



**KIM WYMAN
AUDITOR**

TO THE CITIZENS OF THURSTON COUNTY

June 2006

I am pleased to present the 2005 Comprehensive Annual Financial Report (CAFR) of the Thurston County government for your review. The CAFR is prepared in accordance with generally accepted accounting principles and provides detailed financial information on the revenues, expenditures, assets, and liabilities of Thurston County government for the fiscal year ending December 31, 2005. The major objective of the CAFR is to describe the county's financial condition and the financial results of its operations. As such, it is designed to provide financial status information to our county commission, legislative bodies, creditors, investors, bond counsels, students of public finance, political researchers, and the public we serve.

This is the fourth year Thurston County is preparing their annual report in compliance with the new Governmental Accounting Standards Board Statement 34, with the inclusion of entity wide statements and expanded capitalization of county assets. A full discussion of these statements is included in the Management Discussion and Analysis Section. I am very proud of the efforts of our county financial staff to be able to present this year's annual report as a Comprehensive Annual Financial Report, and to seek a certificate of achievement for excellence in financial reporting. Our 2005 financial information is prepared in a format that gives our readers and state auditor an objective and easily readable analysis of our county's financial performance for the year, including outside agency funds. The CAFR is available upon request in hard copy, or via the Internet at the following address: <http://www.co.thurston.wa.us/auditor>.

REPORT SECTIONS

The CAFR is presented in 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 financial statements, including the management discussion and analysis (MD&A), notes, and the entity wide/major fund financial schedules. 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.

This report is management's representation of the finances of the county. Consequently, responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of Thurston County.

THE COUNTY

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

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

Thurston County is a statute county, which means the organization of the county is prescribed by state statute. Locally elected officials include the county assessor, auditor, clerk, prosecuting attorney, sheriff, treasurer, coroner, seven superior court judges, two district court judges and the three-member board of county commissioners. These elected officials govern the county and establish policies on the basis of the local community's needs and preferences. The board of county commissioners acts as the county's legislative body and appoints a county administrator who acts as the chief administrative officer of the county and oversees twelve major departments. By virtue of the county's authority over their operations, this annual financial report includes financial data for all the funds and account groups of the county, including activities considered to meet the entity definition criteria established in Governmental Accounting Standards Board Statement Numbers 14, 34 and 39.

ECONOMIC CONDITIONS

Economic conditions play a significant role in the financial stability of Thurston County. The economy is dependent on many factors, including (a) population and demographic trends; (b) employment and housing factors; (c) per capita income and inflation; and (d) retail sales. From 1990 to 2000, the Thurston County economy continued to increase steadily, but not at the same rate as the prior two decades. The economy took a downturn in 2001 and 2002, fueled first by the cutbacks in Boeing and then by the aftermath of the tragic events of September 11, 2001. This was somewhat mitigated by the opening of two large retail stores and two large warehouse distribution centers. In 2003 the economy in Thurston County began a slow recovery. An emphasis was placed on business recruitment and retention and the creation of quality jobs in technology-based businesses, light manufacturing, educational services, and real estate services. The statistics and information that follows highlight the changes in the county's economic conditions for 2003 through 2005.

Population and Demographic Trends

The population of Thurston County has grown from 186,400 in 1995 to 224,100 in 2005. This is an increase of 37,700 residents and an average growth rate of 2 percent per year. Over 70 percent of the population increase has been due to the continued in-migration of people into the county. Thurston County continues to be a desirable place to live, and has been one of the fastest growing of our state's 39 counties over the past decade. In 2005 the county's population increased slightly from 218,500 to 224,100. This is a growth rate from the previous year of 2.5 percent and reflects the economic recovery and new housing strength for the region.

Seniors continue to be one of the fastest growing segments of Thurston County's population. For the past two decades, Thurston County has been fifth in the state for in-migration of people 55 or older. From 1980 to 2000, the population aged 65 and older increased from 12,230 to 23,629, basically doubling in number. Today our senior citizens constitute slightly fewer than 12 percent of our total population. Projections show that by the year 2010, the population of people aged 65 or over will have increased to 13 percent of our total population and by the year 2020 to 19 percent. This is a trend that will place increased pressures on our public health care services and retirement facilities.

