thurston County is a member. Thurston County contributed \$239,966 as its share of operations in 2005. Of that \$59,696 went to the Historic Commission and \$180,270 was for intergovernmental professional services. The assessment was based on population and contractual commitments. Thurston County did not have an equity interest in TRPC in 2005. Complete financial statements for TRPC can be obtained from its administrative office at 2404-B Heritage Court SE, Olympia, Washington 98502.

The Regional Athletic Complex is governed by Thurston County and the City of Lacey. In 1998, Thurston County and the City of Lacey agreed to purchase, develop and jointly share the costs of a Regional Athletic Complex. Thurston County paid 5,543,897 to purchase the land in 1999 and to construct the complex (phase I) in 2004. \$2,458,956 of this cost was funded by the City of Lacey. An additional cost of \$341,587 was incurred by the City of Lacey in 2005 for phase II. The equity interest in this complex for Thurston County and the City of Lacey was 52% and 48% as of December 31, 2005. Any excess costs for maintenance, operation and capital expenditures shall be the joint and equal responsibility of Thurston County and the City of Lacey. In September, 2005 the complex was dedicated and opened for the benefit of the citizens of Thurston County. The County may, in its sole discretion, transfer its share of ownership to the City of Lacey after 2014. Additional financial information may be obtained from Thurston County Financial Services, 2000 Lakeridge Drive SW, Olympia, Washington 98502.

The following is condensed financial information on joint ventures for which the County has an equity interest as of December 31, 2005:

	Animal Control		Regional Athletic Complex
Assets	\$ 2,770,814	Current Assets	\$ 113,020
Liabilities	(1,335,385)	Capital Assets, Net	5,826,440
Net Assets	\$ 1,435,429	Liabilities	(559)
		Net Assets	\$ 5,938,901

Note XIII - Closure and Post Closure Care Costs

State and federal laws and regulations require Thurston County to perform landfill maintenance and monitoring activities for thirty years after closure. An expense provision and related liability for these activities was recognized in the Solid Waste Enterprise Fund before the landfill was closed. This expense provision was based on estimated future post closure care costs after closure.

Cell No. 1, the last landfill cell used for waste disposal at the Hawke's Prairie landfill site, was closed on April 30, 2000. The County's long haul of waste to a regional landfill in Klickitat County was initiated on May 1, 2000. Post closure costs were funded with operating fees through December 31, 2002. The post closure care period was subsequently initiated on January 1, 2003. The estimated remaining liability for post closure care costs is \$21,157,351 on December 31, 2005.

Thurston County, as required by state and federal laws and regulations, made annual contributions to finance post closure care. The County is in compliance with these requirements, and at December 31, 2005, cash and pooled investments of \$18,117,671 are held for these purposes. This balance, along with \$804,010 for unanticipated disposal costs and equipment replacement, is reported as restricted cash and pooled investments on the balance sheet.

The post closure care cost was based on the amount that would have been paid if all equipment, facilities and services required to monitor and maintain the landfill site were acquired as of December 31, 2000. However, the actual cost of post closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. It is anticipated that future inflation costs will be financed in part from earnings on the cash and investments. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that may arise from changes in post closure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

Note XIV - Other Disclosures

A. PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were recorded in 2005:

Net assets in the Boston Harbor Debt Service Fund were reduced by \$151,791 in 2005. This fund's net assets were reduced to correct an over accrual for interest receivable recognized in prior years.

Governmental net assets in the statements of net assets and activities were increased by \$2,106,784 in 2005. Governmental capital assets for culture and recreation were reduced by \$2,439,504 to reflect the City of Lacey's equity interest in the Regional Athletic Complex based on their contributions to the cost of this project. This decrease in net assets was partially offset by \$332,720 increase in long term special assessments to recognize outstanding long term receivables that had not been recognized in prior years.

B. SPECIAL ITEMS

The \$982,095 loss on governmental capital assets is the net amount realized from dispositions of governmental capital assets in 2005.

C. FUND CHANGES

During 2005, the following funds were added: 2005 Debt Holding and 2005 GO Bonds Redemption Fund.

During 2005, the following funds were abolished: Auditor Recording Equipment Maintenance, 2002 Debt Holding, Health Building, Coroner Building and Fair Capital.

Thurston County, Washington 2005

D. LEASE RECEIVABLES

The County has contracts with various businesses to lease County owned buildings for office space. The lease terms are month to month with one lease with a ten year term. The county received \$299,162 in cancelable operating lease revenues in 2005. Amounts that will be received in future years under these lease agreements are noted below:

Year Ending December 31,	Amount
2006	\$ 223,495
2007	\$ 106,066
2008	\$ 92,506
2009	\$ 94,819
2010	\$ 97,189

E. CONSTRUCTION COMMITMENTS

Thurston County has the following active construction commitments, including the Accountability and Restitution Center and Juvenile Remediation project, as of December 31, 2005:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Accountability and Restitution Center	\$ 934,363	\$ 4,175,580
Juvenile Remediation Project	2,694,314	158,685
Total	<u>\$ 3,628,677</u>	<u>\$ 4,334,265</u>

These projects are financed with general obligation bonds which are then repaid with sales and real estate excise taxes.