Over the past twenty years, population growth in Thurston County has been fairly evenly distributed between the incorporated and unincorporated areas of the county. In 2005, approximately 56 percent of our population lives in unincorporated areas and 44 percent in incorporated jurisdictions.

The growth within our municipal cities has not been constant however. During the past decade, the city of Yelm has been the fastest growing area, with an annual rate of 7 percent. Average annual growth in other cities, including Tumwater, Olympia, and Lacey, ranged from .7 to 1.4 percent. Excluding Yelm, the average rate of growth was at or very near the statewide average of 1.1 percent. Much of the growth in Yelm took place through annexation.

Employment and Housing

Between 1990 and 2000, the number of jobs available in the county has increased by 32 percent. By far, the largest percentage of increase over this 10-year span occurred in the service industry, showing an increase of over 50 percent. In 2003 (the latest statistical year) the number of full-time and part-time jobs in Thurston County was 117,982. For the period 2002 to 2003, the transportation and warehousing trade sector showed by far the greatest growth rate, increasing by 447 employees and 26 percent. The forestry and fishing sector showed the next greatest rate of growth in covered employment, increasing from 1,247 jobs to 1,426 jobs or 14 percent. In terms of actual jobs, the retail sector reflected the largest actual growth, increasing from 13,324 jobs to 14,105 jobs, or 781 new employees. The change in employment in the government sector in Thurston County was almost exclusively in the military. Within the government sector, the military increased by 136 jobs, or almost 20 percent, while state government employment actually reduced in size by a net 31 jobs.

While the transportation and warehousing industry was the fastest growing job sector in Thurston County in 2003, real estate joined mining, utilities, manufacturing, and information system companies as net job losers in 2003. Even though real estate employment decreased, new housing starts and related real estate excise taxes continued to grow.

Thurston County, Washington 2005

Over the past decade, new housing starts in Thurston County have fluctuated significantly. There was a constant downward trend from 1990 to 2000. There were 2,789 residential housing permits in 1990, 2,026 in 1995, and 1,532 in 2000. That trend has reversed itself in the last few years and new housing starts increased from 2,208 in 2003 to 2,417 in 2004. Twenty seven percent of these permits were located within Thurston County cities, 34 percent in the urban growth boundaries, and 39 percent in the unincorporated areas of the county.

The average sales price for a home in 1990 was \$91,568. In 2000, the average sales price was \$160,606. In 2003 it was \$190,304, and in 2004 the average sales had risen to \$209,165. This is an increase of 11 percent over the previous year. Housing affordability overall was relatively good for Thurston County with an index of 141.9 vs. 111.8 statewide. The higher the index is, the more affordable the housing. An index of 100.0 is considered a good balance between monthly income and housing costs. For first time homebuyers, the index was 83.7, slightly below the previous year.

Household and Per Capita Income

In 2003, the estimated median household income for Thurston County was \$50,363, a reduction of 2 percent from an updated estimate of \$51,513 in 2002. Projections for 2004 show a slight rise to \$51,195. Compared with adjacent counties, Thurston County continues to experience a higher median household income than adjacent Lewis, Mason, Pierce and Grays Harbor counties, and is projected to be approximately \$500 dollars lower than the overall average for Washington State.

Real personal income for Thurston County, which is measured by dividing total personal income by population and adjusted for inflation, has increased slightly from \$26,046 in 1990 to \$33,258 in 2002. This is a real per capita increase of \$7,212, using 2003 dollars. During the same time period, Washington State's real personal income increased from \$23,861 to \$31,414, an increase of \$7,553. In 2003 (the latest statistical year), Thurston County's per capita income decreased by \$1,915 to \$31,343. This is the second consecutive year of decrease and compares with an overall statewide increase from 2002 to 2003 of \$1,840.

Taxable Retail Sales

Another indication of economic conditions, especially as it applies to local government, is "taxable retail sales". This indicator measures purchasing and consumption activity in the county. In the last reported year, between 2003 and 2004, the county experienced a 7 percent increase in taxable retail sales. This compares to a growth in taxable retail sales of 4 percent from 2002 to 2003. The "taxable retail sales" for the county has increased by an average of 6 percent annually from 1990 to 2000. The unincorporated sector of the county increased by an approximately 4 percent during this same time period, while the city of Yelm increased by 11 percent. From 2003 to 2004, the rate of growth in taxable retail sales took a substantial swing upward due to the housing market.

Most of this growth took place in the three largest urban cities. The three major cities, Olympia, Lacey, and Tumwater continued to grow through annexations and the construction of major new office buildings, ranging from 5 percent to 15 percent. Small rural cities such as Rainier, Tenino and Bucoda continued to experienced decreases of 6 percent, 3 percent and 1 percent respectively.

Future Economic Outlook

Thurston Regional Planning Council predicts that the population will increase from 224,100 in 2005 to 255,000 in the year 2010 and by 2030 will be at 373,000, an increase of 67 percent over this twenty-five year period. The Thurston Regional Planning Council also has projected an increase in employment for Thurston County from 118,000 persons in 2003 to 175,000 by the year 2030. This is an increase of 48 percent over the twenty-seven year period. The number of local government jobs is expected to increase at rate of approximately 3 percent per year, with government and the service industry continuing to be the dominant employment base.

Thurston County's economic vitality has traditionally come from being the state capital. State government, with its substantial employment base, has significant ripple effects in the consumer business trade and services sectors. However, Thurston County continues to have more people who commute outside of the county each day than commute into our county. With a slow down in state government growth, Thurston County has been very active in solidifying its role as a regional retail and services center. Recent construction of large warehouses for Target and Home Depot, and a new major retail mall in the Hawks Prairie business center has contributed to establishing this niche. Plans for additional big box retail stores are in the works for Lacey, Olympia, and Tumwater. The trend is expected to continue over the next 25 years. One of the keys to Thurston County's economy will be the success of efforts to have Thurston County residents purchase goods and services locally. Another is continued diversification in the work force, with a growth in business-to-business and home-based services.

Health care services, in particular, present the county with significant growth opportunities and challenges. Thurston County health care services are among the most comprehensive in southwest Washington, and Providence St. Peter Hospital is in the midst of completing a major expansion project. Two major health care initiatives failed to pass, and rising medical malpractice liability insurance costs and reduced government reimbursement rates are continuing to drive private health care providers out of the county and state.

Local governments in Thurston County, including the county, are also experiencing the challenges of rising public safety costs and limited revenues. Passage of recent initiatives and potential for new voter-approved initiatives has placed tight limits on revenue increases from traditional sources such as property taxes. Coupled with the elimination of state grant funds from motor vehicle excise taxes, many local cities and the county will continue to experience slow growth or tight budgetary positions that began in 2001 and 2002.

Thurston County governments' strong reserve base will be a significant factor in offsetting future reductions in state and federal support, at least in the short run. The long-term outlook will depend on a combination of the strength in local economic recovery and the availability of dedicated revenue sources to support new and ongoing program growth opportunities. The 2005 legislative session produced several inroads into new revenue sources, but the 2006 legislative session imposed new pension obligations that will need to be met in the forthcoming budgets.

MAJOR ACCOMPLISHMENTS AND SERVICE EFFORTS

In 2005, the county conducted a citizen's survey to determine top priorities in government. The citizens of Thurston County named public safety as their top priority. The board of county commissioners is working with elected officials and department managers to incorporate these priorities into the 2006 and future budgets.