F. CONTINGENCIES

The county is planning to get clarification from the State Legislature during the 2007 legislative session on the allowability of using real estate excise tax revenues for making capital purchases. The State Auditors Office has question the use of the funds for purchasing major business systems, computer hardware and software. Subsequently the county is reevaluating its current use of real estate excise tax revenues to ensure compliance with the state law. We do not consider any potential liabilities to be probable and therefore have not recorded such liabilities.

Thurston County has other claims and lawsuits pending at this time that could be a liability to the County over the next few years. The amount of these claims cannot be reasonably estimated.

General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2005

	Original 2005 Budget	Final 2005 Budget	Actual 2005	Variance with Final Budget Positive or (Negative)
Revenues:				
Taxes	\$ 41,413,178	\$ 41,413,178	\$ 42,949,405	\$ 1,536,227
Licenses & Permits	48,733	48,733	40,159	(8,574)
Intergovernmental	6,699,988	6,987,999	6,778,542	(209,457)
Charges for Services	6,419,954	6,424,654	6,221,662	(202,992)
Fines & Forfeits	1,577,600	1,577,600	1,675,682	98,082
Miscellaneous Revenue	1,368,742	1,384,242	1,889,166	504,924
Total Revenues	57,528,195	57,836,406	59,554,616	1,718,210
Expenditures:				
General Government	11,384,436	11,077,422	9,938,200	1,139,222
Culture & Recreation	559,810	570,410	552,790	17,620
Economic Environment	291,090	261,090	256,142	4,948
Health & Human Services	15,000	15,000	39,083	(24,083)
Public Safety	44,834,174	46,339,587	45,807,175	532,412
Transportation	994	994	682	312
Utilities & Environment	451,491	451,491	451,491	-
Capital Outlay	709,095	508,354	414,581	93,773
Debt Service:				
Principal	9,002	11,764	27,939	(16,175)
Interest & Fiscal Charges	2,028	5,129	8,736	(3,607)
Total Expenditures	58,257,120	59,241,241	57,496,819	1,744,422
Excess (Deficiency) of Revenues Over Expenditures	(728,925)	(1,404,835)	2,057,797	3,462,632
Other Financing Sources (Uses)				
Capital Lease Financing	-	-	11,098	11,098
Sale of Capital Assets	400	400	355	(45)
Transfers In	1,737,800	1,482,183	1,423,483	(58,700)
Transfers Out	(2,436,561)	(2,511,661)	(2,511,661)	-
Total Other Financing Sources (Uses)	(698,361)	(1,029,078)	(1,076,725)	(47,647)
Net Changes In Fund Balances	(1,427,286)	(2,433,913)	981,072	3,414,985
Fund Balances as of January 1	5,941,475	6,893,132	8,054,672	1,161,540
Fund Balances as of December 31	\$ 4,514,189	\$ 4,459,219	\$ 9,035,744	\$ 4,576,525

**1/4% Real Estate Excise Tax
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2005**

	Original 2005 Budget	Final 2005 Budget	Actual 2005	Variance with Final Budget Positive or (Negative)
Revenues:				
Taxes	\$ 3,501,500	\$ 3,501,500	\$ 5,953,370	\$ 2,451,870
Charges for Services	15,900	15,900	15,925	25
Miscellaneous Revenue	125,564	125,564	289,436	163,872
Total Revenues	3,642,964	3,642,964	6,258,731	2,615,767
Expenditures:				
General Government	566,394	460,916	240,696	220,220
Culture & Recreation	-	6,409	5,405	1,004
Health & Human Services	-	4,481	2,632	1,849
Public Safety	-	94,588	76,237	18,351
Utilities & Environment	66,226	846,226	73,910	772,316
Capital Outlay	623,133	623,133	801,633	(178,500)
Total Expenditures	1,255,753	2,035,753	1,200,513	835,240
Excess (Deficiency) of Revenues Over Expenditures	2,387,211	1,607,211	5,058,218	3,451,007
Other Financing Sources (Uses)				
Transfers In	-	-	224,087	224,087
Transfers Out	(2,741,033)	(2,834,156)	(1,774,992)	1,059,164
Total Other Financing Sources (Uses)	(2,741,033)	(2,834,156)	(1,550,905)	1,283,251
Net Changes In Fund Balances	(353,822)	(1,226,945)	3,507,313	4,734,258
Fund Balances as of January 1	3,844,578	6,109,312	\$6,109,312	-
Fund Balances as of December 31	\$ 3,490,756	\$ 4,882,367	\$ 9,616,625	\$ 4,734,258