The Thurston County Sheriff's Office goal is to reach the statewide staffing of one deputy per thousand population. Since the sheriff's office has the same number of commissioned law enforcement officers today that it had in 1999, they are reaching out for other potential funding. The sheriff's office received several grants in 2005. The Law Enforcement Terrorism Protection Program grant will provide \$70,000 in funding for tactical equipment, a Zodiac boat, and additional computer forensic equipment. The sheriff's office received separate funding from Red Wind Casino for training and computer equipment to enhance forensic computer investigations and supplies for fraud investigations. A grant was obtained from the federal Department of Justice for "Project Child," which is a secure nationwide network and registry that enables law enforcement and social service agencies throughout the country to locate and positively identify missing children and adults.

The sheriff's office also operates the Thurston County jail. Following voters' rejection of a bond issue for a new Regional Justice Center, attention is now shifted to other strategies. The board of county commissioners is reviewing alternatives to solve the jail-overcrowding problem including the concept of an Accountability & Restitution Center with an emphasis on sentencing alternatives.

Thurston County's Superior Court continues to operate an extremely successful and cost-effective drug court. The program has graduated 204 participants out of a total of 450 who have been admitted since the program's inception in the mid 1990's. From the total of program graduates, the recidivism rate is 10 percent. The program has also resulted in the birth of 16 drug-free babies and all graduates are employed full-time and/or going to school. Additionally, superior court was able to acquire evidence presentation hardware from grant-funded sources.

Also in 2005, Thurston County's Superior Court re-established the Unified Family Court Project, which assigns and coordinates families with a single judicial officer for all of their family and juvenile case matters. The project was funded through an inter-local agreement with the State. The family court also expanded the facilitator program to provide for ex parte service where all paperwork is reviewed by a facilitator before presentation to the court. This process had a huge time saving impact on the judicial officer presiding over the proceedings.

With funding provided by Thurston County, district court embarked on a pilot project in 2005 to open a mental health court for individuals charged with misdemeanor and gross misdemeanor offenses. Specialty courts typically exist to address specific social issues and to provide better options for treatment than incarceration. This results in saving tax dollars in other areas while giving the individual a more supportive environment in which to effect lifestyle changes.

Juvenile court attempts to identify and solve methods to appropriately handle juvenile and family court issues. The coordination of court functions to assure consistent judicial treatment of families and children involved in multiple proceedings continues to be a priority. Dependency proceedings have been enhanced by the continued emphasis on the family treatment court and the recruitment and training of additional court-appointed special advocates (CASA) volunteers.

Thurston County, Washington 2005

The office of assigned counsel has converted to a more traditional public defender system by hiring more county attorneys rather than relying on private attorneys. This conversion is being handled with existing resources. The counsel has also received \$435,000 in grant funds from the Washington State Office of Public Defense for a pilot project in district court.

The depth and complexity of death investigations have dramatically increased. In 2005, Thurston County Coroner's Office used a Paul Coverdell Forensic Sciences Improvement Grant to provide training, continuing education and investigation enhancements to improve customer service during these delicate times. Through a Homeland Security Grant obtained via local and state committees on terrorism, the coroner's office also developed the first-of-its-kind-in-the-nation system for the recovery, handling, storage and disposition of multiple fatalities in a mass disaster. The system may be transported anywhere in the country.

Washington State University Thurston County Extension partnered with many organizations, including the 4-H council, to provide support for community services Americorp program. The extension office was also able to leverage nearly \$50,000 in federal funds for the US Department of Agriculture food sense program, and \$5,000 for the Master Gardener Foundation.

Thurston County's Public Health and Social Services Department had a host of major accomplishments in 2005. One of the most significant was the completion of the construction of the new Thurston County Mental Health Evaluation and Treatment Facility. The new facility will provide 24-hour emergency care assuring immediate evaluation and treatment of persons acutely impacted by mental illness and/or substance abuse. The facility opened in the fall of 2005 with total operation beginning in 2006.

The public health department has continued to work collaboratively to improve the health of the community and ensure conditions in which people can be healthy. The STEPS to a Healthier United States grant has begun to influence the nutrition, exercise, and chronic disease interventions of our community. In 2005, the department continued to implement the home visitation plan, which will provide services to families with very young children. These services are based on research that shows these early interventions decrease a child's involvement in the juvenile justice system during their pre-teen and teenage years.

In 2005 the communications department or CAPCOM focused on completing the construction and commissioning of a solar powered remote radio site in the Bald Hills for improved public safety. The information technology group worked on perfecting the computer aided dispatch system that was installed in 2004. CAPCOM also received a \$280,000 Homeland Security grant to improve public safety communications county wide.

Medic one completed 31 years of operation in August 2005. One of their major accomplishments is the implementation of Phase I of the in-vehicle Advanced Life Support (ALS) data system that integrates 9-1-1 dispatch and patient care data. Medic one also assisted the Washington State Department of Health in developing an online recertification process for emergency management services responders. Proposed budget enhancements include upgrade to a responder training program, and an option to improve ALS response time levels.

Thurston County's general government offices and departments continue to provide quality service to their customers, even without the benefit of new resources. In 2005, the Thurston County Assessor's Office listed and assessed a record amount of new construction, totaling almost \$700 million. In 2004 the assessor's office began an aggressive outreach program for seniors and the disabled to educate them on changes made by the state legislature. In 2005 the Washington State Department of Revenue recognized the assessor staff for their "best practices" awards, and for reducing the number of property assessment appeals.

Thurston County, Washington 2005

The central services department provides preventive maintenance support to the other offices and departments in the county. To improve this maintenance service, a new rotation model was established that emphasizes more of a custodial ownership approach. The year 2005 yielded the completion of several significant projects including the replacement of a new telephone/PBX system, the creation of a new RFP for document scanning, and relocations to new office space for Pacific Mountain, Regional Planning, and Thurston Geodata Center.

The project services section, which is part of the facilities services division, completed work in 2005 on several significant capital projects, including a courthouse campus fire alarm system, a new jail heat pump, installation of a new floor in the jail kitchen, development of the building 2 clerk's service counter, and new door control systems at both the health department and family/juvenile court.

In 2005, the Thurston County Clerk's Office completed the remodel of their office at the juvenile and family court facility to provide better public areas for the court facilitator program and victims of domestic violence. As part of the facilitator program, an educational orientation program was implemented for self-represented litigants with children who are filing for dissolution. This process has reduced the number of hearings required in these cases and created a time savings for the judicial officer presiding over the proceedings. In order to support the facilitator program, the Thurston County Clerk applied for and was awarded the Social Security IV-D Parenting Access Grant for 2006. The county clerk also expanded the program to provide for ex parte service where all paperwork is reviewed by the facilitator before presentation to the court.

The clerk's office also completed a two and one-half year project to protect and preserve all court records from 1847 to date. Over 12 million pages were imaged and are now available on public terminals at both offices for the public to view. The goal for 2006 is to complete the imaging of the large bound volumes of court records that reflect the history of our county in the 1800s.

In 2005, the county auditor's office continued to utilize technology to improve service delivery. The licensing and records division experienced its second busiest year in history for recorded documents. A Request for Proposal (RFP) was issued for a new recording system to enhance the accessibility of historical documents. The new system will be installed in early 2006 and will improve the efficiency of recording public records.

The elections division conducted four elections in 2005. All ballots were accounted for and the election results were certified accurately and on time. The auditor's office replaced a 35-year-old punch card voting system with optical scan ballots and moved to county-wide vote-by-mail elections. The auditor's office also worked with the office of secretary of state to create the first statewide voter registration database. The most significant accomplishment for the financial services division in 2005 has been the preparation of the first annual financial report using the new Windows-based MUNIS financial system. Another major accomplishment is the implementation of a pilot program in four county offices and departments for receiving credit cards payments from customers.

One of the major objectives of the development services department is to process permit applications for new construction or renovation projects. In 2005, permit volume increased by over 30 percent, and has more than doubled in five years. The permit assistance center is one of the four pilot offices accepting credit cards to help streamline this service. The department also implemented an Integrated Voice Response (IVR) permit tracking system in 2005 to further enhance the department's customer service components, began the first phase of its imaging program to reduce paper files into electronic information sources more readily available to staff and customers, and initiated an improved mapping technology to improve customer service and operating efficiencies.