Roads and Transportation
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2005

	Original 2005 Budget	Final 2005 Budget	Actual 2005	Variance with Final Budget Positive or (Negative)
Revenues:				
Taxes	\$ 15,350,027	\$ 15,350,027	\$ 16,424,136	\$ 1,074,109
Intergovernmental	10,897,957	10,721,757	8,357,728	(2,364,029)
Charges for Services	546,100	133,100	351,565	218,465
Miscellaneous Revenue	114,600	114,600	156,056	41,456
Total Revenues	26,908,684	26,319,484	25,289,485	(1,029,999)
Expenditures:				
Culture & Recreation	120,856	46,000	-	46,000
Public Safety	3,241,484	3,241,484	1,960,746	1,280,738
Transportation	19,222,777	17,879,633	14,411,901	3,467,732
Capital Outlay	5,887,197	8,106,297	5,937,767	2,168,530
Total Expenditures	28,472,314	29,273,414	22,310,414	6,963,000
Excess (Deficiency) of Revenues Over Expenditures	(1,563,630)	(2,953,930)	2,979,071	5,933,001
Other Financing Sources (Uses)				
Sale of Capital Assets	537,000	537,000	526,917	(10,083)
Transfers Out	(1,247,515)	(1,247,515)	(1,216,365)	31,150
Total Other Financing Sources (Uses)	(710,515)	(710,515)	(689,448)	21,067
Net Changes In Fund Balances	(2,274,145)	(3,664,445)	2,289,623	5,954,068
Fund Balances as of January 1	8,142,308	13,236,285	13,236,586	301
Fund Balances as of December 31	\$ 5,868,163	\$ 9,571,840	\$ 15,526,209	\$ 5,954,369

Medic One
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2005

	Original 2005 Budget	Final 2005 Budget	Actual 2005	Variance with Final Budget Positive or (Negative)
Revenues:				
Taxes	\$ 7,154,466	\$ 7,154,466	\$ 7,471,553	\$ 317,087
Intergovernmental	131,000	131,000	153,290	22,290
Charges for Services	220	220	65	(155)
Miscellaneous Revenue	251,800	251,800	389,484	137,684
Total Revenues	7,537,486	7,537,486	8,014,392	476,906
Expenditures:				
Health & Human Services	6,530,740	6,530,740	5,969,815	560,925
Capital Outlay	251,700	251,700	16,573	235,127
Debt Service:				
Principal	-	-	3,107	(3,107)
Interest & Fiscal Charges	-	-	2,603	(2,603)
Total Expenditures	6,782,440	6,782,440	5,992,098	790,342
Excess (Deficiency) of Revenues Over Expenditures	755,046	755,046	2,022,294	1,267,248
Other Financing Sources (Uses)				
Transfers In	6,600	6,600	6,169	(431)
Transfers Out	(6,600)	(6,600)	(6,169)	431
Net Changes In Fund Balances	755,046	755,046	2,022,294	1,267,248
Fund Balances as of January 1	9,931,229	10,483,432	10,483,532	100
Fund Balances as of December 31	\$ 10,686,275	\$ 11,238,478	\$ 12,505,826	\$ 1,267,348

Public Health & Social Services
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2005

	Original 2005 Budget	Final 2005 Budget	Actual 2005	Variance with Final Budget Positive or (Negative)
Revenues:				
Taxes	\$ 463,084	\$ 463,084	\$ 476,060	\$ 12,976
Licenses & Permits	149,161	181,161	188,166	7,005
Intergovernmental	26,595,246	27,295,187	26,231,438	(1,063,749)
Charges for Services	1,593,681	1,620,141	1,344,875	(275,266)
Miscellaneous Revenue	159,100	215,600	371,646	156,046
Total Revenues	28,960,272	29,775,173	28,612,185	(1,162,988)
Expenditures:				
Health & Human Services	32,294,866	33,066,787	31,901,351	1,165,436
Capital Outlay	-	10,000	9,450	550
Total Expenditures	32,294,866	33,076,787	31,910,801	1,165,986
Excess (Deficiency) of Revenues Over Expenditures	(3,334,594)	(3,301,614)	(3,298,616)	2,998
Other Financing Sources (Uses)				
Transfers In	2,230,084	2,300,084	2,320,674	20,590
Transfers Out	(57,779)	(57,779)	(782,780)	(725,001)
Total Other Financing Sources (Uses)	2,172,305	2,242,305	1,537,894	(704,411)
Net Changes In Fund Balances	(1,162,289)	(1,059,309)	(1,760,722)	(701,413)
Fund Balances as of January 1	5,443,548	10,697,284	10,697,634	350
Fund Balances as of December 31	\$ 4,281,259	\$ 9,637,975	\$ 8,936,912	\$ (701,063)

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