Thurston County, Washington 2005

The Western Washington Growth Management Hearing Board's decision that Thurston County was non-compliant with rural zoning, urban growth area size, and limited areas of more intense rural development (LAMIRD) components of the Growth Management Law resulted in a re-focusing of priorities with the development services department to meet the January 17, 2006 deadline for compliance. Through its long-range planning section and the efforts of the planning commission, the department completed a significant amount of work required for updating the critical areas ordinance of Thurston County's comprehensive plan to comply with growth management laws. A Cluster Development Task Force was initiated by the board of county commissioners to look at ways to improve the existing ordinance and improve the use of cluster development options for land sub-division and protecting rural character in outlying lands.

The Thurston County Parks Department opened two new facilities in 2005. Griffin Athletic Fields were opened for public use for soccer and baseball in June of 2005, and the Regional Athletic Complex located in Lacey was opened for soccer use in September 2005. Although neither facility was open for the entire year, attendance at the facilities exceeded 20,000 and overall park attendance exceeded 401,000, an increase of 8% over 2004. Phase 2 development of the Yelm-Tenino Trail was completed, paving seven miles of trail, reconstructing bridges and connecting the communities of Yelm, Rainier, and Tenino with the Chehalis Western Trail. Special recreational program attendance increased by 7 to 10 percent, and includes summer camp, adventures camp, Special Olympics, and the Christmas cruise.

During 2005, the human resources department finalized nine union collective bargaining agreements that expired at the end of 2004. Implementations of changes produced by these agreements were finalized by year end. A major revision of the county's job classifications was started in 2004 and by the end of 2005 was two-thirds complete. Updated harassment prevention training for all county employees was completed by the end of 2005, and a review of the county-wide training program has been started with the goal of updating and enhancing the program for all county employees.

The highlights for the Thurston County Fair Department in 2005 included moving forward on a special project to make major repairs to Heritage Hall. The project was bid in 2005 with construction scheduled for completion in 2006. The fair also developed a new promotion to benefit food banks throughout the county and boost Wednesday fair attendance. The promotion was called "One Buck Wednesday" and generated over three tons of food and \$1,000 for the Thurston County Food Bank.

The noxious weed control program educates, consults with, and provides services to landowners to protect and preserve all lands of the county from the degrading impact of invasive noxious weeds. New sightings of noxious weeds were found at a record pace in 2005, with over 1000 new sites recorded. A project was funded by the U.S. Fish and Wildlife Service that includes surveying 15 miles for identification and eradication of the Brazilian elodea in Lewis, Thurston and Grays Harbor Counties. To date more than 40,000 pounds of Brazilian elodea has been removed from a one mile section of the Chehalis River.

Water and Waste Management (W&WM) worked with local homeowners associations to complete a pilot storm water pond inspection program, including installation of pond identification signs. The water resources division also completed a new storm water utility customer billing system for 36,000 property owners on time and with a very minimal number of corrections. The engineering division designed, permitted and managed three major storm water improvement projects at Thompson Place, Hawaiian Court, and Mallard Pond, plus completing the demolition of the old water reservoir at Boston Harbor that was damaged by the 2001 Nisqually earthquake.

One of the most successful accomplishments in water and waste management occurred in the solid waste division. Two contract modifications were negotiated that will result in significant reductions in waiting times at the transfer station tollhouses and increased incentives for recycling materials. In early 2005, two neighborhoods agreed to participate in a new home food waste composting pilot project. One of the neighborhoods was able to reduce their average garbage production from 50 pounds per household to 24 pounds.

INTERNAL CONTROLS

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

Thurston County management recognizes the importance of adequate internal controls and has an internal audit committee. The internal audit committee is comprised of the county auditor, county treasurer, and the chief administrative officer. The county internal auditor reports to the committee, and works with county departments and offices to improve the effectiveness and efficiency of administrative and financial internal controls. We believe that the county's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording and presentation of financial transactions.

BUDGETARY CONTROLS

The 2005 Thurston County budget is \$268 million in all funds and \$62 million in General Funds (including transfers to other financing sources and excluding fund balances). This is an increase of approximately \$9 million in total funds from the 2004 budget and \$3.8 million more in General Funds. A combination of higher than expected revenues from taxes and fines, and expenditure savings, has resulted in an increase of \$981 thousand in available General Fund reserves. These additional reserves bring the county General Fund ending fund balance to \$9 million, and will be useful in meeting future budget challenges. Budgets are prepared and maintained by establishing detailed line items. Office and department heads have the authority to move budget authorizations between objects within their funds, but the chief administrative officer is the only position authorized to transfer budget authority between offices and departments within a fund.

On-line access reports are available for all elected officials and department managers, comparing current budget appropriation levels to actual revenues and expenditures by detailed line item. At year-end, the county utilizes a "13th month" accounting period to post all financial transactions attributable to the appropriate fiscal year. The county budget team reviews the budget status of offices and departments at the mid-point of the fiscal year. If there is a need for budget modifications, requests are submitted to the county auditor's office, chief administrative officer, and/or board of county commission (BoCC). Only the board can approve budget increases.

FINANCIAL INFORMATION

The financial information section provides detailed data on revenues, expenditures, assets and liabilities. Various schedules in the supplementary section show comparisons and trends between budgets and actuals. Entity-wide information is summarized into two main categories entitled: Governmental Activities and Business-Type Activities in the statement of net assets. Thurston County's infrastructure, such as roads, bridges, and parks, has been capitalized and also included in the entity wide statements.

CASH MANAGEMENT

In order to obtain maximum return on secure investments, the county treasurer invests cash in certificates of deposit with qualified Washington State public depositories, U.S. Treasury and agency securities, bankers' acceptances, commercial paper and investments in the Washington State Treasurer's Local Government Investment Pool. Over 80% of the cash investments held by the Thurston County Treasurer are in US agency and instrumentality securities. All investments at year-end 2005 were insured, registered, and/or held by the county treasurer or the treasurer's agent. All of these investments are classified in the lowest-risk category, as defined by the Governmental Accounting Standards Board (GASB).

RISK MANAGEMENT

Thurston County is self-insured for the first \$250,000 of any single general liability loss and acquires excess liability insurance through the Washington Counties Risk Pool. Thurston County's insurance, loss expenditures, and accounting activities are centrally tracked within the county's Insurance Risk Internal Service Fund. The county presently also purchases insurance for workers' compensation liabilities and potential property losses.


INDEPENDENT AUDIT

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

ACKNOWLEDGMENTS

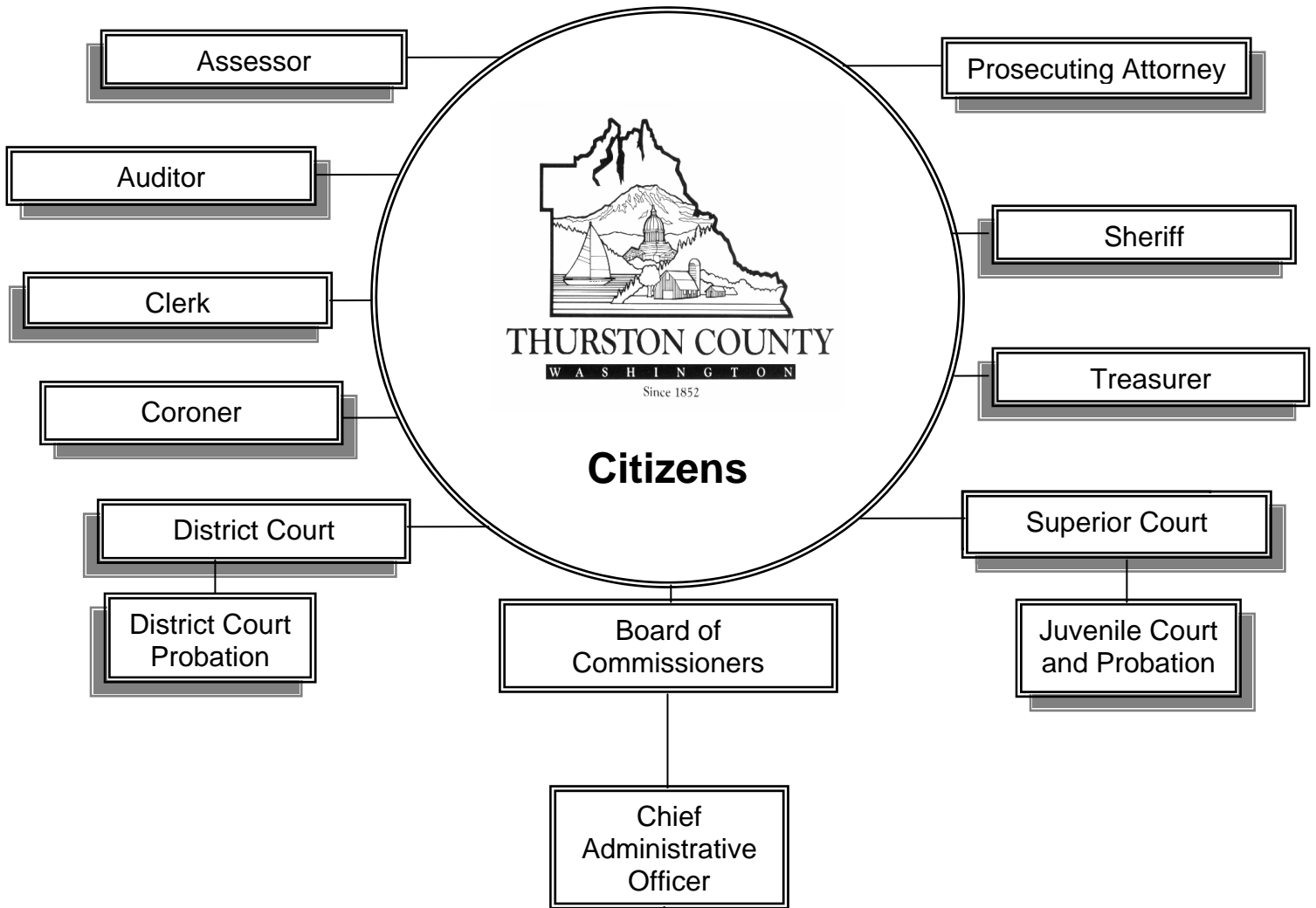
The professional and dedicated staff of the financial services division of the county auditor's office and the county treasurer's office jointly prepared this report. In addition, the report could not be accomplished without the valuable assistance of accounting personnel of other county departments. I appreciate their efforts, and appreciate also the sound and progressive approach of the board of county commissioners, in their conduct of the financial affairs of the county.

Respectfully Submitted,



Kim Wyman
Thurston County Auditor

THURSTON COUNTY ORGANIZATION CHART



Assigned Counsel	Central Services	Civil Service	Cooperative Extension
County Fair	Development Services	Emergency Communications	Human Resources
Medic One	Noxious Weeds Control	Office of Program & Budget Development	Pacific Mountain Job Development & Training Programs
Parks and Recreation	Public Health and Social Services	Roads and Transportation	Water & Waste Management

Elected Officials

December 31, 2005

Thurston County Board of Commissioners

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

Honorable Patricia Costello, **Assessor**

Honorable Kim Wyman, **Auditor**

Honorable Betty J. Gould, **Clerk**

Honorable Judy Arnold, **Coroner**

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

Honorable Gary Edwards, **Sheriff**

Honorable Robin Hunt, **Treasurer**

District Court Judges

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

Superior Court Judges

Honorable Paula Casey
Honorable Richard A. Strophy
Honorable Wm. Thomas McPhee
Honorable Richard D. Hicks
Honorable Christine A. Pomeroy
Honorable Gary R. Tabor
Honorable Chris Wickham

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